

Directors' remuneration report
Statement by the Chair of the Remuneration Committee



Imelda Walsh
Chair, Remuneration Committee

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The context of this year’s results has framed the Committee’s decisions and outcomes for our current and future remuneration framework.

Dear Shareholder

I am pleased to present the Directors’ remuneration report for the financial year ended 31 March 2018.

Overview

The Group delivered stable adjusted earnings and sustained cash generation this year and further strengthened its balance sheet through the bond refinancing and continued deleveraging. However, this year’s results fell short of our ambitions and we are disappointed that we did not make the progress we had intended. This context has framed the decisions and outcomes for our current and future remuneration and these are set out in this summary and also throughout the report.

The Company’s current Directors’ Remuneration Policy (the ‘Policy’) was approved by shareholders at the AGM in 2015 (92.82% voted in favour). This report includes the proposed Policy, which will be subject to shareholder approval at the 2018 AGM. This Statement and the Annual report on remuneration will be subject to an advisory vote at the 2018 AGM.

The Committee aims to ensure that the Policy provides a good framework for incentivising Executive Directors and senior managers to drive the performance of the Group for the long term benefit of shareholders and to enable the Company to recruit competitively. In 2015 we introduced a number of best practice features which continue to remain relevant. Overall, we view the current Policy as broadly fit for purpose and, as a result, the proposed changes are relatively minor. The proposed changes, along with the supporting rationale, are covered later in my Statement and in the remainder of this report.

You will have read the recent announcement that Tim O’Toole, our Chief Executive for over seven years, stepped down from his position on the Board and as Chief Executive on 31 May 2018. The Board is grateful to Tim for his contribution and leadership since 2010. Full details of Tim’s termination arrangements will be included in next year’s report and will also be fully disclosed, in the normal way, when confirmed.

Our approach to remuneration

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

- Alignment with strategy and business objectives
- Rewarding performance
- Performance-biased framework
- Competitive remuneration
- Simplicity and transparency

Alignment with strategy

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

- 1 Focused and disciplined bidding in our contract businesses
- 2 Driving growth through attractive commercial propositions in our passenger revenue businesses
- 3 Continuous improvement in operating and financial performance
- 4 Prudent investment in our fleets, systems and people
- 5 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.

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Business performance

As reported in the main body of this report, although some progress has been made, including strong cash generation, our overall results fell short of our ambitions. Our largest division **First Student** was broadly stable but did not achieve the target level of business retention planned and continues to face driver labour cost inflation challenges due to the shortage of drivers in some regions. **First Bus** took an encouraging step forward in its margin improvement plans, but this was offset by the cost challenges experienced by **First Transit** in the first half and by **Greyhound's** inability to overcome the structural shift taking place in its long haul markets, as ultra low cost airlines significantly increased capacity. We have therefore updated our view of the carrying value of the division's goodwill and other assets in light of these issues, impairing them by a total of \$387.3m or £277.3m accordingly. In **First Rail**, although our GWR and SWR rail franchises have operational challenges to overcome, both are profitable and are adding value to the Group. However, our TPE franchise was loss-making, and we have taken the decision to provide for forecast losses of up to £106.3m over the remaining life of the contract. Finally, both UK and US weather conditions in the final quarter created operational challenges with a consequent impact on performance.

The financial targets for our Executive Directors under the Executive Annual Bonus Plan (EABP) are based on revenue, adjusted operating profit and cash flow. In 2017/18 revenue was £6,398.4m, an increase of 13.2%, but when the benefits from the new SWR franchise and the 53rd week (Road businesses only) are excluded and on a constant currency basis, the increase was 1%.

Adjusted operating profit was £317.0m, a decrease of 6.5% compared with 2017 but on a constant currency basis and excluding SWR and the 53rd week, this represented a reduction of 10.4%. However, net cash flow increased substantially to £199.0m, which included SWR start of franchise cash flows of £88.5m.

The EABP also includes personal objectives and non-financial measures relating to safety and customer satisfaction which are measured at divisional level and averaged to provide a Group outcome.

As noted in my overview, although progress has been made in a number of areas, we believe we have not yet reached our full potential and results in some areas have been disappointing. As a Committee, we are cognisant of the way in which business and share price performance are aligned and our decisions in respect of executive remuneration are framed accordingly.

2017/18 performance and reward decisions

In light of the overall challenges faced by the business during the year, Matthew Gregory, Chief Financial Officer (CFO), advised the Committee that he did not wish to be considered for a salary increase with effect from 1 April 2018. The Committee welcomed and supported this position. However, with the departure of the Chief Executive, and the additional responsibilities that Matthew will take on, the Committee will be considering a temporary increase in Matthew's salary for the period of time in which he takes up his additional responsibilities as interim Chief Operating Officer.

As noted above, the Committee considered the outcome of the 2017/18 EABP in the context of broader business performance and shareholder experience. Following careful consideration and discussion with Tim O'Toole, the Committee determined that no bonus should be awarded to him in respect of 2017/18.

Separately, the Committee considered each element of the EABP against the financial and non-financial targets for Matthew Gregory as CFO. The Committee concluded that in light of the shortfall against target in adjusted operating profit, although Group revenue had increased, no bonus would be awarded in respect of this element. However, a strong cash flow performance had been delivered, which resulted in maximum vesting under this element and partial vesting achieved of the safety and customer satisfaction measures.

The final element of the EABP award was individual performance. Out of a potential 10%, the Committee awarded Matthew 8%. Full details on each objective and the performance achieved are set out on pages 83 and 84 of the Annual report on remuneration.

Overall, the Committee determined that the EABP award for Matthew Gregory will be £146,882, which is 22.3% of the total bonus opportunity. In line with the existing Policy, 50% of the award will be paid in cash and 50% deferred into shares.

The vesting of the 2015 LTIP award was subject to two performance measures: 50% ROCE and 50% relative TSR. Neither of these measures was achieved and therefore the 2015 LTIP lapsed.

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 91.

We published our first Gender Pay Gap Report in April 2018. Our median gender pay gap is -9.1%. This means that women's median hourly pay is 9.1% higher than men's.

FirstGroup is one of the few UK companies to have a Group Employee Director (GED), who is invited to attend meetings of the Committee. We will work closely with our GED, Jimmy Groombridge, as we consider the additional reporting requirements and wider remit of the Committee.

Non-Executive Directors' ('NED') fees

Following a review of the NEDs' fees by the Chairman and the Executive Directors, the fees were increased from £55,000 to £58,000 p.a. with effect from 1 August 2017. At the same time, the Senior Independent Director fee and the fee for the Board Safety Committee Chair were increased from £10,000 p.a. to £12,000 p.a. bringing these into line with the Audit and Remuneration Committee Chairs' fees, which were not increased. No further increase is anticipated during 2018, other than the introduction of an allowance for intercontinental travel which is described on page 80.

Directors' remuneration report continued

Statement by the Chair of the Remuneration Committee

Chairman's fee

Following a review of the Chairman's fee, this was increased from £280,000 p.a. to £295,000 p.a. with effect from 1 December 2017.

With Wolfhart Hauser now stepping up to the position of Executive Chairman, the Committee will be considering a temporary increase to his fees to reflect the additional time commitment and this will be disclosed in the normal manner in due course.

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.

