Statement by the Chair of the Remuneration Committee

Sally Cabrini
Chair, Remuneration Committee

The backdrop of this year's results and the experience of the Company's stakeholders have framed the Committee's decisions and the reward outcomes for the Executive Directors.

In this section

Dear Shareholder

I am pleased to present the Directors' remuneration report for the financial year ended 31 March 2020, my first as the Remuneration Committee Chair of FirstGroup. I would like to thank Imelda Walsh for her hard work and dedication as Chair of the Remuneration Committee over the past five years.

This report is split into:

i. This Annual Statement

ii. An 'at a glance' summary of the remuneration decisions made during the year as well as a summary of the Remuneration Policy ("the Policy") approved by our shareholders at the 2018 AGM

iii. The Annual Remuneration Report on the implementation of the Policy in the year ended 31 March 2020 and proposed implementation for the next financial year.

Impact of Coronavirus

Firstly, I want to address the rapid escalation of the coronavirus outbreak and its impact on all of the Group's stakeholders in the final weeks of the year. As noted in the Chief Executive's report, our priority since the start of the outbreak has been the health and safety of our employees, passengers and communities while our operations, which are part of the critical infrastructure providing essential transportation services, have enabled key workers to travel to their destinations and perform their vitally important roles.

It is important to recognise our employees for their significant contribution. Their collective efforts have enabled us to deliver the continuity of transport that is so essential to governments, local communities and our customers. In addition, our local knowledge and platforms at the heart of our communities have allowed us to provide further support and assistance during this challenging time through delivering medical supplies, providing free transport for frontline workers and utilising space for community initiatives such as food banks.

Although we saw no significant effect on our businesses until the final three weeks of the 2019/20 financial year, the rapid and substantial fall in passenger numbers at that point meant that the Group had to quickly take decisive action to protect our ability to maintain critical services while travel restrictions were at their most comprehensive and while ensuring we would be in a position to rapidly increase capacity once appropriate. This has included steps to reduce costs and preserve cash, the utilisation of emergency measures announced by the Government as well as a number of difficult but necessary decisions to permanently reduce headcount in some areas.

Performance of FirstGroup in 2019/20

The coronavirus pandemic inevitably affected the Group's financial results because March is traditionally a significant trading period, with all divisions normally operating at near-full capacity. Up to that point the Group had been making good progress in executing the clear commercial strategies in each division. This included good bid seasons in both First Student and First Transit. First Student delivered a new record customer satisfaction score in the year, reflecting the strength of their relationships with their stakeholders. As noted in the Chief Executive's report on page 9, a number of important steps were taken in First Bus to move us to the forefront of the industry in terms of both technology and customer experience and we were awarded the West Coast Partnership rail franchise as well as a further three-year contract to operate Great Western Railway. The overall trading performance saw revenue increase by 7.2% in constant currency. On the same basis, adjusted operating profit decreased by 20.1% with adjusted EPS falling by 49.6% reflecting the negative impact to our operations in March.

Remuneration paid in respect of 2019/20

When considering payments to our Executive Directors for the 2019/20 financial year, the Committee took into account a number of reference points including performance against the pre-determined incentive targets, as well as underlying financial performance to ensure any payments would be appropriate in the context of the shareholder experience. In line with our usual approach, we also considered the overall experience of the Company's other stakeholders including customers, employees and the communities we operate in and sought to reflect these either in specific incentive measures (e.g. customer satisfaction and safety) or as part of the holistic assessment of overall Group performance to ensure the Company's environmental, societal and governance impact is taken into account when determining pay. The impact of coronavirus on all the Group's stakeholders has also informed the approach to executive pay.

- Salary and fee reductions – the Chief Executive, Chief Financial Officer, Chairman and Non-Executive Directors voluntarily reduced their salary / fees by 20% from 1 April 2020. A wider group of senior employees across the Group have also made voluntary salary reductions and deferrals. The 2020/21 salary review for the whole Company has been deferred until later in the year (from the usual date of 1 April).
- EABP in respect of 2019/20 – 75% of the 2019/20 annual bonus was based on financial performance (45% adjusted operating profit, 20% revenue and 10% cash flow) and the remaining 25% based on non-financial performance (15% personal performance, 5% safety and 5% customer satisfaction). Performance against the financial measures was mixed, with results exceeding the threshold target for revenue, and cash flow coming in above the maximum target for the 2019/20 year. This was set against a year-on-year fall in adjusted operating profit. There was strong performance in respect of the non-financial measures relating to safety and customer satisfaction. It was encouraging to be able to report that lost time injuries across the Group reduced by 12%, with employee major injuries reducing by 18% this year. Collisions with injury were also down by 5% and passenger injuries reduced by 3%. The overall severity of injuries has also reduced, with major injuries significantly lower against the prior year. This reflects the ongoing efforts and focus of our employees at all levels of the organisation on everyday safety procedures, and commitment to the goal of zero harm. Similarly customer satisfaction measures saw improvement, particularly in First Student and Greyhound.

The Committee recognises the strong contribution of the Executive Directors during 2019/20, and also the swift and decisive actions taken to mitigate the impact of the global pandemic and protect the Group for the long term. Notwithstanding this, the Committee and the Executive Directors were in full agreement that – given the impact of coronavirus on the Group's wider stakeholders – it would not be appropriate to pay a bonus to the Executive Directors and Executive Committee at this time. Therefore no bonuses will be paid to the Chief Executive, Chief Financial Officer and the senior management team in respect of the 2019/20 financial year. Full details on the relevant targets and performance achieved are set out on pages 121 and 122 of the Annual Report on Remuneration.

- 2017 LTIP – The vesting of the 2017 LTIP award was subject to three performance measures: 40% EPS, 20% Road ROCE and 40% relative TSR. The Company's performance was above median for the TSR measure, resulting in 30% vesting under this element of the award, 12% of the maximum available. The Committee carefully reviewed this in the context of the underlying performance of the Group and were satisfied with this level of vesting. The shares will be held for an additional two years to provide alignment with our shareholders. Ryan Mangold participated in the LTIP from appointment in 2019/20 and therefore had no 2017 award.
- IFRS 16 – As explained in last year's report the performance targets for the 2019/20 EABP and the 2017, 2018 and 2019 LTIPs were set on a pre-IFRS 16 basis. A reconciliation between the performance outcomes on an IFRS 16 and an IAS 17 basis is included in the relevant sections of this report (and will continue to be provided in future reports).

Key activities during the year

2019

May

Assessed the level of achievement under the 2018/19 EABP

Determined the vesting outcome of the 2016 LTIP

Reviewed and approved the 2019 Directors' Remuneration Report

July

Approved the 2019 LTIP awards

November

Reviewed and approved changes to the remuneration structure for the North American contract businesses

2020

January

Considered the remuneration implications of the portfolio rationalisation strategy for the North American contract businesses

March

Reviewed the 2019 Gender Pay Gap reporting ahead of publication

Reviewed and amended the terms of reference

Statement by the Chair of the Remuneration Committee
continued

Remuneration for 2020/21

As we look ahead, there are many uncertainties which create a range of potential scenarios for our businesses to consider as our local markets in North America and the UK emerge from the lockdown. However there remains a fundamental need for our services, which help people to travel safely and conveniently for business, education, social or recreational reasons and will be essential to restoring sustainable and thriving economies and communities once the present crisis is overcome. The Group's intention to rationalise the Group's portfolio of businesses through the sale of the North American divisions at the earliest appropriate time is unchanged

In line with established best practice we were planning to provide prospective disclosure of our 2020 LTIP targets in this year's Report. Given the exceptional circumstances, the Committee has decided to delay 2020 LTIP grants and target setting to allow us adequate time to better understand the impact of coronavirus on the wider economy and our business. We expect to provide full details of the targets in the regulatory announcement when awards are made, as well as in next year's Remuneration Report. As usual, the annual bonus measures and targets will be disclosed in next year's Report with at least half being based on the financial performance of the Group in line with our Policy. We anticipate that maximum award levels will be in line with our shareholder approved Policy and implementation over recent years.

