

Directors' remuneration report

This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 (the 'Regulations'). It also meets the requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the main supporting principles of the Combined Code on Corporate Governance issued by the Financial Reporting Council in 2008 (the 'Code') relating to Directors' remuneration. The Company complies with all of the provisions of the Code in respect of the Directors' Remuneration Report. A resolution to approve this report will be proposed at the Company's Annual General Meeting to be held on 15 July 2011.

The Regulations require the Company's auditors to report to the Company's shareholders on the 'auditable' part of the Directors' Remuneration Report and to state whether in their opinion that part of the report has been properly prepared in accordance with the Companies Act 2006. This report has therefore been divided into separate sections for audited and unaudited information.

Unaudited information Remuneration Committee

The Remuneration Committee is chaired by Audrey Baxter. The other current members of the Committee are David Begg, Colin Hood and John Sievwright. The Board considers each of the members of the Committee to be independent in accordance with the Code. None of the members of the Committee has any personal financial interest (other than as a shareholder) in the matters to be decided, conflict of interest arising from cross-directorships or any involvement in the day-to-day running of the business.

The terms of reference of the Committee were updated and adopted in October 2010 and are available on request and are also published on the Company's website. These terms of reference will be kept under review to take into account changes to the Code and corporate governance practice and the application of the New Code in respect of the accounting period which commenced on 1 April 2011.

The principal purpose of the Committee is to consider matters related to the remuneration of the Executive Directors and senior management below Board level.

The Committee met eight times during the year and all members attended each meeting held whilst they were Directors except for Audrey Baxter and Colin Hood who were each absent from one of these meetings. The Committee was also advised on the structuring of Directors' remuneration packages by Towers Watson and MCG Consulting, part of the DLA Piper law group.

Remuneration policy

Aim

The aim of the Committee is to design remuneration packages for the Company's Executives which attract, retain and motivate the high calibre individuals necessary to maintain the Group's position as a leader in the public transportation industry. In implementing its policy, the Committee has given full consideration to the Principles of Good Governance of the Code with regard to Directors' remuneration.

Structure of remuneration packages

There are currently five main elements to the executive remuneration package:

- ▶ basic salary and benefits in kind;
- ▶ annual cash and deferred share bonus (both paid under the Executive Annual Bonus Plan);
- ▶ long-term incentive plan;
- ▶ share schemes; and
- ▶ retirement benefits.

The Committee considers the remuneration package as a whole, balancing each of the individual elements to ensure that, overall, the remuneration received by each Executive Director is competitive but not excessive, contains an appropriate balance between fixed and variable (performance-related) remuneration and that each Executive Director will have sufficient long-term incentive to ensure that his interests are aligned with those of shareholders.

The remuneration of the Executive Directors is made up of the following components:

Basic salary and benefits in kind

The basic salary and benefits in kind for each Executive Director are determined by the Committee for each financial year and when an individual changes position or responsibility. In determining appropriate levels, the Committee considers the Group as a whole and also the packages received by similar individuals at the Company's peers in the public transport sector and other companies of comparable market capitalisation. Details of the salaries and benefits in kind received by each of the Executive Directors in the year are shown on page 47.

As a result of a review of then current and forecast inflation rates the Committee decided that an increase in basic salary of 2.5% should be awarded to the Executive Directors at the time of such review on 1 April 2011. This is the same increase as was awarded to employees generally across the Group.

Executive Annual Bonus Plan ('EABP')

The Group operates a performance-related bonus plan for its senior management under which payment of bonuses is linked to achievement of budgeted annual Group operating profit targets and other objectives (including safety and customer service targets and personal objectives). Where an Executive Director is also directly responsible for one or more operating division(s), payment of a proportion of the bonus is also linked to the profitability of those divisions.