2018 Policy review

The Committee undertook a full review of the Policy during the year. Full details of the changes and the new Policy are set out later in this report. Whilst the overall conclusion was that the Policy remained broadly fit for purpose the following changes are proposed:

- Threshold vesting under the LTIP will be set at 20% of the maximum for future LTIP awards. Previously the Policy allowed for 25% of the maximum to vest at threshold. This was reduced to 20% of the maximum in respect of the 2017 LTIP following shareholder consultation and the Committee has determined that this should now be formalised as part of the Policy.
- The ability to award NEDs a fee when undertaking intercontinental travel is being introduced to reflect the significant time required when travelling long distances on Company business. This supports the NEDs in the effective performance of their roles.
- The maximum pension opportunity for newly appointed Executive Directors will be set at up to 20% of base salary. Previously the Policy explicitly set the pension allowance to be equal to 20% of salary. This change provides future flexibility and brings the approach to pension contributions into line with market practice.

2018/19 Performance and Reward

The Committee considers that the existing EABP framework, weightings and measures continue to be an appropriate short term incentive. The Committee has, however, determined that in order for the Group revenue element to be awarded, Group adjusted operating profit must exceed its threshold target. Targets in respect of the 2018 EABP will reflect the business context and challenges as well as the overall business plan for addressing these at both divisional and Group level.

Likewise, following a review during the year, the Committee believes that the LTIP framework remains appropriate. However, in light of the Company's performance and also the bid activity, the Committee has determined that additional time is needed before the most appropriate targets can be determined and the 2018 LTIP awards can be made. It is the Committee's expectation that targets and measures for the 2018 LTIP award will be no less demanding than those operated in respect of the 2017 award and that the three measures will remain TSR, EPS and ROCE. When the 2018 LTIP is awarded, details of the associated targets and measures will be fully disclosed.

Looking ahead

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

- supporting the recruitment of a new Chief Executive
- supporting the Group's business objectives and strategic goals
- ensuring compliance with new regulatory requirements, including the new UK Corporate Governance Code and the widening of the remit of the Committee
- 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

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. We recognise that the performance of the Company can be further improved but in relation to incentive outcomes, both annual and long term incentive have, in recent years, reflected business performance and the Committee has exercised downward discretion where warranted.

We look forward to your support for this year's report and the new Policy at the forthcoming AGM.

Finally, I am grateful to my colleagues on the Committee and those who support our work.

Imelda Walsh

Chair, Remuneration Committee

Directors' remuneration report continued

Remuneration at a glance

Policy element	Tim O'Toole (Chief Executive)	Matthew Gregory (Chief Financial Officer)
Base salary from 1 April 2018	£845,625	£437,000
% increase from prior year	–	–
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. The defined benefit arrangement closed to accrual with effect from 5 April 2018.	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
2017/18 bonus outturn (% maximum potential)	–	22.3
LTIP	120% of base salary	175% of base salary
LTIP metrics ¹	20% Road ROCE, 40% EPS and 40% relative TSR	20% Road ROCE, 40% EPS and 40% relative TSR
Payment for threshold performance	20%	20%
Malus and clawback	Malus applies to the period prior to vesting, including deferred shares, for both the EABP and LTIP. Clawback applies to the cash and deferred shares awarded under the EABP for a period of three years from the date the cash payment is made and the date the deferred shares are granted, and to the LTIP for two years following the end of the performance period.	
Dividends on vested awards	Participants are eligible to receive dividends on vested awards	
Shareholding requirement	200% of base salary	150% of base salary
Shareholding as at year end ²	1,253,522 (144% of base salary)	308,399 (58% of base salary)
Shareholding requirement to be achieved by:	16 July 2020	1 December 2020

1 Prior to 2017, LTIP awards were subject to 50% ROCE and 50% relative TSR. A review of the LTIP metrics was carried out in 2017 and the performance metrics were amended to ensure they remain appropriate. Awards granted in November 2017 are subject to the new performance metrics. Further detail on this is available on page 85.

2 Includes vested but unexercised awards.

	2017/18	2016/17
Non-executive fees¹		
Chairman ²	£295,000	£280,000
Non-Executive Director (NED) and Group Employee Director (GED) ²	£58,000	£55,000
Additional fees		
Senior Independent Director (SID) ³	£12,000	£10,000
Audit Committee Chair	£12,000	£12,000
Remuneration Committee Chair	£12,000	£12,000
Board Safety Committee (BSC) Chair ³	£12,000	£10,000

1 Further detail on fee changes is provided on page 91.

2 The Chairman's fee was reviewed and increased with effect from 1 December 2017.

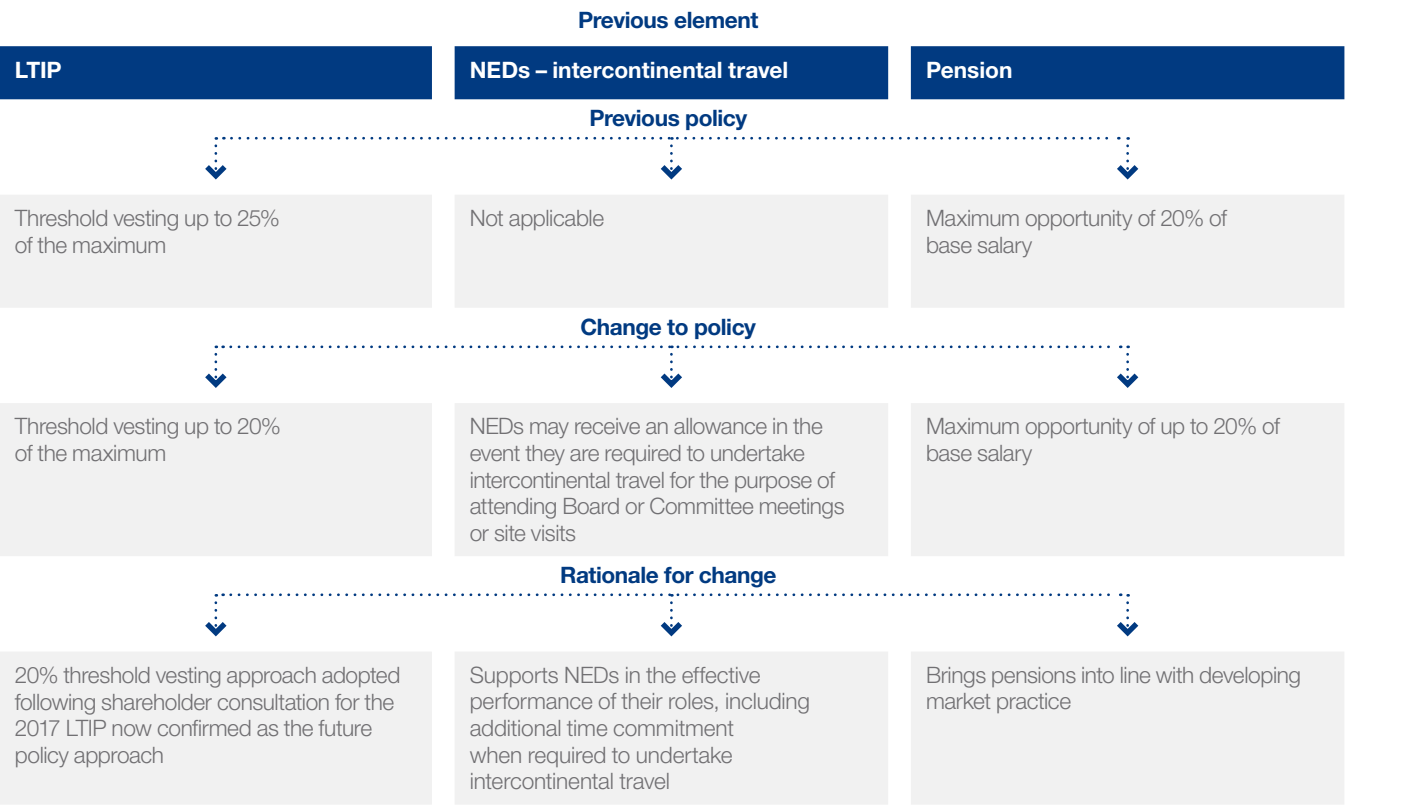
3 The NED and GED fees and the additional fees for the SID and the Chair of the BSC were reviewed and increased in August 2017.