Payment to past Director

The Committee fully recognises the severity of the Croydon tram incident in November 2016 and our deepest condolences go to all those affected. No annual bonus payment was made for 2016/17 to Tim O'Toole, the then Chief Executive, with that element of his remuneration being replaced by a conditional deferred share award. Under the terms of that award, the Committee was obliged to consider the vesting of the 2016/17 deferred share award as soon as practicable after 31 March 2020. Based on the information available at that time, and having taken independent legal advice, the Committee concluded that there was no basis on which to withhold or reduce the award. Full details are provided on page 122.

Directorate changes

David Martin was appointed to the Board and became Chairman on 15 August 2019 on a fee of £310,000. This was an increase of 2.5% p.a. on his predecessor's fee, recognising that the Chairman's fee had not been reviewed since 2017.

Governance

The Committee actively monitors developments in corporate governance and the guidelines produced by shareholders and their representative bodies. While we had already made a number of early changes to move towards compliance with the 2018 Code and the new regulatory requirements, we have taken further steps for 2019/20 including disclosure of the CEO pay ratio. We will review the Policy over the course of 2020/21, prior to seeking shareholder approval at the 2021 AGM. This review will include the adoption of post-employment shareholding guidelines.

We welcome the changes made to broaden the Remuneration Committee's remit to ensure pay decisions for Directors are made in the context of wider pay decisions across the Group. Our Group Employee Director has an open invitation to attend all Committee meetings, and regularly attends, and we have provided further details on our approach to pay throughout the Group on pages 116 and 117.

In conclusion

We will continue to monitor governance developments and are committed to maintaining an open and transparent dialogue with our shareholders on executive remuneration. We consider ongoing engagement to be vital in ensuring that our approach to remuneration continues to be aligned with the long-term interests of the Group's shareholders and wider stakeholders. We welcome the feedback received during the year and hope to receive your support at our upcoming AGM.

Sally Cabrini
Chair, Remuneration Committee

Remuneration Policy at a glance

Key Remuneration Principles

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

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

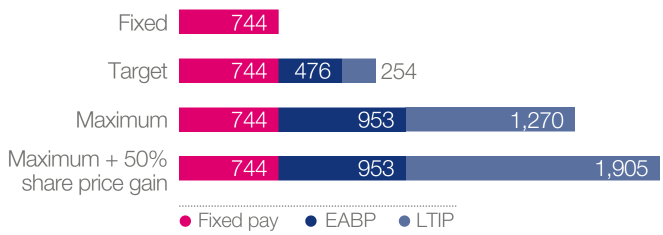
Total remuneration opportunity at various levels of performance

The charts below illustrate the total remuneration opportunity provided to each Executive Director at different levels of performance for the 2020/21 financial year.

The Committee believes it is important that the approach to remuneration supports successful delivery of the Company's strategy. As such, a significant proportion of pay is performance based with a range of financial and non-financial measures used, as well as overall Committee discretion to ensure pay is appropriate and fair in the context of Company performance and the shareholder experience.

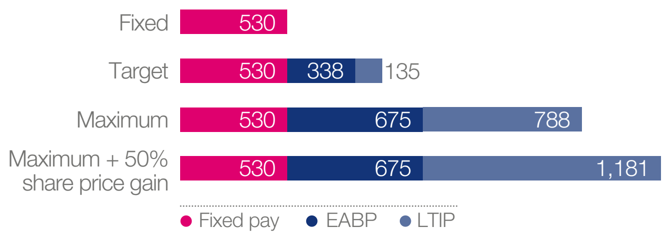
Chief Executive

Total Remuneration (£000s)



Chief Financial Officer

Total Remuneration (£000s)



Directors' remuneration report

Remuneration policy at a glance

Summary of policy and operation for year ending 31 March 2021

Purpose and link to strategy		2020/ 2021	2021/ 2022	2022/ 2023	2023/ 2024	2024/ 2025	2025/ 2026	Key Features of the policy	Implementation for 2020
Fixed Pay To attract and maintain high-calibre executives with the attributes, skills and experience required to deliver the Group's strategy	**Salary and benefits**							Salary increases (in percentage terms) will normally be within the range for those of Group employees. Pension allowances for Executive Directors are in line with the average company contribution to employee pensions in the UK.	■ Matthew Gregory's base salary from 1 April 2020 will remain at £635,000 ■ Ryan Mangold's base salary from 1 April will remain at £450,000 ■ Pension allowance for both Executive Directors of 15% of salary which is in line with the wider workforce.
Executive Annual Bonus Plan (EABP) To focus on the delivery of annual goals, to strive for superior performance and to achieve specific targets which support the strategy. The deferred share element of our EABP encourages retention and provides a link between the bonus and share price growth.	**EABP – Cash Element**							Maximum bonus opportunity is 150% of base salary for Executive Directors. At least half of the bonus award will be deferred into shares, normally for a period of three years. Awards are subject to malus and clawback provisions to take account of exceptional and adverse circumstances.	■ Maximum annual bonus opportunity unchanged at 150% of salary for 2020/21 with 50% of the payout subject to deferral into shares for three years. ■ Performance measures and targets for 2020/21 will be fully disclosed in next year's Report.
	EABP – Deferred Share Element								
Long-Term Incentive Plan (LTIP) Incentivises the execution of strategy and drives long-term value creation and alignment with longer term returns to shareholders.	**LTIP**							Normal award policy is for a maximum award opportunity of 200% of base salary for the Chief Executive and 175% for other Executive Directors. Measured over three financial years from the year of award. Shares which vest under the LTIP are subject to an additional holding period of two years. Awards are subject to malus and clawback provisions to take account of exceptional and adverse circumstances.	■ Maximum LTIP opportunity unchanged at 200% and 175% of salary for the CEO and CFO respectively. ■ We expect performance conditions for the three-year period from 1st April 2020 will be announced at the time of grant and fully disclosed in next year's Report. ■ Malus and clawback apply to all incentive awards. More detail can be found on page 121.
Shareholding Guidelines To ensure that Executive Directors' interests are aligned with those of shareholders over a longer term time period	**Shareholding Guidelines**							The Chief Executive is expected to hold shares equivalent to 200% of base salary and other Executive Directors 150% of base salary, within a five year period from their date of appointment.	■ No change to the shareholding guidelines.

The Company's Remuneration Policy was approved by shareholders at the AGM on 17 July 2018 and will apply at the latest until the 2021 AGM.