Each year, the Board sets challenging budget targets for the Group as a whole and for each business unit within the Group. The Committee's policy had been that bonuses should be payable for Group performance against budget of between 96% and 106%, with the level of bonus payable being heavily skewed towards performance in excess of 100% of budget. 70% of any bonus payable was dependent upon Group financial performance and the balance upon the achievement of safety, customer service and personal objectives. The maximum potential bonus which can be awarded to Executive Directors is 100% of basic salary and 120% of basic salary in the case of the Chief Executive.

Bonus payments comprise a mixture of cash and deferred share awards. The deferral period in respect of that part of any bonus award comprising deferred shares is three years. The same deferral period also applies to senior management within the Group. Share awards will lapse if the relevant individual leaves the Group during the deferral period for any reason other than redundancy, retirement or ill-health. The Committee considers it is appropriate for a proportion of the annual bonus to be taken in the form of deferred shares as this acts as a retention mechanism and also aligns Executives' longer-term interests with those of the Company's shareholders.

As the award of any bonus is already dependent on the achievement of stringent targets, the Committee considers that it is not appropriate to attach further performance conditions on vesting of the deferred share element of any bonus other than that the relevant Executive remains employed by the Group and has not tendered his resignation at the end of the deferral period.

The bonus awards for the year were 43.4% of basic salary in the case of the Chief Executive, 43.6% in the case of the Finance Director and 43.6% in the case of the Commercial Director. The Chief Executive has agreed to accept all of his bonus in the form of deferred shares. Each of the Finance Director and Commercial Director will receive 75% of their bonus in cash and the remaining 25% in the form of deferred shares.

A bonus of 43.6% of basic salary was paid to Sir Moir Lockhead, formerly Chief Executive. 75% of his bonus is payable in cash and the remaining 25% is payable in shares which will vest on the date of grant.

Long-Term Incentive Plan ('LTIP')

The LTIP was established in 2008 and provides for the award to acquire shares, exercisable at the end of a three year performance period subject to the satisfaction of performance conditions and continued employment. 50% of the award is subject to growth in the Company's earnings per share ('EPS') and the remaining 50% of the award is subject to the Company's total shareholder return ('TSR').

Details of the vesting targets for both parts of the 2008 and 2009 awards were set out in previous Directors' Remuneration Reports.

The part of the 2010 award which is subject to EPS growth will vest in full if EPS at the end of the performance period is not less than 51.7p. If EPS is not less than 47.7p then 25% of that part of the award will vest. That part of the award will vest on a straight-line basis if EPS at the end of the performance period is between 47.7p and 51.7p. There will be no vesting if EPS is less than 47.7p.

In relation to that part of the 2010 award which is subject to TSR, it will vest if the Company's TSR over the three year performance period falls within the top half of a ranking of the TSR of the companies within a comparator group. The comparator group is made up from a mixture of the 75 largest companies in the FTSE 250 and the companies in the lower quartile of the FTSE 100 (excluding investment trusts) at the commencement of the performance period. If the Company's TSR falls within the upper quartile of the comparator group that part of the award will vest in full. If it falls at median, only 25% of it will vest. If the Company's TSR falls between median and the upper quartile, straight-line apportionment will be applied. There will be no vesting if the

Company's TSR is below median. These vesting criteria are the same as for that part of the 2008 and 2009 awards which is subject to TSR.

As with the previous awards the foregoing EPS vesting targets for the 2010 award and the level of the award as a factor of salary in relation to the Executive Directors were agreed by the Committee following consultation with the six largest shareholders of the Company.

Awards will lapse at the end of the performance period to the extent that the performance conditions have not been satisfied. There will be no re-testing.

Following testing of the conditions for vesting of the 2008 award at 31 March 2011 the Committee decided that neither the EPS nor the TSR targets had been met and accordingly there has been no vesting of any part of the award. The award has therefore lapsed.

The Committee can set different performance conditions from those described above and may also vary or adjust the performance conditions applying to awards which have been made to take account of events the Committee considers exceptional, including technical events, such as changes in accounting standards and treatment and the take-over of a company in the TSR comparator group, provided that in the opinion of the Committee the amended condition is fair and reasonable and no less challenging than the original condition would have been but for the event.