Remuneration policy

This part of the Directors' remuneration report sets out the Remuneration Policy for the Company, which has been prepared in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, and taking account of the principles of the UK Corporate Governance Code (the 'Code'). The Committee also takes significant account of guidelines issued by the Investment Association, ISS and other shareholder bodies when setting the remuneration framework and seeks to maintain an active and constructive dialogue with investors on developments in the remuneration aspects of corporate governance generally and any changes to the Company's executive pay arrangements in particular. The new Remuneration Policy will be put to a binding shareholder vote at the AGM on 17 July 2018 and, subject to receiving majority shareholder support, it will operate from the date of approval. It is intended that the Remuneration Policy will remain applicable for the three years following approval. Information on how the Company intends to implement the new Remuneration Policy for the current financial year is set out throughout the Annual report on remuneration from page 81 onwards. Details of the performance conditions, measures and weightings for grants made in the year will also be set out in the Annual report on remuneration.

Summary of proposed changes to the Remuneration Policy

Following a review by the Committee, the summary below sets out the minor changes we are proposing to make to the Remuneration Policy, subject to shareholder approval at the 2018 AGM:



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.	<p>Typically reviewed annually, effective from 1 April.</p> <p>Any increases take account of:</p> <ul style="list-style-type: none"> ■ Company and individual performance and experience ■ role and responsibilities ■ market positioning ■ external indicators, such as inflation and market conditions ■ pay increases of Group employees <p>No recovery or withholding applies.</p>	<p>Salary increases (in percentage of salary terms) for Executive Directors will normally be within the range of those for Group employees. Where the Committee considers it necessary or appropriate, larger increases may be awarded in individual circumstances, such as a change in scope or responsibility.</p> <p>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 that is critical to the delivery of the Company's strategy.</p>	Not applicable.
Benefits			
Provide market-competitive benefits to assist in attracting and retaining executives and to support them in the performance of their roles.	<p>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.</p> <p>The Committee retains the discretion to offer additional benefits as appropriate, such as assistance with relocation, tax equalisation and overseas tax advisory fees.</p> <p>No recovery or withholding applies.</p>	<p>Benefits are not generally expected to be a significant part of the remuneration package in financial terms.</p> <p>The cost of benefits is not pre-determined, reflecting the need to allow for normal increases associated with the provision of benefits.</p>	Not applicable.

Directors' remuneration report continued

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Pension benefits			
Allows executives to build long term savings for their retirement, ensures the total remuneration package is competitive and aids retention.	<p>Payment may be made into a pension scheme or delivered as a cash allowance.</p> <p>No recovery or withholding applies.</p>	<p>Executive Directors employed after April 2011 receive a pension allowance of up to 20% of base salary.</p> <p>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.</p>	Not applicable.
Annual bonus			
<p>To focus on the delivery of annual goals, to strive for superior performance and to achieve specific targets which support the strategy.</p> <p>Deferred share element encourages retention and provides a link between the bonus and share price growth.</p>	<p>Bonuses are awarded annually under the Executive Annual Bonus Plan (EABP).</p> <p>At least half the bonus awarded in any year will be deferred into shares, normally for a period of three years.</p> <p>The EABP is reviewed annually to ensure performance measures and targets are appropriate and support the strategy.</p> <p>An amount of up to 25% of the maximum may be payable for threshold performance.</p> <p>The Committee has discretion to permit a dividend equivalent amount to accrue on shares which vest under the EABP.</p> <p>The rules of the EABP contain malus and clawback provisions to take account of exceptional and adverse circumstances.</p> <p>Cash bonus payments can be clawed back up to the third anniversary of payment and deferred share awards can be scaled back before they vest.</p>	<p>For existing Executive Directors</p> <p>Maximum bonus opportunity is 150% for the Chief Financial Officer.</p> <p>For newly recruited Executive Directors including Chief Executive</p> <p>Maximum bonus opportunity will be 150% of base salary.</p>	<p>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 measures¹.</p> <p>Vesting of deferred shares is dependent on continued employment or good leaver status.</p> <p>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.</p>

¹ This is unchanged from previous policy. The Committee's current practice is that at least 75% is linked to financial metrics.

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Long-Term Incentive Plan (LTIP)			
Incentivises the execution of strategy, and drives long term value creation and alignment with longer term returns to shareholders.	<p>Awards under the LTIP are rights to receive conditional shares or nil-cost options over shares, subject to continued employment and performance conditions.</p> <p>An amount of up to 20% of the maximum may be payable for threshold performance, with maximum vesting being equal to 100% of any award made.</p> <p>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.</p> <p>The Committee has discretion to permit a dividend equivalent amount to accrue on shares which vest under the LTIP.</p> <p>The rules of the LTIP contain malus and clawback provisions to take account of exceptional and adverse circumstances.</p> <p>LTIP awards can be scaled back before vesting. Where awards have vested, they may be clawed back up to the fifth anniversary of grant.</p>	<p>For existing Executive Directors</p> <p>Normal award policy is set at a maximum opportunity of 175% of base salary for the Chief Financial Officer.</p> <p>For newly recruited Executive Directors including Chief Executive</p> <p>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.</p> <p>In exceptional circumstances, awards of up to 300% of base salary may be made, such as to aid recruitment.</p>	<p>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.</p> <p>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.</p>

Directors' remuneration report continued

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
All-Employee Share Plans			
To encourage all employees to make a long term investment in the Company's shares in a tax-efficient way.	<p>Opportunity to participate in Save As You Earn (SAYE) and the Share Incentive Plan (known as Buy As You Earn or BAYE) on the same terms as other eligible employees.</p> <p>No recovery or withholding applies.</p>	The maximum participation level is in accordance with HMRC limits.	Not applicable
Shareholding Guidelines			
To ensure that Executive Directors' interests are aligned with those of shareholders over a longer term time period.	<p>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 initial approval of and, if appropriate, subsequent amendments to, this remuneration policy.</p> <p>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.</p>	Not applicable	Not applicable

EABP and Long-Term Incentive Plan

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 what proportion of awards vest, if any, 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
- 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 plans 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.

Group employee considerations

In setting the remuneration of the Executive Directors, the Committee takes into account the overall approach to rewarding 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, however, 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 as well as receiving employee views from the Group Employee Director.

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) joining 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 2018 (including Tim O'Toole who was the Chief Executive until 31 May 2018).