The Remuneration Policy can be found on our website at www.firstgroupplc.com/investors/corporate-governance

Remuneration outturns for 2019/20 at a glance

Adjusted Revenue	Adjusted Operating Profit (pre-IFRS 16)	Adjusted Cash flow	Adjusted EPS (pre-IFRS 16)
£7,712.8m	**£250.4m**	**£0.1m**	**9.0p**
2018/19: £7,126.9m	2018/19: £332.9m	2018/19: £75.9m	2018/19: 14.4p

Fixed pay

Chief Executive – Matthew Gregory

Salary	Pension	Benefits	Total
■ £635,000	■ £94,000 ■ 15% of salary in line with the wider workforce	■ £14,000 including car allowance, private medical insurance and life assurance	■ £743,000

Chief Financial Officer – Ryan Mangold

Salary	Pension	Benefits	Total
■ £377,000 (appointed to the Board as CFO on 31 May 2019)	■ £56,000 ■ 15% of salary in line with the wider workforce	■ £12,000 including car allowance, private medical insurance and life assurance	■ £445,000

Variable pay

More detail can be found on pages 118 to 121.

2019/20 EABP

- The performance of the Group was impacted by coronavirus for the final few weeks of the 2019/20 financial year, and a number of swift and decisive actions were taken to ensure vital services can continue to be provided both through, and after, the pandemic. The Committee recognised the strong contribution of the Executive Directors during 2019/20, and the actions taken to mitigate the impact of the global pandemic and protect the Group for the long term. Notwithstanding this, the Committee and the Executive Directors were in full agreement that it would not be appropriate to pay a bonus at this time, in recognition of the impact of coronavirus on the Group's wider stakeholders. As such no bonuses will be paid to the Executive Directors in respect of 2019/20.

2017 LTIP

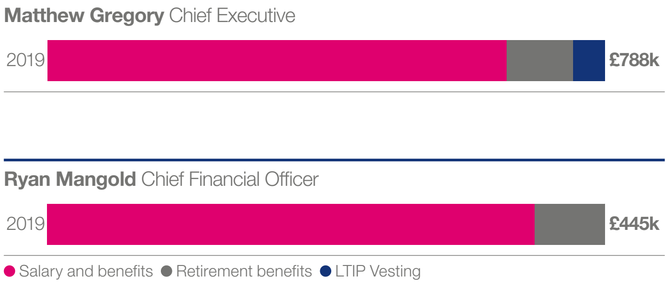
Metrics	Threshold (0% payable)	Maximum (100% payable)	CEO actual (% of max / £)
EPS (40%)	13.9p Achieved: 9.0p	17p	0% / £0
Road ROCE (20%)	5.3% Achieved: 4.3%	6.7%%	0% / £0
Relative TSR (40%)	Median Achieved: 53rd percentile	Upper quartile	30% / £45k
Total	0% Achieved: 12%	100%	**12% / £45k**

Note: the CFO was appointed on 31 May 2019 therefore did not participate in the 2017 LTIP.

Full details on performance measures and targets are disclosed in the Annual Report on Remuneration on page 121.

Total remuneration

Total single figure of remuneration for 2019/20



Directors' remuneration report continued

Our remuneration in context

In setting the remuneration policy for Executive Directors, the Committee takes into account the overall approach to rewarding other 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 North America. Due to the varied nature of the operations of our divisions and the respective employment markets, we have a range of remuneration practices across the organisation. These are designed to be relevant to each individual market. Approximately 90% of our UK employees and 55% of our US employees are covered by collective bargaining arrangements.

As a Remuneration Committee we take our responsibility to consider the pay of the senior team in the context of wider workforce policies and practices seriously and a number of items are tabled at Committee meetings each year to ensure the approach throughout the organisation is fair:

- Report summarising wider workforce pay policies and practices with updates provided on a regular basis
- Gender Pay Gap report including statistics from each UK reporting entity
- Actions management are taking to improve diversity in the workforce and close gender gaps where they exist
- CEO pay ratio and underlying statistics

The diagram on page 117 ('Wider workforce remuneration') summarises the approach to pay across FirstGroup. The main difference between the remuneration of the most senior employees (including Executive Directors) and that of the wider workforce is that remuneration for senior employees is more heavily weighted towards variable pay, which is linked to business performance.

CEO pay ratio

In line with the new reporting requirements applying to the Group this year for the first time, the adjacent table sets out the ratio at the median, 25th and 75th percentiles of the total remuneration received by the Chief Executive compared to the total remuneration received by our UK employees. Option B under the regulations has been chosen to identify the colleagues at the median, 25th and 75th percentiles, consistent with the methodology of reporting the gender pay gap. The UK employees at the lower quartile, median and upper quartiles were identified as at 5 April 2019 and their salary and total remuneration were calculated in respect of the twelve months ended 31 March 2020. The Committee is satisfied that these colleagues are representative of the relevant percentiles across the organisation, as they represent frontline workers in our UK Bus and Rail divisions (i.e. the large majority of our UK workforce) receiving basic pay, overtime, holiday pay and employers pension contributions. The figures also include sick pay (where relevant).

In line with the regulations, the below table sets out the total pay and benefits for the Chief Executive, and colleagues at each percentile.

	Salary	Total pay and benefits
Chief Executive	£635,000	£788,400
25th percentile colleague	£23,300	£24,600
50th percentile colleague	£29,700	£32,000
75th percentile colleague	£40,900	£45,400

It should be noted that the pay ratio may vary year-on-year and the incentive outcomes for the Chief Executive can impact the results significantly. We will provide an explanation in each year's Report around the change in the ratio as well as any additional context where helpful to understand variance.

The Committee is satisfied that the data included in the CEO Pay Ratio, and above total pay and benefits tables, reflect the goals of the Group's remuneration policy to support colleagues in the performance of their roles in collectively delivering the Group's strategy. In particular the Committee notes that factors such as the Company's philosophy to pay the going market rates of pay, to operate a performance based framework that rewards employees for their individual efforts and the performance of the Company, and to structure pay in a simple and transparent manner have been applied consistently.

CEO Pay Ratio

Year	Method	25th percentile	Median	75th percentile
2019/20	Option B	32:1	25:1	17:1

Employee engagement

While the Committee does not formally consult with employees on Executive Director remuneration, a number of different mechanisms are in place to gather feedback from employees across a range of issues. More information on our 'Your Voice' survey is set out on page 49.

The Group engages with its UK workforce through our Employee Directors and the Group Employee Director is invited to attend all of the Committee's meetings. Our Committee Chair, Sally Cabrini, will also periodically attend meetings of the Employee Directors' Forum. More information on the role of our Group Employee Director is set out on page 84.

The Committee believes that it is important for our employees to understand how the remuneration of our Executive Directors is determined and will utilise the different communication channels operating across the Group to ensure our employees are aware of the information available in the Directors' remuneration report.

Performance-related pay

The table below sets out how each of the performance measures used in our incentive plans is aligned to the Company's strategy and business objectives, as outlined in the Strategic report:

FirstGroup's strategic drivers

	1	2	3	4	5
EABP					
Revenue		●			
Adjusted operating profit		●	●		
Adjusted Cash flow				●	
Safety			●	●	●
Customer satisfaction		●	●	●	●
Individual performance	●		●		●
LTIP					
Road ROCE				●	
Relative TSR	●	●			
EPS		●	●		

For further information on FirstGroup's strategic drivers, see page 17.