Generally awards under the LTIP to any participant in any one financial year cannot exceed one and a half times basic salary at the time of the award. However, in exceptional circumstances, this may be increased to up to two times basic salary. Awards under the LTIP are not pensionable.

Share Schemes

Executive Share Option Scheme

The Company operated an Executive Share Option Scheme ('ESOS') up to June 2004 for Executive Directors and other senior management. In common with other large companies the Company has not granted any further awards to Executive Directors or senior management under the ESOS after 2004.

Save As You Earn ('SAYE') Scheme

The Company operated a SAYE Scheme for eligible employees during the year under review under which options may be granted on an annual basis at a discount of up to 20% of market value. As with the previous scheme the Executive Directors are eligible to participate in the current scheme.

Buy As You Earn ('BAYE') Scheme

The Company operates a Share Incentive Plan under the title 'Buy As You Earn'. The scheme, which is open to all UK employees of the Group, enables employees (including the Executive Directors) to purchase partnership shares from their gross income (before income tax and National Insurance deductions). The Company provides two matching shares for every three partnership shares, subject to a maximum Company contribution of shares to the value of £20 a month. The shares are held in trust for up to five years, in which case, no income tax or National Insurance will be payable. The matching shares will be forfeited if the corresponding partnership shares are removed from trust within three years from award.

Retention Share Award

On 25 January 2011 the Company granted a conditional award over 214,826 ordinary shares in the capital of the Company in favour of Tim O'Toole, Chief Executive. The principal purpose of the award was the retention of Tim O'Toole as Chief Executive. The award will vest on 1 November 2013 (three years from the date of his appointment as Chief Executive) provided that he has not ceased to be employed by the Company or given notice of his resignation (other than for certain good leaver reasons). No consideration was paid for the grant of the award which was made after consultation with the six largest shareholders of the Company.

Retirement benefits

Executive Directors are members of a number of defined benefit Group pension schemes. Their dependants are eligible for dependants' pensions and the payment of a lump sum in the event of death in service. Further details are set out on page 49.

Shareholding guidelines

Following the establishment of the LTIP in 2008, shareholding guidelines for Executive Directors were introduced. These provide for Executive Directors to retain at least 50% of the shares, net of tax, vesting under an LTIP award, or any other vesting of an award under any other executive share plan, or otherwise acquire shares in the Company over a period of five years until a shareholding with a market value (calculated by reference to purchase price) equal to 100% of basic salary is achieved. The Remuneration Committee reserves the right to relax or waive the application of such guidelines in certain circumstances, including the impending retirement of any Executive Director.

Service contracts

It is the Company's policy to restrict notice periods for Executive Directors to a maximum of 12 months. In line with this policy, all of the Executive Directors have service contracts with an undefined term but which provide for a notice period of 12 months.

The contracts contain a provision, exercisable at the discretion of the Company, to pay an amount in lieu of notice on early termination of the contract. Such payments are limited to basic salary plus certain benefits but would not include entitlement to bonus or share awards. There are no contractual provisions governing payment of compensation on early termination of the contracts. If it becomes necessary to consider early termination of a service contract, the Company will have regard to all the circumstances of the case, including mitigation, when determining any compensation to be paid. Details of the Executive Directors' contracts are set out below:

Director	Date of service contract
Sir Moir Lockhead (resigned 1 November 2010)	5 March 2001
Sidney Barrie	31 August 2005
Nicola Shaw (resigned 8 June 2010)	13 May 2009
Jeff Carr	29 June 2009
Tim O'Toole	25 January 2011

Where Board approval is given for an Executive Director to accept an outside non-executive directorship, unless the appointment is in connection with Group business, the individual Director is entitled to retain any fees received.

Non-Executive Directors

All Non-Executive Directors have a letter of appointment and their fees are determined by the Board based on surveys of fees paid to non-executive directors of comparable companies. These letters of appointment are available for inspection at the Company's registered office during normal business hours and will be made available at the Annual General Meeting.