The basis of calculation and key assumptions used to complete the charts 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 and no vesting achieved under the LTIP. The value of the Chief Executive's pension benefit and allowance is assumed to be in line with that for 2017/18 as set out in the Executive Directors' total remuneration table. The value of the CFO's pension allowance is 20% of base salary.

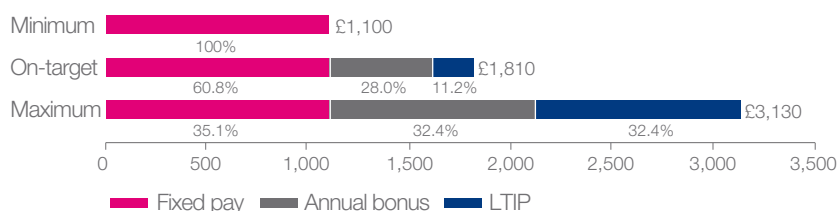
On-target – fixed pay plus 50% of maximum annual bonus pay-out and 20% vesting under the LTIP.

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

For all scenarios, it is assumed that the share price will remain unaltered.

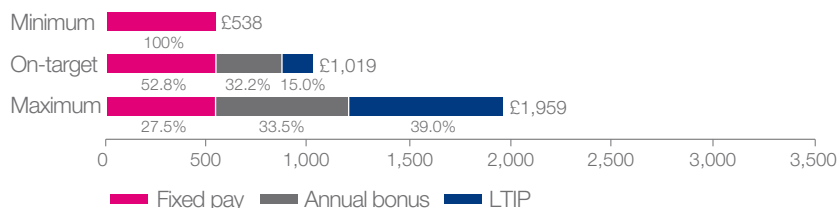
Chief Executive

Total remuneration (£000s)



Chief Financial Officer

Total remuneration (£000s)



Directors' remuneration report continued

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	<p>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.</p> <p>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.</p> <p>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.</p>
Benefits	<p>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.</p>
Pension benefits	<p>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.</p>
Annual bonus	<p>The maximum bonus opportunity shall be 150% of base salary.</p>
Long-Term Incentive Plan	<p>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.</p>
Total incentive opportunity	<p>The maximum incentive opportunity which may be granted in line with the policy maximums will be 450% of salary, excluding replacement awards.</p>
Replacement awards	<p>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.</p> <p>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 attached to that remuneration and the impact of any performance conditions.</p> <p>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.</p> <p>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.</p>
Relocation policies	<p>In instances where the new Executive Director is required to relocate or spend significant time away from their normal residence, the Company may provide compensation to reflect the cost of relocation, including up to two years temporary provision of accommodation and associated moving costs. The level of the relocation package will be assessed on a case-by-case basis but will take into consideration, amongst other items, any cost-of-living differences, housing allowances and schooling. Where an Executive Director leaves within two years of their appointment, the Committee has the discretion to clawback part or all of the relocation package.</p>
Notice periods	<p>The Committee shall utilise notice periods of up to 12 months.</p>

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 relocate, 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
Salary, Benefits and Pension	These will be paid over the notice period. The Company has discretion to make a lump sum payment in lieu.
EABP	<p>Good leaver reason*</p> <p>Where an individual is considered a good leaver* 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.</p> <p>Other reason</p> <p>The EABP provides no entitlement to a bonus following cessation of employment, unless the leaver is considered a good leaver.</p>
Deferred Share Awards	<p>Good leaver reason*</p> <p>Where an individual is considered a good leaver* (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.</p> <p>Other reason</p> <p>Unvested deferred share awards will normally lapse on cessation of employment or, at the Committee's discretion, on service of notice of termination of employment.</p>
Long-Term Incentive Plan	<p>Good leaver reason*</p> <p>Where an individual is considered a good leaver* (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.</p> <p>Other reason</p> <p>Awards will normally lapse on cessation of employment.</p>
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.

* A good leaver is defined as cessation of employment in the following circumstances: death; ill-health; injury or disability; statutory redundancy; agreed retirement; employing company ceasing to be a Group company; transfer of employment to a company which is not a Group company; and at the Committee's discretion. Cessation of employment in circumstances other than those set out above is cessation for other reasons.

Directors' remuneration report continued

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, taking into account the need progressively to refresh the Board.

In line with the requirement of the 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 they are not re-appointed at a meeting of shareholders.

Remuneration policy for the Chairman and Non-Executive Directors

The Chairman and 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.

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

The policy on fees for the Chairman and Non-Executive Directors 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.
Chairman	<p>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.</p> <p>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.</p>
Non-Executive Directors	<p>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.</p> <p>The Board takes account of recognised best practice standards for such positions when determining the fee level and structure.</p> <p>The Non-Executive Directors receive a base fee. Additional fees may be payable for chairmanship of the Company's key Committees and for performing the Senior Independent Director role. Non-Executive Directors may also receive an allowance in the event they are required to undertake intercontinental travel for the purpose of attending Board or Committee meetings or site visits. Fees are paid monthly and can either be taken in cash or shares or a combination of both.</p> <p>Non-Executive Directors' letters of appointment contain provisions for payment in lieu of notice.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>
Group Employee Director	The Group Employee Director's fee is in line with the basic fee of the Non-Executive Directors and is payable in addition to the remuneration received as an employee of the respective Group operating company, which includes participation in any benefit and incentive arrangements and pension scheme.

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.

Annual report on remuneration

This part of the Directors' remuneration 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 Statement by the Chair will be put to an advisory shareholder vote at the AGM on 17 July 2018.

Executive Directors' total remuneration (audited)

	Year	Salary £000s	Benefits ¹ £000s	Annual bonus		Long-Term Incentive Plan £000s	Pension ² £000s	Total £000s
				Cash £000s	Value of deferred shares £000s			
Tim O'Toole	2018	846	43	— ³	— ³	—	211	1,100
	2017	846	44	—	—	180 ⁴	197	1,267 ⁴
Matthew Gregory	2018	437	14	73	73	—	87	684
	2017	425	14	227	227	—	85	978

1 Taxable benefits include: Tim O'Toole – £12,000 car allowance, £22,000 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. The decrease in the Chief Executive's benefits is due to the impact of the change in exchange rates on his US medical insurance.

2 The following pension-related benefits were received during the year: Tim O'Toole – £140,984 pension allowance and a defined benefit pension input amount, net of Director's contributions, of £69,724. Matthew Gregory received a pension allowance of £87,400, which included a defined contribution pension amount of £10,000.

3 No annual bonus has been awarded to Tim O'Toole for the year 2017/18 for the reasons explained in the Statement by the Chair.

4 The 2014 LTIP award, which vested on 5 June 2017, had been shown in last year's annual report with an indicative value of £1.35 per share. The actual share price on the date of release was £1.41, as announced to the market on 7 June 2017, and this is the share price used to calculate the value of the award shown in this table.

Annual base salary (audited)

	2018 £000s	2017 £000s	% increase
Tim O'Toole ¹	846	846	—
Matthew Gregory	437	425	2.8

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

As noted in the Statement by the Chair, in light of the overall challenges faced by the business during the year, Matthew Gregory, CFO, advised the Committee that he did not wish to be considered for a salary increase in 2018. The Committee welcomed and supported this position. However, with the departure of the Chief Executive, and the additional responsibilities that Matthew will take on, the Committee will be considering a temporary increase in Matthew's salary for the period of time in which he takes up his additional responsibilities as Interim Chief Operating Officer.

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).