Wider workforce remuneration

Element	Eligibility
Fixed pay including salary and benefits	All employees regardless of role ■ Base salaries are reviewed annually. When considering salary for Executive Directors and Executive Committee members, the Committee pays close attention to increases available to the wider workforce ■ We are committed to helping our colleagues save for retirement through a variety of company pension arrangements, which are designed in line with local market practice. In the US the company contributes towards a number of defined contribution plans including 401(k) arrangements and various union multi-employer plans. We operate a number of different pension plans in the UK which reflect the history and requirements of these businesses ■ Other benefits in the UK include discounted travel on our rail and bus services, 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 dedicated in-house Occupational Health teams; our other businesses use external specialist advisers to support employees with health problems which may affect performance ■ 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 dependants. We also provide disability plans for short- and long-term illness. Employees and family wellbeing is a focus through our 'Route to Rewards' wellness programme, and throughout the year we encourage participation in wellness activities. In Canada, our employee benefits include life insurance, health and dental benefits, and disability coverage for employees and their dependants ■ All divisions run workplace health and wellbeing programmes to support employees to stay fit and healthy
Annual Bonus	Senior executives and management population – incentivises successful execution of our business strategy and operational goals with participants including both corporate centre and divisional roles.
Long-Term Incentive Plan (LTIP)	Senior executives with sufficient line of sight to drive long-term sustained value creation for our shareholders
Shareholding Guidelines	Senior executives – ensures alignment with the shareholder experience

Directors' remuneration report continued

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 2008 (as amended) 13 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 2020 AGM.

Executive Directors' total remuneration (audited)

						Annual bonus			
	Role	Year	Salary £000s	Benefits £000s	Pension £000s	Cash £000s	Value of deferred shares £000s	Long-Term Incentive Plan £000s	Total £000s
Matthew Gregory[1]	CEO	2020	635	14	94	–	–	45[3]	788
	COO/CEO	2019	542	14	97	136	–	93[4]	882
Ryan Mangold[2]	CFO	2020	377	12	56	–	–	–	445
		2019	–	–	–	–	–	–	–

1 On his appointment as Interim COO on 31 May 2018, Matthew received an increase in his annual salary to £500,000. When he was appointed as Chief Executive on 13 November 2018, his salary was increased to £635,000.

2 Ryan Mangold was appointed to the Board as CFO on 31 May 2019.

3 The value of the 2017 LTIP at vesting has been calculated based on the closing share price on the 24 June 2020 (51.5p). In line with the requirements under the UK Companies (Miscellaneous Reporting) Regulations 2018, none of the total value of £45,140 at vesting can be attributed to share price growth as the share price at award was 104.7p in 2017.

4 The value of the 2016 LTIP reported in last year's report (£87,000) was an estimate based on the average share price over the last three months of 2018/19 (91.2p). The actual value of the 2016 LTIP, on the 28 June 2019 vesting date was £93,378 (based on a closing share price of 97.75p).

More detail can be found on pages 118 to 122.

Benefits (audited)

Benefits for Executive Directors include the provision of a company car allowance, private medical cover, life assurance and advisory fees. Matthew Gregory's benefits for the year comprised: £12,000 car allowance and £2,000 for UK private medical insurance. Ryan Mangold's benefits for the year comprised: £10,000 car allowance and £1,600 for UK private medical insurance.

Pension (audited)

Matthew Gregory received a pension allowance of £94,000 including a defined contribution pension input amount of £10,000. Ryan Mangold received a pension allowance of £56,000. For both this comprised of 15% of their base salary which is in line with the average company contribution for the wider workforce.

2019/20 performance and reward decisions

When assessing the performance of the Executive Directors, the Remuneration Committee takes a broad view of financial performance delivered, the shareholder experience and the outcome for the Company's stakeholders – including customers, employees and the communities in which we operate. When considering remuneration outcomes, the Committee takes into account performance against specific metrics on safety, including workplace fatalities and injuries, and customer satisfaction, as well as environmental, social, and governance (ESG) matters such as significant environmental incidents, large or serial fines or sanctions from regulatory bodies, and significant adverse legal judgments or settlements. The Committee has broad discretion to ensure incentive outcomes are appropriate.

2019/20 Executive Directors' annual bonus (audited)

For 2019/20, the annual bonus maximum opportunity was 150% of salary for both Executive Directors and payouts were subject to the assessment of performance against financial (75%) and non-financial measures (25%). The approach to performance measurement for 2019/20 was largely the same as 2018/19 with the exception of a re-weighting of the non-financial measures to ensure sufficient weighting on portfolio rationalisation objectives aligned with the strategy announcement on 30 May 2019. The focus on safety and customer service continued with each individually measured in the annual bonus. The Committee retains overriding discretion to adjust the overall bonus outturn (including to nil) if a serious safety failing or deterioration is identified.

As noted in the Chair's statement, the performance of the Group was impacted by coronavirus for the final few weeks of the 2019/20 financial year, and a number of swift and decisive actions were taken to ensure vital services can continue to be provided both through, and after, the pandemic. The Committee recognises the strong contribution of the Executive Directors during 2019/20, and the actions taken to mitigate the impact of the global pandemic and protect the Group for the long term. Notwithstanding this, the Committee and the Executive Directors were in full agreement that it would not be appropriate to pay a bonus at this time, in recognition of the impact of coronavirus on the Group's wider stakeholders. As such no bonuses will be paid to the Executive Directors in respect of 2019/20.

For completeness, the chart below sets out the targets, performance achieved and corresponding bonus outturns on a formulaic basis against the financial, customer and safety targets.

As explained in last year's report the performance targets for the 2019/20 EABP were set on a pre-IFRS 16 basis.

Metrics	Threshold (0% payable)	Maximum (100% payable)	CEO actual (% of max)	CFO actual (% of max)
Adjusted operating profit (45%) *Key measure of performance used when managing the business.*	£328.4m Achieved: £250.4m[3]	£355.5m	0%	0%
Adjusted Revenue (20%) *Encourages management to deliver sustainable growth through volume and pricing.*	£7,529.2m Achieved: £7,712.8m	£7,978.6m	6.6%	6.6%
Adjusted Cash flow (10%) *Encourages management to devise operational plans focused on cash generation to create options including investment in key assets of fleet, systems, people and debt reduction.*	Less than £(52.4m) Achieved: £0.1m	£(52.4m) or greater	10%	10%
Safety (5%) *Ensures that risk controls, safety procedures and behaviours are constantly enhanced.*	Balanced scorecard of indicators Achieved: Partially		4.2%	4.2%
Customer satisfaction (5%) *One of our key objectives is to provide easy and convenient mobility for our customers and putting them at the heart of everything we do.*	Balanced scorecard of indicators Achieved: Partially		2.4%	2.4%

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

2 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.

3 Adjusted operating profit is stated on a pre-IFRS 16 basis. On a post-IFRS 16 basis the figure would be £256.8m.

As noted in the Chair's statement, performance on the financial measures was mixed, with results exceeding the threshold target for revenue and adjusted cash flow coming in above the maximum target for the 2019/20 year. This was set against a year-on-year fall in adjusted operating profit, which was impacted by the coronavirus outbreak in March (traditionally a significant trading period, with all divisions normally operating at near-full capacity).

There was strong performance in respect of the non-financial measures relating to customer satisfaction and safety. Lost time injuries across the Group reduced by 12%, with employee major injuries reducing by 18% this year. Collisions with injury were also down by 5% and passenger injuries reduced by 3%. The overall severity of injuries has also reduced, with major injuries significantly lower against the prior year. This reflects the ongoing efforts and focus of our employees at all levels of the organisation on everyday safety procedures, and commitment to the goal of zero harm. First Bus and First Rail's safety performances were particularly strong. There was improvement in our customer satisfaction measures, particularly in our contract based businesses First Student and First Transit, as well as in Greyhound.