Details of the fees paid to Non-Executive Directors are set out on page 47.

Following a review of fees payable to the Non-Executive Directors, including advice from external remuneration consultants, the Board has decided that, in order to reflect the responsibility and time commitment of such Directors and fee levels in other listed companies of similar size and complexity, the fees payable to the Non-Executive Directors should be increased with effect from 1 April 2011 as follows: the base annual fee should be increased to £50,000 (with the Group Employee Director's fee being increased to £37,500) and the Chairman of the Audit and Remuneration Committees receiving a supplemental fee of £10,000. The Chairman's fee should be increased to £225,000.

Non-Executive Directors, other than the Group Employee Director, cannot participate in any of the Company's share schemes and are not eligible to join a Company pension scheme. Each of the Non-Executive Directors (other than Audrey Baxter and Colin Hood who receive all of their fees in the form of shares in the Company) has elected to receive 40% of his fees in the form of shares in the Company in order to ensure that their interests are more closely aligned to those of the Company's shareholders. The shares are purchased on a monthly basis in the market. The appointment of each of the Non-Executive Directors is subject to early termination without compensation if he/she is not re-appointed at a meeting of shareholders where he/she is up for re-election.

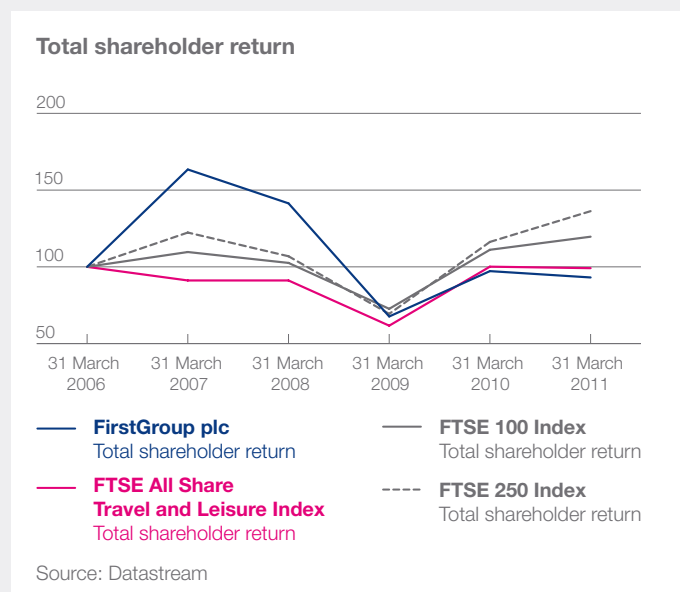
	Salary 2011 £000	Cash bonus 2011 £000	Benefits in kind ¹ 2011 £000	Fees 2011 £000	Total 2011 £000	Total 2010 £000
Executive Directors						
Sidney Barrie	340	111	11	–	462	341
Jeff Carr	436	142	1	–	579	547
Sir Moir Lockhead ³	364	119	20	–	503	643
Nicola Shaw ²	88	–	3	–	91	327
Tim O'Toole ³	564	–	18	9	591	39
Non-Executive Directors						
Martin Gilbert	–	–	–	191	191	186
Audrey Baxter	–	–	–	53	53	50
David Begg	–	–	–	45	45	44
Colin Hood	–	–	–	45	45	39
John Sievwright	–	–	–	53	53	50
Martyn Williams	–	–	–	34	34	33
Total	1,792	372	53	430	2,647	2,299