Directors' remuneration report continued

Pension (audited)

Tim O'Toole participated in a defined benefit pension scheme. His contributions to this scheme were 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 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 was a scheme earnings cap of £140,705 above which a pension allowance of 20% of base salary was paid. The defined benefit arrangement closed to accrual with effect from 5 April 2018.

Information in the table below includes the total accrued benefit at 31 March 2018 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 Mar 2018	Pension age ¹	Total accrued benefit at 31 Mar 2018 £000s	Increase in accrued annual pension at 31 Mar 2018 £000s
Tim O'Toole	62	65	25	4

¹ Tim O'Toole ceased to accrue benefits in the defined benefit pension scheme, following closure to future accrual of the scheme with effect from April 2018. No additional benefits are available on early retirement.

The allowances paid during the year to Tim O'Toole and Matthew Gregory were £140,984 and £87,400, respectively. Matthew Gregory's allowance included a defined contribution pension input amount of £10,000.

Performance-related pay

The Committee believes it is important for Executive Directors that 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.

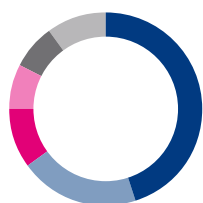
The table below outlines each of the performance measures used in the Company's performance-related incentives and how they support the Company's strategy and business objectives as outlined in the Strategic report:

	KPIs	Business objectives	Our Values
LTIP¹			
Road ROCE	●	●	
TSR		●	
EPS	●		
Bonus			
Adjusted operating profit	●	●	
Revenue	●	●	
Cash flow	●	●	
Safety	●	●	●
Customer satisfaction	●	●	●
Individual performance	●	●	●

¹ As mentioned on page 85, a review was undertaken in 2017/18 with regards to the performance metrics used in the LTIP.

Executive Annual Bonus Plan

2017/18 Executive Directors' annual bonus (audited)



Adjusted operating profit	45%
Revenue	20%
Cash flow	10%
Safety	7.5%
Customer satisfaction	7.5%
Individual performance	10%

For 2017/18 the EABP aimed to incentivise improved performance against a range of financial and non-financial metrics. The structure of the bonus had not changed from 2016/17 and was weighted so that 75% would be based on financial metrics and 25% on non-financial metrics. The financial targets set by the Committee were based on the Group's approved plan. The Committee had also reviewed targets at individual business unit level and had taken into consideration consensus and expectations for 2017/18 at that time.

For 2017/18, the EABP comprised the following six elements:

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 using 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 and cancellations across First Student, First Transit, Greyhound, First Bus and First Rail.

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 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.

For 2017/18, 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 ¹	£317.0m	£329.6m	£339.4m	£344.6m	45%	–	No payout generated.
Revenue	£6,398.4m	£6,125.5m	£6,328.2m	£6,488.9m	20%	–	Group revenue reached 68% of maximum. This would have resulted on a payout of 13.6% under this metric but the Committee exercised its discretion in light of the adjusted operating profit outcome and determined that no payout would occur.
Cash flow	£199.0m	Less than £191.6m	n/a	£191.6m or greater	10%	10	Group cash generation for the year exceeded the EABP target level and delivered full payout.
Safety	Between threshold and target	Balanced scorecard of indicators			7.50%	1.5	Group safety performance is an average of the performance for each division.
Customer satisfaction	Between threshold and target	Balanced scorecard of measures			7.50%	2.8	Group customer satisfaction is an average of the performance for each division.

¹ Adjusted operating profit figures throughout this document are before Greyhound goodwill impairment, TPE onerous contract provision, other intangible asset amortisation charges and certain other items as set out in note 4 to the financial statements.

Directors' remuneration report continued

For the reasons referred to in the Statement by the Chair, the Committee has decided not to award an annual bonus to Tim O'Toole for the year 2017/18. A review of his individual performance against objectives is therefore not included in this report.

With regard to Matthew Gregory, the Committee carefully reviewed his individual performance against objectives set at the beginning of the year and concluded that, against the specific objectives set, many of which referred to his role as CFO, Matthew had delivered these to a high standard, notwithstanding disappointing overall business results. Therefore the Committee assessed his degree of achievement and decided to award him 8% out of a possible 10%:

Executive Director	Objective	Assessment	Degree of achievement
Matthew Gregory	Lead continuous improvement in overall safety culture, strategy and governance, encouraging consistently high standards of behaviour on safety, and foresight of potential hazards	<ul style="list-style-type: none"> Regularly conducted safety tours in North America and the UK Encouraged divisions to adopt data driven approach to safety through the monthly Business Reviews Demanded improvement to safety for capital equipment, particularly seeking a technological solution to baggage handling in Greyhound buses Significantly increased time spent by US insurance team with US management to better understand safety trends and drive action plans. 	Fully achieved
	Deliver the cost savings and capital expenditure amounts set out in the 2017/8 budget	<ul style="list-style-type: none"> Capital budget and cost savings were delivered 	Fully achieved
	Help to create an environment which allows the divisions to achieve top line growth beyond what can be forecast in the current plan	<ul style="list-style-type: none"> Assisted Student with their M&A pipeline set up and process Worked with First Bus to improve revenue from lower-quality businesses Worked with Greyhound to create commercial opportunities (markets and Customer Relationship Management programmes) 	Partially achieved
	Deliver a financial strategy for use of free cash flow and a communications plan for shareholders	<ul style="list-style-type: none"> Plan prepared, not delivered yet due to competing priorities 	Partially achieved
	Assess divisional CFOs and lead hiring in the divisions	<ul style="list-style-type: none"> First Rail and Greyhound CFOs appointed and integrated Overall strengthening of UK and US finance capability 	Fully achieved
	Finalise and commence implementation of Inventory of Ideas project	<ul style="list-style-type: none"> Robotics pilots initiated, to cover billing in First Student and First Transit 	Fully achieved
	Guide First Bus as it implements SAP during 2017/18	<ul style="list-style-type: none"> Project went live in April 2018 without significant issues 	Fully achieved

As referred to in the Statement by the Chair, in light of the overall results, the Committee has exercised its discretion and agreed to reduce to nil the percentage vesting under the Revenue metric, which would have otherwise been 13.6%. As a result, the annual bonus for the year 2017/18 has been as follows:

	Directors	
	Tim O'Toole	Matthew Gregory
Maximum bonus opportunity (% of salary)	120	150
Annual bonus (% of salary)	–	33.5
Actual bonus (£000s)	–	146 ¹

¹ The actual bonus achieved by Matthew Gregory was 22.3% of the total bonus opportunity.

2018/19 Executive Directors' annual bonus

For 2018/19 the EABP will aim to incentivise improved performance against a range of financial and non-financial metrics. The structure of the bonus is unchanged from 2017/18 and will be weighted such that 75% will be based on financial metrics and 25% on non-financial metrics. The financial targets will be set by the Committee based on a number of factors such as the Group's business plan, individual business unit level performance, consensus and expectations for 2018/19. The Committee will set targets which are stretching to ensure payouts only occur for strong performance over the financial year. The targets will be no less demanding than those set for the year 2017/18, having taken into account the year on year improvement required from First Student, First Transit, Greyhound and First Bus, but also that the contribution from First Rail is likely to reduce. 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 will be subject to an underlying performance override enabling the Committee to scale 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 Committee has already demonstrated in assessing bonus outcomes in 2015, 2017 and 2018, that it is prepared to set aside the formulaic outcome and reduce awards or introduce a further condition, to ensure that business performance or the impact of a significant event is properly reflected.