Directors' remuneration report continued

The table below sets out details on targets and performance for the Group customer and safety elements of the annual bonus which account for 10% for each Executive Director:

● (blue)	Indicates that the objective was achieved
● (grey)	Indicates that the objective was partially achieved
● (pink)	Indicates that the objective was not achieved

Group customer and safety targets (10% of each Director's bonus)

Objective	Achievement	Outcome
Customer satisfaction (5% of bonus) – balanced scorecard of measures across all five divisions		
Improvement in customer satisfaction surveys including assessment against key competitors where data available	*Significant improvement in customer satisfaction scores in First Student and Greyhound, modest improvement in First Bus and maintained performance in First Transit*	● (grey)
Improvement in Net Promoter Score ('NPS')	*Significant improvement in NPS scores, particularly in Greyhound as a result of improvement in 'On Time Performance' and fleet investment.*	● (grey)
Improvement in Rail punctuality (Public Performance Measure 'PPM')	*Target not achieved. PPM was seriously affected by Network Rail and other Operator issues with an average of 60% of delays caused by Network Rail and 17% caused by other Operators*	● (pink)
Reduction in Rail cancellations	*Target not achieved*	● (pink)
Safety (5% of bonus) – balanced scorecard of measures as agreed by the Board Safety Committee		
Overall reduction in lost time injuries across the Group	*12% reduction in lost time injuries across the Group*	● (blue)
Reduction in passenger injuries	*3% reduction in passenger injuries across the Group*	● (grey)
Reduction in collisions with injury	*5% reduction in collisions with injury across the Group*	● (blue)
Overall assessment against safety and customer targets (maximum of 10%)		**6.6%**

Long-Term Incentive Plan

Vesting of 2017 Long-Term Incentive Awards (audited)

The vesting of the 2017 LTIP awards was subject to the achievement of Adjusted EPS (40%), Road ROCE (20%) and TSR (40%) performance conditions over a three-year performance period from 1 April 2017

Road ROCE for LTIP purposes has been calculated by dividing adjusted operating profit after tax by relevant Capital Employed re-translated 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
- To ensure consistency with the assessment of EPS targets, when assessing performance, the base year Road ROCE (5.2%) will be restated on a constant currency basis. The 2016/17 adjusted operating profit will be re-stated 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.

TSR performance was measured against a comparator group of 31 companies in the travel, business services and industrial sectors, which are of comparable scale, complexity and activity to FirstGroup.

As explained in last year's report the performance targets for 2017 LTIPs were set on a pre-IFRS 16 basis. A reconciliation between the performance outcomes on an IFRS 16 and an IAS 17 basis is included in the table below which summarises performance in respect of each of the LTIP metrics.

Metrics	Actual (post IFRS 16)	Actual restated to remove IFRS 16 impact	Entry level (0%)	Threshold (20%)	Maximum (100%)	% of award which vested
Adjusted EPS (40% weighting)	6.8p	9.0p	<13.9p	13.9p	17p	0%
Road ROCE (20% weighting)	4.2%	4.3%	<5.3%	5.3%	6.7%	0%
Relative TSR (40% weighting)	n/a	53rd percentile	Below median	Median	Upper quartile	30%
Total						**12%**

Long-Term Incentive Awards made during the year (audited)

As reported last year, the Committee took time to review the calibration of the targets for the 2019 award in view of the prevailing uncertainty at the time about the award of the West Coast Partnership franchise and the outcome of the DA3 process for the GWR franchise, both of which would have a material impact on the Company's earnings profile. As reported last year, no changes were made to the measures or weighting with each measure assessed over a three-year performance period (which commenced on 1 April 2019). When setting targets, the Committee took into account the three-year business plan as well as analyst forecasts. In light of the expectations for growth in our major markets and materially lower analyst forecasts, the maximum EPS target has been lowered slightly, however the Committee is comfortable that this continues to represent considerable stretch.

The awards are subject to a two-year holding period following the three-year performance period as well as malus and clawback. Before an award vests the Committee must be satisfied that the underlying performance of the Group is satisfactory and has the ability to amend the formulaic vesting outcome if they believe this is appropriate. The Committee believes that having a performance override is an important feature of the plan as it mitigates the risk of unwarranted vesting outcomes.

Details of the performance metrics and targets for the 2019 LTIP awards are set out below.

	Adjusted EPS CAGR (40%)[2]	Road ROCE[3] (20%)	Relative TSR[4] (40%)
Threshold (20% vesting)	4%	30 basis points	Median
Maximum (100% vesting)	10%	150 basis points	Upper quartile

1 Vesting will be on a straight-line basis between threshold and maximum.

2 EPS growth will be determined using Adjusted EPS. The Committee considers Adjusted EPS to be an appropriate reflection of trading performance as it eliminates factors which distort year-on-year comparisons and so should be used to incentivise the achievement of underlying growth. 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.

3 Road divisions will be key to drive improved ROCE performance as the rail businesses are not heavy users of the Company's capital. All awards since 2017 have been on this basis. The Road ROCE metric will be calculated by dividing operating profit less tax by relevant Capital Employed re-translated at constant currency. To ensure consistency with the assessment of EPS targets, when assessing ROCE performance, the base year Road ROCE (5.9%) will be restated on a constant currency basis. The 2018/19 adjusted operating profit will be restated at the effective foreign exchange rate for 2021/22 and the March 2019 Capital Employed will be restated at closing balance sheet rates as at March 2022.

4 Relative TSR will be assessed against a comparator group of 28 companies comprised of companies within travel, business services and industrial sectors, with a three-month average used at the beginning and end of the performance period.

Directors' remuneration report continued

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

The comparator group is unchanged from that used in 2018, other than the removal of Interserve following their delisting.

LTIP awards of 200% of salary were granted to Matthew Gregory and Ryan Mangold on 19 August 2019. While the Chief Financial Officer's usual maximum will be 175% of salary, as disclosed last year, an award of 200% of salary was made on recruitment for 2019 only to ensure strong and immediate alignment to delivery of the Company's new strategy.

Details of both awards (granted in the form of nil-cost options) are set out below:

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
Matthew Gregory	117.62 pence	200%	1,079,748	£1,270,000	20%	1.4.19 – 31.3.22
Ryan Mangold	117.62 pence	200%	765,175	£900,000	20%	1.4.19 – 31.3.22

1 The share price at grant for the LTIP awards is the average closing mid-market share price for the five days preceding the grant date.

Directorate changes

All Executive Directors are on a rolling contract terminable by either party on twelve months' notice. As reported in last year's Remuneration Report, Ryan Mangold was appointed as Chief Financial Officer on 31 May 2019. The Committee considered it necessary to attract and recruit a high calibre, highly experienced Chief Financial Officer to support the delivery of the strategy, which will require the execution of a complex portfolio rationalisation with discipline and pace. Ryan's recruitment package was structured to support this objective.

His ongoing remuneration package as Chief Financial Officer is as follows:

- base salary of £450,000
- benefits in line with the Remuneration policy, including a company car, private medical cover and life assurance
- a pension allowance of 15% of salary
- an EABP opportunity of 150% of salary
- a normal maximum LTIP opportunity of 175% salary
- a shareholding requirement of 150% of salary

The Committee is pleased to report that during 2019/20 Ryan and a Person Closely Associated with him (within the meaning of the EU Market Abuse Regulation) purchased a total of 97,500 shares in the Company using their own funds.