The 2018/19 annual bonus maximum and threshold levels of bonus as a percentage of base salary will be as follows:

Executive Director	Maximum	Threshold
Matthew Gregory	150%	0%

Long-Term Incentive Plan

2015 Long-Term Incentive Awards (audited)

The vesting of the 2015 LTIP awards were subject to the achievement of ROCE and TSR performance conditions over a three-year performance period (each representing 50% of the award). The performance in respect of each of the metrics was as follows:

Metrics	Actual performance	Entry level (0%)	Threshold (12.5%)	Maximum (50%)	% of award which vested
ROCE	7.1	<7.6	7.6	8.7	–
Relative TSR	44th percentile	Below median	Median	Upper quartile	–

TSR and ROCE performance for the period 1 April 2015 – 31 March 2018 has not met the threshold level of performance required for vesting under the 2015 LTIP. Awards made under this plan have therefore lapsed.

2017 Long-Term Incentive Awards (audited)

As set out in the 2017 Statement by the Chair, the Committee undertook a review of the Company's LTIP performance metrics. The review included consultations with major investors and their representative bodies on the inclusion of EPS as a metric as well as the definitions, weightings and target levels of performance of the other LTIP metrics.

The Committee believes that in the current market and economic environment, FirstGroup will create shareholder value by exceeding market growth rates, improving margins and returns, exercising cost discipline and generating cash. The Committee concluded that the performance metrics most relevant to incentivising delivery of these objectives are EPS, TSR and ROCE. Input from major shareholders was requested in a detailed consultation letter sent in October 2017. We were pleased that the major shareholders who responded to the consultation were supportive of the overall LTIP approach. The Committee has made a number of amendments to the operation of the LTIP as follows:

- introduction of Adjusted EPS as a metric alongside TSR and ROCE
- amending the existing ROCE metric to cover Road divisions only
- vesting at threshold performance has been reduced to 20% rather than 25% (previous awards)

40% of the award is subject to the Company's relative TSR performance, 40% of the award is subject to the achievement of EPS growth targets and 20% of the award is subject to ROCE targets measured at the end of the performance period. All metrics will be assessed over a three-year performance period (which commenced on 1 April 2017).

The awards are subject to a two-year holding period following the three-year performance period as well as malus and clawback. In addition, as with all LTIP awards, 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.

Directors' remuneration report continued

Details of the performance metrics and targets for the 2017 LTIP awards are set out below.

Earnings per Share ('EPS')

EPS growth will be determined using Adjusted EPS. The Committee considers Adjusted EPS to be a fairer reflection of trading performance as it eliminates factors which distort year-on-year comparisons and so is a more appropriate measure to incentivise the achievement of underlying growth. The Committee noted that differences between adjusted and statutory EPS will need to be carefully considered and this is consistent with the overall review process described in the above paragraph.

EPS growth will be assessed at constant currency. The use of constant currency is established practice at the Company to eliminate foreign exchange translation effects only and ensures that management are rewarded for improving the underlying performance of the business.

When assessing performance, the reported Adjusted EPS for 2019/20 will be compared against the reported Adjusted EPS for 2016/17, restated into constant currency based on the effective foreign exchange rates in 2019/20.

Details of the EPS targets for the 2017 LTIP are set out below:

EPS CAGR ¹	% of award which vests
< 4%	0%
= 4%	8%
≥ 11%	40%

¹ Between threshold (4%) and maximum (11%), vesting will be on a straight-line basis.

EPS targets were set taking into consideration the three-year business plan agreed by the Board in May 2017 (after the award of the SWR Rail Franchise) and analyst forecasts at the time of our consultation letter to shareholders in October 2017.

The 4% CAGR threshold requires performance of almost double the rate of inflation expected over the performance period and 11% CAGR for maximum vesting is very stretching given the current economic growth rates in our major markets.

The change to the corporation tax rate in the US was not known at the time the targets were set. Rather than amend the target, the Committee has agreed it will take account of any impact on the EPS outturn at the time vesting is determined.

ROCE ("Return on Capital Employed")

As the Rail divisions are not heavy users of the Company's capital and the Company will be relying on the Road divisions to drive improved ROCE performance, the Committee concluded that 'Road ROCE' is a more appropriate measure for the LTIP than Group ROCE.

The Road ROCE metric will be calculated by dividing operating profit less tax by relevant Capital Employed retranslated at constant currency where:

- Operating profit is the reported adjusted operating profit of the Group, as published in the Annual Report, excluding earnings derived from the Rail division
- Capital Employed is net assets, excluding net debt, derivatives and pension balances and also excluding items relating to the Rail division. The exclusion of the pension deficit is considered appropriate as the Committee believes management should not be rewarded for movements in this element. This approach to pensions is identical to the ROCE definition, which did include Rail, used for the 2015 and 2016 LTIP awards.

To ensure consistency with the assessment of EPS targets, when assessing performance, the base year ROCE (5.2%) will be restated on a constant currency basis. The 2016/17 adjusted operating profit will be restated at the effective foreign exchange rate for 2019/20 and the March 2017 Capital Employed will be restated at closing balance sheet rates as at March 2020.

In order to provide transparency for each LTIP award, the Committee will disclose sufficient information to reconcile performance against the ROCE target range at the beginning and the end of the performance period.

At the beginning of the performance period for awards made in 2017 (1 April 2017), LTIP Road ROCE was 5.2%. This was calculated as follows:

Reported ROCE 2016/17	7.3%
Remove Rail earnings and capital employed balances	(1.6)%
Remove pension balances	(0.5)%
LTIP Road ROCE (2017 scheme basis)	5.2%

The Committee believes that this method of calculation results in a ROCE definition that will ensure management are rewarded for improving the effective allocation of capital across the business and then generating a return from this investment. The ROCE target range has been set such that no vesting will occur unless the 2019/20 ROCE exceeds the ROCE outturn for 2016/17 (the base year ROCE) by 10 basis points ("bps").

Maximum vesting will occur if the 2019/20 ROCE is 150 bps or more above the base year.

Details of the ROCE targets for the 2017 LTIP are set out below:

ROCE (Growth from end of 2016/17) ¹	% of award which vests
< 10 bps	0%
= 10 bps	4%
≥ 150 bps	20%

¹ Between threshold (10 bps) and maximum (150 bps), vesting will be on a straight-line basis.

Relative TSR ("Total Shareholding Return")

The relative nature of the metric, with TSR measured against a comparator group of 31 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 2017 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 2017 LTIP are set out below:

TSR Ranking ¹	% of award which vests
Below median	0%
Median	8%
Upper quartile	40%

¹ Between median and the upper quartile of the peer group, vesting will be on a straight-line basis.

The comparator group for the benchmarking of remuneration and the relative TSR metric for awards granted in 2017 comprises:

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

The changes to the comparator group are the removal of WS Atkins and Amec Foster Wheeler, following their takeovers, and the addition of Wizz Air Holdings.

The comparator group comprises companies in the travel, business services and industrial sectors, which are of comparable scale, complexity and activity to the Company. 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.