David Martin was appointed to the Board and became Chairman on 15 August 2019. David's fee was set at £310,000 which was a broadly similar fee to that of his predecessor (the fee of the previous Chairman was £295,000). The amount offered to David is the previous Chairman's fee (set in 2017) increased by circa 2.5% p.a.

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

As noted in last year's report, following the Croydon tram derailment in November 2016, the former Chief Executive, Tim O'Toole, was not awarded a bonus for the financial year 2016/17 but was granted an award of 516,356 deferred shares under the EABP, subject to an additional condition relating to the status and outcome of the investigations. The amount of the deferred share award was equivalent in value (based on the Company's share price at the time) to the bonus that Mr O'Toole would have received based on achievement against the performance measures and targets agreed at the start of the 2016/17 financial year. In setting the amount of the deferred award, the element relating to safety was set to zero.

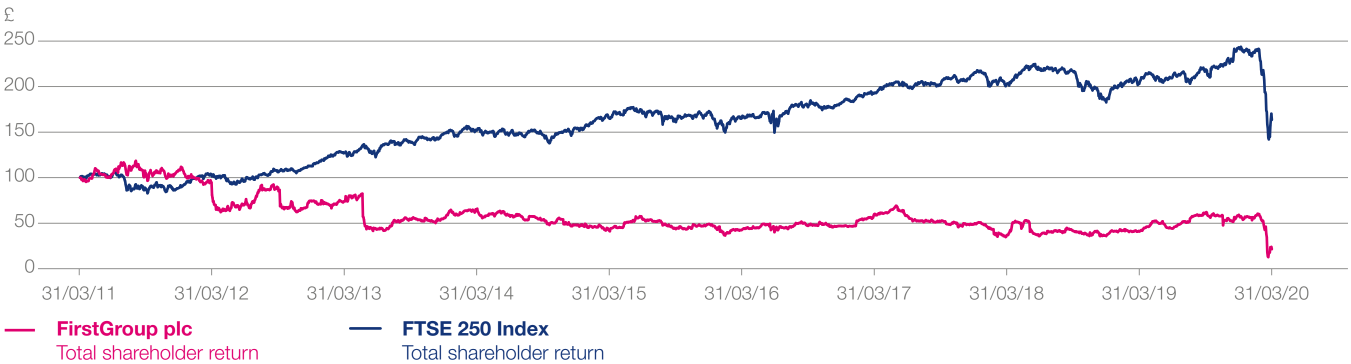
Mr O'Toole stepped down from the Board on 31 May 2018.

The Committee was obliged by the terms of the award to consider the vesting outcome as soon as practicable after 31 March 2020 and, in doing so, take into account only the information then known about the outcome and status of the investigations. In May, the Committee considered the matter and decided that, having taken legal advice and having regard to the information then available to it, there was no basis on which to reduce the award. Accordingly, the 516,356 deferred shares were transferred to Mr O'Toole on 16 June 2020. In line with the reporting regulations, none of the value of £297,163 at vesting can be attributed to share price growth as the share price at award was 141.6p.

Further details of the status of the investigations into the Croydon tram incident can be found in note 33 (Contingent Liabilities) on page 185.

Performance graphs

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



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 ten-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 ten 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.

	2011	2012	2013	2014	2015	2016	2017	2018	2019 (Tim O'Toole)	2019 (Wolfhart Hauser)	2019 (Matthew Gregory)	**2020**
Total remuneration (£000s)	857[1]	1,055	1,068	1,986	1,647	1,243	1,267	1,100	175[5]	266[6]	422[7]	**788**
Annual bonus (% of maximum potential)	43.6	–[2]	–[2]	59.1	57	15.9	–[3]	–[4]	–	n/a	33.4	**–**
LTIP vesting (% of maximum potential)	–	–	–	–	–	–	16.3	–	–	n/a	12.5	**12**

1 £503,000 relates to the remuneration of Sir Moir Lockhead, who resigned as Chief Executive in November 2010. From 1 November 2010 to 31 March 2011, Tim O'Toole received remuneration of £357,000.

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

3 A bonus was not paid to Tim O'Toole in 2017 and instead he received a conditional deferred share award.

4 No bonus was paid to Tim O'Toole in 2018.

5 Relates to the remuneration of Tim O'Toole to 31 May 2018. Tim O'Toole was not eligible for an annual bonus or LTIP awards.

6 Relates to the remuneration of Wolfhart Hauser for his period as Executive Chairman, 1 June to 12 November 2018. Wolfhart Hauser was not eligible for an annual bonus or LTIP awards.

7 Relates to the remuneration of Matthew Gregory as Chief Executive from 13 November 2018 to 31 March 2019.

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

Wolfhart Hauser stepped down as Chairman at the AGM on 25 July 2019 and David Robbie served as Interim Chairman for the period 25 July 2019 to 14 August 2019. David Martin was appointed as Chairman on 15 August 2019. David Robbie was paid a fee for the additional responsibilities equivalent to the fee that would have been paid to Mr Hauser had he continued to serve as Chairman for this period. The additional fee paid to Mr Robbie included the transitional period whilst the new Chairman assumed his duties. This period included the Board meetings in early September.

Directors' remuneration report continued

No changes were made to Non-Executive Directors' fees in 2020. These remained at £58,000 p.a. with additional fees of £12,000 payable to the Senior Independent Director and the Chairs of the Audit, Board Safety and Remuneration Committees. In light of the actions taken by the Group in response to coronavirus and the impact on the Group's wider stakeholders, the Chairman and NEDs voluntarily reduced their fees by 20% from 1 April 2020 for an initial period of three months.

	Fees		Benefits[1]		Total	
Non-Executive Director	**2020 £000s**	2019 £000s	**2020 £000s**	2019 £000s	**2020 £000s**	2019 £000s
David Martin[2]	**195**	–	**27**	–	**222**	–
Warwick Brady	**58**	58		–	**58**	58
Sally Cabrini[3]	**13**	–			**13**	n/a
Jimmy Groombridge[4]	**58**	58		–	**58**	58
Steve Gunning	**58**	15		–	**58**	15
Martha Poulter[5]	**64**	58	**4**	2	**68**	61
David Robbie[6]	**111**	70		–	**111**	70
Julia Steyn[7]	**53**	–	**8**	–	**61**	70
Wolfhart Hauser[8]	**95**	429	**–**	1	**95**	430
Drummond Hall[9]	**12**	70	**–**	–	**12**	70
Imelda Walsh[10]	**61**	70	**–**	–	**61**	70
Jim Winestock[11]	**35**	70	**8**	8	**43**	78

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 David Martin was appointed as Chairman on 15 August 2019.

3 Sally Cabrini was appointed on 24 January 2020 as NED and Chair of the Remuneration Committee.

4 In addition to his fee as Group Employee Director, Jimmy Groombridge received earnings from the Group as an employee amounting to £21,193 (2018/19: £21,193). As a participant in the Company's Share Incentive Plan (BAYE) he received 201 Matching Shares during the financial year. Based on the middle market closing price of a share on 31 March 2020 of 50.45 pence, the value of these were £101.40.

5 Martha Poulter was appointed as Chair of the Board Safety Committee on 30 September 2019.

6 David Robbie was appointed as Senior Independent Director on 31 May 2019 in addition to his role as NED and Chair of the Audit Committee.

7 Julia Steyn was appointed on 2 May 2019.

8 Wolfhart Hauser stepped down as Chairman on 25 July 2019

9 Drummond Hall stepped down on 31 May 2019

10 Imelda Walsh stepped down on 14 February 2020

11 Jim Winestock stepped down on 30 September 2019

Implementation of remuneration policy for 2020/21

Annual base salary

On his appointment as Chief Executive, it was agreed that Matthew Gregory's salary would not be reviewed before 1 April 2020. Ryan Mangold's salary on appointment as Chief Financial Officer was £450,000 and would likewise have been reviewed with effect from 1 April 2020.

However, in light of the unprecedented trading disruption caused by coronavirus, the 2020/21 salary review for the whole Company has been deferred until later in the year (including for the Executive Directors). In addition the Executive Directors decided to take a 20% reduction in their base salaries for at least the first three months of the 2020/21 financial year.

2020/21 Executive Directors' annual bonus

For 2020/21 the EABP will continue to incentivise improved performance against a range of financial and non-financial metrics. The financial targets are 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 2020/21. The performance measures and targets for 2020/21 will be disclosed in next year's report when they are no longer commercially sensitive, however at least 50% of the bonus will be based on financial measures in line with the approved shareholder Remuneration Policy.

The 2020/21 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%
Ryan Mangold	150%	0%

All payouts will be subject to the Committee's discretion as well as malus and clawback provisions. 50% of any bonus earned will be deferred into the Company's shares for three years, conditional upon continued employment.

The Committee has demonstrated in assessing bonus outcomes, including in respect of the most recent financial year, 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.

2020 Long-Term Incentive Awards

It is anticipated that 2020 LTIP awards of 200% and 175% of salary will be made to the Chief Executive and Chief Financial Officer respectively in line with our shareholder approved Policy. In light of the significant amount of uncertainty due to coronavirus and, as noted in the Chair's statement, the grant and target setting of 2020 LTIP awards is being delayed to allow the Group adequate time to better understand the impact of coronavirus on the wider economy and our business. The targets will be fully disclosed in the regulatory announcement at the time awards are made as well as in next year's Remuneration Report.

We had taken on board feedback from our shareholders and were planning to provide prospective disclosure of 2020 LTIP targets; however the Committee is of the view that delaying grants is the best course of action to ensure that targets can be set when there is more certainty.

When assessing performance at the end of the performance period, the Committee recognises that the impact of coronavirus will need to be taken into account and judgement or discretion may need to be applied when determining remuneration outcomes, to ensure they are fully reflective of performance delivered and Executive Directors do not receive windfall gains.

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.

Director	Plan	Date of grant	Number of awards held as at 1.4.19	Awards granted	Face value of awards (£)[1]	Awards vested	Awards lapsed during the year	Number[3] of awards held as at 31.3.20	Exercise price (p)	Date on which award vests/ becomes exercisable	Expiry date
Matthew Gregory[4]	Deferred bonus shares	28.6.16	81,399	–	75,375	81,399	–	–	nil	27.6.19	27.6.26
		16.6.17	162,187	–	227,225	–	–	162,187	nil	16.6.20	15.6.27
		19.6.18	86,958	–	73,219	–	–	86,958	nil	19.6.21	19.6.22
		2.7.19		138,406	135,708	–	–	138,406	nil	2.7.22	2.7.23
	LTIP	28.6.16	764,231	–	707,678	95,528	668,703	–	nil	1.4.19	1.4.20
		24.11.17	730,420	–	764,750	–	–	730,420	nil	1.4.20	1.4.21
		5.7.18	909,550	–	764,750	–	–	909,550	nil	1.4.21	1.4.22
		14.11.18	232,998	–	192,410	–	–	232,998	nil	1.4.21	1.4.22
		19.8.19	–	1,079,748	1,270,000	–	–	1,079,748	nil	1.4.22	1.4.23
Ryan Mangold[4]	LTIP	19.8.19	–	765,175	900,000	–	–	765,175	nil	1.4.22	1.4.23
Group Employee Director											
Jimmy Groombridge	SAYE	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
		6.12.18	4,114	–	3,567	–	–	4,114	70	1.2.22	31.7.22

1 The face value of LTIP and deferred bonus awards in the table above has been calculated by multiplying the maximum number of shares that could vest by the average closing mid-market share price for the five days preceding the grant date. For SAYE options the face value is calculated by multiplying the number of options by the closing share price on the date of grant.

2 LTIP awards vest 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. In respect of LTIP and deferred bonus awards, participants are entitled to receive dividends or dividend equivalent amounts once the share awards have vested.

4 Awards made to Matthew Gregory and Ryan Mangold under the EABP and LTIP respectively are subject to clawback and malus provisions, in line with best practice and investors' expectations.

Directors' remuneration report continued

Shareholding guidelines (audited)

Under the terms of the Policy approved by shareholders at the 2018 AGM, Executive Directors are expected to build up a specified shareholding in the Company 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 any Group share incentive plan or otherwise acquire shares in the Company within a five-year period from their date of appointment, 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 shareholdings of the Executive Directors and their connected persons' shareholdings (including beneficial interests) and a summary of outstanding and unvested share awards as at 31 March 2020. It shows that Matthew Gregory's current shareholding is 44% of base salary. If the net value of the 87,650 shares due to vest under his 2017 LTIP award in June 2020 are included, this would increase to circa 48% of base salary. Ryan Mangold's current shareholding is 21% of his base salary. The table below uses the closing price of an ordinary share of the Company of 50.45 pence per share on 31 March 2020. As such the value of the Executive Directors' shareholdings has been heavily impacted by the coronavirus related fall in the Company's share price. Based on the pre-coronavirus share price, both Executive Directors were making good progress toward meeting their shareholding guidelines. The Committee will continue to monitor the progress of the Executive Directors in this regard, but are cognisant that the figure expressed as a multiple of salary may remain depressed whilst the coronavirus pandemic persists

Executive Director	Ordinary shares beneficially owned at 1.4.19	Ordinary shares beneficially owned at 31.3.20	Unvested deferred bonus share awards subject to continued employment[3]	Unvested share awards subject to performance conditions	Vested but not exercised share awards	Shareholding requirement (% of basic salary)	Current shareholding (% of basic salary)[4]
Matthew Gregory[1]	308,399	425,063	249,145	2,011,374	–	200%	44%
Ryan Mangold[2]	–	187,007		765,175	–	150%	21%

1 Matthew Gregory has until 13 November 2023 to meet the CEO guideline of 200% of base salary.

2 Ryan Mangold has until 31 May 2024 to meet his shareholding guideline.

3 Based on the middle market closing price of an ordinary share of the Company of 50.45 pence per share on 29 March 2020. The range of the Company's share price for the year was 28.3 pence to 137.5 pence.

4 The percentage of basic salary shown in the table includes the after-tax value of vested but unexercised awards and the after-tax value of unvested deferred bonus share awards which are subject to continued employment.

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

The beneficial interests of the Non-Executive Directors who held office at 31 March 2020 and their connected persons in the shares of the Company as at that date and 1 April 2019 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 1.4.19 or date of appointment, if later	Ordinary shares beneficially owned at 31.3.20
David Martin[1]	–	100,000
Warwick Brady	108,701	108,701
Sally Cabrini[2]	–	–
Jimmy Groombridge[3]	7,926	18,741
Steve Gunning	–	–
Martha Poulter	60,000	60,000
David Robbie	60,000	60,000
Julia Steyn[4]	–	–

1 David Martin was appointed to the Board on 15 August 2019.

2 Sally Cabrini was appointed to the Board on 24 January 2020.

3 Jimmy Groombridge participates in the Company's Share Incentive Plan. His shares are held in the SIP trust. If the Partnership Shares were removed from the SIP trust within three years, the corresponding Matching Shares would be forfeited. Jimmy Groombridge acquired 315 shares between 1 April 2020 and the date of approval of this report.