On this basis, awards were granted to Executive Directors on 24 November 2017 as follows:

Executive Director	Share price at date of grant ¹	Face value (% of base salary)	Number of shares awarded	Face value of award	% of award which vests at threshold	Performance period
Tim O'Toole	104.7 pence	120	969,197	£1,014,750	20%	1.4.17 – 31.3.20
Matthew Gregory	104.7 pence	175	730,420	£ 764,750	20%	1.4.17 – 31.3.20

¹ Awards granted using the average five-day closing mid-market share price at the time of grant.

The award granted to Tim O'Toole, Chief Executive, is structured as a conditional award under which, following vesting, the shares are transferred to the participant for nil payment. The award granted to Matthew Gregory, CFO, is structured as a nil-cost option, which may be exercised for up to 12 months following vesting. Both awards are subject to clawback and malus, and a two-year post-vesting holding period, as per the rules of the LTIP.

Directors' remuneration report continued

2018 Long-Term Incentive Awards

It is the Committee's intention to make awards under the LTIP this year and it is anticipated that the approach to be adopted regarding metrics will be similar to that of the 2017 LTIP, that is, 20% Road ROCE, 40% EPS and 40% relative TSR. In view of the overall results for the year, the Committee is taking some additional time to review the calibration of the targets, which will be no less demanding than those set for the 2017 LTIP.

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.

			Number of awards held as at 1.4.17		Face value of awards (£) ¹	Awards vested ²	Awards lapsed during the year	Number ³ of awards held as at 31.3.18	Exercise price (p)	Date on which award vests/ becomes exercisable	Expiry date
Director	Plan	Date of grant		Awards granted							
Tim O'Toole ³	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
		16.6.17	—	516,356 ⁴	723,415	—	—	516,356	nil	16.6.20	15.6.27
	LTIP	2.7.14	785,288	—	1,013,807	128,002	657,286	—	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
		24.11.17	—	969,197	1,014,750	—	—	969,197	nil	1.4.20	1.4.21
Matthew Gregory ⁵	Deferred share bonus	28.6.16	81,399	—	75,375	—	—	81,399	nil	27.6.19	27.6.26
		16.06.17	—	162,187	227,225	—	—	162,187	nil	16.6.20	15.6.27
	LTIP	17.12.15	1,222,200	—	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
		24.11.17	—	730,420	764,750	—	—	730,420	nil	1.4.20	1.04.21
Group Employee Director											
Jimmy Groombridge	SAYE	9.12.14	2,782	—	3,021	—	2,782	—	97	1.2.18	31.7.18
		8.12.15	3,601	—	3,713	—	—	3,601	85	1.2.19	31.7.19
		12.12.16	5,436	—	5,566	—	—	5,436	86	1.2.20	31.7.20
		12.12.17	—	3,469	3,747	—	—	3,469	83	1.2.21	31.7.21

1 The face value in the table above has been calculated by multiplying the maximum number of shares that could vest (or under option in the case of SAYE) by the closing share price on the date of grant.

2 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.

3 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.

4 In light of the tram incident in Croydon in November 2016, and the ongoing investigations, the Committee had decided that it would not be appropriate to award a bonus either in cash or award the deferred share element to Tim O'Toole in the usual way. Tim was not awarded a bonus for the financial year 2016/17. Instead, the Committee determined that a conditional award of deferred shares be made, equivalent in value to the bonus of £723,415 that Tim 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.

5 Awards made to Tim O'Toole and Matthew Gregory under the EABP and LTIP are subject to clawback and malus provisions, in line with best practice and investors expectations.

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 their date of appointment or 16 July 2015, whichever is later, 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 2018.

Executive Director	Ordinary shares beneficially owned at 1.4.17	Ordinary shares beneficially owned at 31.3.18	Unvested deferred share bonus awards subject to continued employment	Unvested LTIP awards subject to performance conditions	Vested but not exercised share awards	Shareholding requirement (% of basic salary)	Current shareholding (% of basic salary) ²
Tim O'Toole	939,296	1,253,522 ⁴	599,482	2,011,891	230,748	200%	144% ³
Matthew Gregory ¹	261,033	308,399	243,586	1,494,651	–	150%	58% ³

1 Matthew Gregory has until 1 December 2020 to meet the shareholding requirement.

2 Based on the middle market closing price of an ordinary share of the Company of 82.10 pence per share on 29 March 2018. The range of the Company's share price for the year was 77 pence to 153 pence.

3 The percentage of basic salary shown in the table includes vested but unexercised awards. If unvested deferred share bonus awards subject to continued employment were included in the calculation, Tim O'Toole's current shareholding as a percentage of basic salary would be 202% and Matthew Gregory's would be 104%.

4 Tim O'Toole acquired 24,776 shares between 1 April 2018 and the date of approval of this report as a result of his standing instruction to allocate part of his salary to acquire shares in the Company.

Since August 2011, Tim O'Toole has allocated part of his monthly gross base salary to acquire shares in the Company. This is a standing instruction. From August 2011 until May 2015 the monthly allocation was £10,000, rising to £15,000 from June 2015 to October 2017 and then again to £25,000 from November 2017 onwards. Shares are 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 Save As You Earn (SAYE) and Share Incentive Plan, known as Buy As You Earn (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.

The Company provides two Matching Shares for every three Partnership Shares, subject to a maximum Company contribution of shares to the value of £30 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.

Directors' remuneration report continued

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 2018, 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.

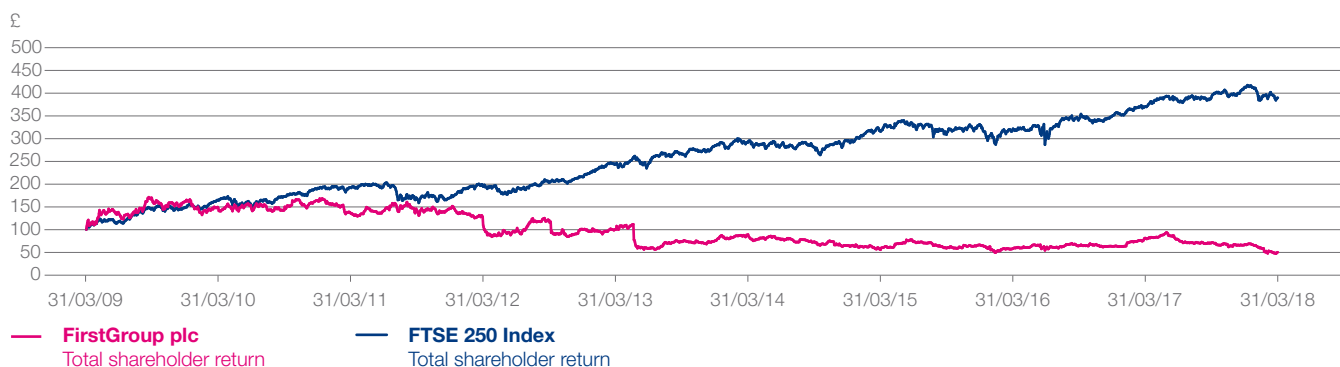
Employee Benefit Trust (EBT)

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 2018, 7,464,219 shares were held by the EBT to hedge outstanding awards of 27,103,816. This means that the EBT holds sufficient shares to satisfy 27.54% of outstanding awards.

Performance graphs

The graph below shows the TSR performance of £100 invested in FirstGroup plc shares over the past nine 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 nine-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.