4 Julia Steyn was appointed to the Board on 2 May 2019.

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 2020, 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, which are unallocated. As at 31 March 2020, 8,460,505 shares were held by the EBT to hedge outstanding awards of 20,391,740. This means that the EBT holds sufficient shares to satisfy approximately 41% of outstanding awards.

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 2020. All but Jimmy Groombridge will put themselves for election or re-election at the 2020 AGM. Jimmy Groombridge resigned on 29 June 2020.

Non-Executive Director	Date of appointment
David Martin	15 Aug 2019
Warwick Brady	24 June 2014
Sally Cabrini	24 January 2020
Jimmy Groombridge	26 May 2017
Steve Gunning	1 January 2019
Martha Poulter	26 May 2017
David Robbie	2 February 2018
Julia Steyn	2 May 2019

External board appointments

Where Board approval is given for an Executive Director to accept an outside non-executive directorship, the Director is entitled to retain any fees received, unless the appointment is in connection with the business of the Group. None of the Executive Directors currently sit on any other external boards.

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 UK employees as the comparator as it feels that this 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. 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	(3%)[1]	24%[2]	n/a[3]
UK employees[4]	8.6%	(2.6)[5]%	25.7%

1 The prior year Chief Executive figure (for 2018/19) was a composite figure for the three individuals who served in the role over the year (Tim O'Toole, Wolfhart Hauser as Executive Chairman and Matthew Gregory). This explains the apparent 3% year-on-year fall. Matthew Gregory's salary has remained unchanged since his appointment as Chief Executive.

2 The prior year figure was a composite figure for the three individuals. Wolfhart Hauser received no taxable benefits during his time as Executive Chairman. The year-on-year increase therefore reflects a full year of Matthew Gregory's car allowance and medical insurance. The value of the benefits themselves did not increase between 2018/19 and 2019/20.

3 No annual bonus will be paid to the Chief Executive in respect of 2019/20.

4 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. The increase in base salary, reflects the inclusion of Avanti West Coast employees this year. On a like for like basis the figure would be a 3.3% increase.

5 The fall in the value of benefits is as a result of lower private medical insurance costs for the Company. This reflects the claims experience and funding model and has not been achieved by reducing the level of cover provided to employees.

Directors' remuneration report continued

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.

	2020 £m	2019 £m	% change
Adjusted operating profit[1]	258	333	(23)%
Distributions to shareholders	–	–	–
Total employee pay[2]	3,613	3,355	8%

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 2019/20 was 103,464 (2018/19: 102,061).

Role of the Remuneration Committee

The Committee is primarily responsible for determining the policy for executive director remuneration and setting the remuneration for the Chairman, the Executive Directors and senior management. The Committee also reviews workforce remuneration and related policies and the alignment of incentives and rewards with culture, taking these into account when setting the policy for executive director remuneration.

The Committee's full terms of reference, which were reviewed and amended this year, are available on the Company's website. The Committee's principal responsibiltiies are summarised below:

- determining and agreeing with the Board the framework for executive remuneration that ensures Executive Directors and members of senior management 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. Senior managers are defined as the Executive Committee and other employees agreed between the Chair of the Committee, the Chairman and the Chief Executive.
- 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 executive, including recruitment and termination arrangements.

Membership

The current members of the Committee, who are all independent Non-Executive Directors, are: Sally Cabrini, Chair; David Robbie, the Senior Independent Director who also chairs the Audit Committee and Julia Steyn, who joined the Committee upon Drummond Hall's retirement on 31 May 2019. Sally Cabrini has chaired a number of remuneration committees and has served on a remuneration committee for at least twelve months and therefore meets the requirements of the Code in terms of her experience. Imelda Walsh served as Chair of the Committee until 24 January 2019.

Other attendees are by invitation of the Committee, however the Chairman, the Chief Executive, the Group Employee Director and the General Counsel and Company Secretary will normally attend meetings. Other attendees may include the Chief Financial Officer, the Group Corporate Services Director, the Group HR Director, the Group Head of Reward and the Committee's external remuneration advisor. The Deputy Company Secretary is 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 and attendance

The Committee met on eight occasions (four scheduled meetings and four non-scheduled meetings) during the year with all of its members in attendance at all times except for Julia Steyn who missed one scheduled meeting due to prior unavoidable commitments. In line with its remit, amongst other matters, the Committee took the following actions during the year:

- Reviewed and approved 2020/21 salaries for the Executive Directors, Executive Committee and other individuals within the Committee's remit
- Assessed the level of achievement against objectives under the 2018/19 EABP and 2016 LTIP
- Approved the metrics, definitions, weightings and targets for the 2019/20 EABP and 2019 LTIP awards
- Approved the remuneration package for Ryan Mangold on his appointment as Chief Financial Officer
- Reviewed and approved the 2019 Directors' Remuneration Report
- Reviewed the 2019 Gender Pay Gap report ahead of publication
- Reviewed its terms of reference

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 until 31 October 2019. Following the announcement in July 2019 of PwC's appointment as Auditors to the Company with effect from 1 April 2020, PwC provided support until an alternative provider was appointed. Willis Towers Watson (WTW) were then appointed as interim advisors to the Remuneration Committee from 1 November 2019 for an initial period of 12 months and this has been extended to ensure consistency of advice through the 2020/21 policy review. The Chair of the Committee agrees the protocols under which PwC and WTW provide advice.

PwC and WTW are both members of the Remuneration Consultants' Group and, as such, voluntarily operate under the code of conduct in relation to executive remuneration consulting in the UK.

During the year, PwC and WTW provided independent advice and commentary on a range of topics including Directors' remuneration reporting, discretionary share plans, corporate governance and executive remuneration trends and shareholder consultation. PwC fees for advice provided to the Committee were £111,050 (2018: £97,050), charged on a time-and-materials basis. WTW fees for advice provided to the Committee were £62,450, charged on a time-and-materials basis

PwC also provided general consultancy services to FirstGroup during the year; however, the Committee was satisfied that this did not compromise the independence and objectivity of the advice it had received from PwC, which had no other connection with the Company.

Shareholder votes on remuneration matters

	2019 AGM Annual Report on Remuneration	2018 AGM Annual Remuneration Policy	2018 AGM Annual Report on Remuneration	2017 AGM Annual Report on Remuneration
Votes for	651,870,362 (76.32%)	787,510,512 (84.52%)	870,429,586 (96.37%)	902,019,470 (91.32%)
Votes against	202,287,050 (23.68%)	144,272,299 (15.48%)	32,771,050 (3.63%)	85,771,076 (8.68%)
Total votes cast	854,157,412	931,782,811	903,200,636	987,790,546
Votes withheld*	131,689,340	5,492,503	34,074,629	222,240

* 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.

Further engagement

In line with provision 3 of the Code, the Committee Chair welcomes questions from shareholders on the Committee's activities. Unfortunately it will not be possible this year to meet in person at the AGM but If you wish to discuss any aspect of this report, please contact the Committee Chair via the Committee Secretary by email at companysecretariat@firstgroup.com.

Sally Cabrini
Chair, Remuneration Committee