	2010 ¹	2011 ²	2012	2013	2014	2015	2016	2017 ⁴	2018
Total remuneration (£000s)	802	503	1,055	1,068	1,986	1,647	1,243	1,267	1,100
Annual bonus (% maximum potential)	—	43.6	— ³	— ³	59.1	57	15.9	— ⁴	—
LTIP vesting (%)	—	—	—	—	—	—	—	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 a 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 A bonus was not paid to Tim O'Toole in 2017 and instead he received 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 2018/19 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%	(2.3)% ¹	0% ²
UK employees	2.89% ³	6.86%	(4.95)% ⁴

1 The decrease in benefits is due to the impact of the change in exchange rates on the Chief Executive's US medical insurance costs.

2 The Chief Executive did not receive a bonus for 2017/18.

3 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 2017/18 were in the range 1-3%.

4 This reflects the lower level of discretionary bonuses paid in some of our UK businesses in 2017/18 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.

	2018 £m	2017 £m	% change
Adjusted operating profit ¹	317	339	(6.5)
Distributions to shareholders	—	—	—
Total employee pay ²	3,162	2,945	7.4

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 average monthly number of employees in 2017/18 was 100,046 (2016/17: 100,891).

Wider pay and benefits environment

In addition to competitive pay, FirstGroup offers a wide range of employee benefits to all employees regardless of role. We are committed to helping our colleagues save for retirement through a variety of company pension arrangements and retirement plans, and a further key element of our employee engagement strategy is the opportunity to share in the growth and success of the business through our UK employee share plans.

Other benefits in the UK include discounted travel on our rail and bus services, and discounts on shopping, entertainment and eating out. We also operate childcare voucher schemes across our UK businesses and our Employee Assistance programme offers all 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 advisers 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.

More information can be found in the 'Our People' section on page 27.

Non-Executive Directors' (NED) and Chairman's fees (audited)

The Chairman's fee was reviewed and increased from £280,000 to £295,000 with effect from 1 December 2017. This fee had not been increased since Wolfhart Hauser's appointment as Chairman in 2015. The increase was implemented to reflect the demands of the role and the time commitment required of the Chairman.

With Wolfhart Hauser now stepping up to the position of Executive Chairman, the Committee will be considering a temporary increase to his fees to reflect the additional time commitment and this will be disclosed in the normal manner in due course.

Directors' remuneration report continued

The NEDs' fees, which include the Group Employee Director, were reviewed in August 2017 and increased from £55,000 to £58,000. The additional fees for the Senior Independent Director and the Chair of the Board Safety Committee were also reviewed and increased from £10,000 to £12,000 to bring them in line with the additional fees for chairing the Audit and Remuneration Committees. The NEDs' fees will not be increased in 2018/19.

	Fees		Benefits ¹		Totals	
	2018 £000s	2017 £000s	2018 £000s	2017 £000s	2018 £000s	2017 £000s
Non-Executive Director						
Wolfhart Hauser	285	280	–	–	285	280
Warwick Brady	58	54	–	–	58	54
Jimmy Groombridge ²	49	–	–	–	49	–
Drummond Hall	70	63	–	–	70	63
Martha Poulter	49	–	2	–	51	–
David Robbie ³	11	–	–	–	11	–
Imelda Walsh	70	65	–	–	70	65
Jim Winestock	70	64	5	2	75	66

1 The Company meets all reasonable travel, subsistence, accommodation and other expenses, including any tax where such expenses are deemed taxable, incurred by the NEDs and the Chairman in the course of performing their duties.

2 In addition to his fee as a Group Employee Director, Jimmy Groombridge received earnings from the Group as an employee amounting to £21,251. As a participant in the BAYE he received 681 shares during the financial year. Based on the middle market closing price of a share on 29 March 2018 of 82.10 pence, the value of these were £560.

3 David Robbie was appointed on 2 February 2018.

Former Non-Executive Directors

Richard Adam ¹	64	6	–	–	64	6
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1 Richard Adam resigned on 2 February 2018.

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.

During the year, Tim O'Toole has not received any remuneration for serving as an Independent Non-Executive Director of Edison International and Southern California Edison, and as a board member of the US National Safety Council.

Payments to past Directors and payments for loss of office (audited)

There have been no payments to past Directors and no payments for loss of office during 2017/18.

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 2018 in the shares of the Company as at that date and 1 April 2017 are shown below. Shares are held outright with no attaching performance conditions. Jimmy Groombridge holds his shares in the FirstGroup Share Incentive Plan ("SIP") trust.

	Ordinary shares beneficially owned at 1.4.17 or date of appointment, if later	Ordinary shares beneficially owned at 31.3.18
Wolfhart Hauser	284,558	284,558
Warwick Brady	108,701	108,701
Jimmy Groombridge ¹	3,207	3,888
Drummond Hall	30,990	30,990
Imelda Walsh	19,429	19,429
Jim Winestock	64,743	64,743
Martha Poulter ³	–	60,000
David Robbie ³	–	30,000

1 Jimmy Groombridge participates in the Company's BAYE scheme. His shares are held in the SIP trust. As explained on page 89, if the Partnership Shares were removed from the SIP trust within three years, the corresponding Matching Shares would be forfeited. Jimmy Groombridge acquired 343 shares between 1 April 2018 and the date of approval of this report.

2 Martha Poulter was appointed to the Board on 26 May 2018.

3 David Robbie was appointed to the Board on 2 February 2018.

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 who served during the year ending 31 March 2018. They will all, except for Richard Adam who stepped down on 2 February 2018, put themselves forward for election or re-election at the AGM, on 17 July 2018.

Non-Executive Director	Date of appointment
Wolfhart Hauser	19 May 2015
Richard Adam	24 February 2017
Warwick Brady	24 June 2014
Jimmy Groombridge	26 May 2017
Drummond Hall	24 June 2014
Martha Poulter	26 May 2017
David Robbie	2 February 2018
Imelda Walsh	24 June 2014
Jim Winestock	1 August 2012

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
- 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, Chair; Drummond Hall, the Senior Independent Director, and David Robbie, who joined the Committee in March 2018.

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 Head of Reward and PwC, the Committee's 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 2014 would vest at 16.3% based on EPS performance
- 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 and changes to the Remuneration Policy
- discussed current trends in remuneration practice and corporate governance, including shareholders' representatives' guidelines and policies
- reviewed its terms of reference
- reviewed the performance of its advisers and that of the Committee

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 PwC, who were appointed by 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, PwC provided independent advice and commentary on a range of topics including Directors' remuneration reporting, discretionary share plans, corporate governance and executive remuneration trends and shareholders consultation. PwC fees for advice provided to the Committee were £67,950 (2017: £32,200), 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 and objectivity of the advice it has received from PwC, which has no other connection with the Company.

Shareholder votes on remuneration matters

	2017 AGM Annual Report on Remuneration	2016 AGM Annual Report on Remuneration	2015 AGM Remuneration Policy	2015 AGM Annual Report on Remuneration
Votes for	902,019,470 (91.32%)	799,235,216 (96.53%)	779,923,966 (93%)	800,928,123 (95%)
Votes against	85,771,076 (8.68%)	28,761,378 (3.47%)	60,313,189 (7%)	39,629,864 (5%)
Total votes cast	987,790,546	827,996,594	840,237,155	840,557,987
Votes withheld*	222,240	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.

Imelda Walsh

Chair, Remuneration Committee
31 May 2018