- The Executive Directors received the following non-cash benefits in the year: Sidney Barrie: £10,000 car allowance and £897 medical insurance for himself and spouse; Jeff Carr: £1,121 medical insurance for himself; Sir Moir Lockhead: £16,217 company car, £3,450 private fuel and £523 medical insurance for himself and spouse; Nicola Shaw: £3,000 car allowance and £87 medical insurance for herself; and Tim O'Toole: £9,598 car allowance, £137,755 accommodation allowance and £8,500 private medical insurance for himself and spouse.
- Nicola Shaw, formerly Director Bus, UK, Ireland and Germany, resigned on 8 June 2010. In terms of an agreement with her she was entitled to receive her then annual salary and other benefits payable over a period of six months ended on 31 December 2010 (in total £372,420) plus a compensation payment of £64,819. She also received fees of £4,000 per month in terms of a consultancy agreement with the Group for the six month period ended 31 December 2010, relating to assistance with the Competition Commission enquiry into the provision of local bus services in the UK.
- Sir Moir Lockhead resigned as a Director on 1 November 2010. Tim O'Toole was appointed as Group Chief Operating Officer on 14 June 2010 and as Chief Executive on 1 November 2010.

Total shareholder return

The graph below shows, for the last five financial years of the Company, the total shareholder return on a holding of shares in the Company as against that of a hypothetical holding of shares made up of shares of the same kinds and number as those by reference to which the FTSE 100 Index, the FTSE 250 Index and the FTSE All Share Travel and Leisure Index are calculated.

This graph is included to meet the relevant legislative requirements and is not directly relevant to the performance criteria used for the Company's ESOS or the LTIP. Nonetheless, the indices used were selected as the Company believes that they are the most appropriate and representative indices against which to measure the Company's performance for this purpose.



Audited information

Market price of FirstGroup plc shares

The market price of FirstGroup plc shares at 31 March 2011 was 326.30p and the range during the year was 323p to 412.6p.

Directors' remuneration

Details of the Directors' remuneration for the year ended 31 March 2011 are set out above and on the following pages.

Emoluments and compensation

The total salaries, fees and benefits paid to, or received by, those persons who served as a Director of the Company at any time during the year for the period of such directorship are shown in the table above. These include any and all payments for services as a Director of the Company, its subsidiaries or otherwise in connection with the management of the Group.

Directors' share awards

The outstanding share awards under the ESOS, deferred share bonus under the EABP, LTIP and SAYE Scheme granted to each of the serving Directors are set out in the table below. No price was paid for any share award. There have been no changes to the terms and conditions of any share awards granted to Directors.

Director	Scheme		At beginning of year or date of appointment ¹ (number of shares)	Granted during the year (number of shares)	Exercised during the year (number of shares)	Lapsed/ waived during the year (number of shares)	At end of year or date of retirement ² (number of shares)	Exercise price (pence)	Date from which exercisable	Expiry date	
Sidney Barrie	Deferred share bonus: ³	2006	18,657	–	–	–	18,657	nil	1.4.11	1.4.16	
		2007	16,983	–	–	–	16,983	nil	1.4.12	1.4.17	
		2008	11,632	–	–	–	11,632	nil	1.4.11	1.4.18	
		2009	6,605	–	–	–	6,605	nil	1.4.12	1.4.19	
	LTIP: ⁴	2010	–	6,893	–	–	6,893	nil	1.4.13	1.4.20	
		2008	86,445	–	–	–	86,445	nil	1.4.11	1.4.12	
		2009	115,652	–	–	–	115,652	nil	1.4.12	1.4.13	
		2010	–	121,326	–	–	121,326	nil	1.4.13	1.4.14	
Jeff Carr	Deferred share bonus: ³	2010	–	4,916	–	–	4,916	nil	1.4.13	1.4.20	
		LTIP: ⁴	2009	162,486	–	–	162,486	nil	1.4.12	1.4.13	
		2010	–	170,458	–	–	170,458	nil	1.4.13	1.4.14	
Sir Moir Lockhead	ESOS:	2001	130,985	–	–	–	130,985	346.5	15.8.04	15.8.11	
		2002	173,784	–	–	–	173,784	269	21.6.05	21.6.12	
		2003	166,958	–	–	–	166,958	287	18.11.06	18.11.13	
		2004	193,277	–	–	–	193,277	275.08	10.6.07	10.6.14	
	Deferred share bonus: ³	2004	34,062	–	–	–	34,062	nil	1.4.07	1.4.14	
		2005	36,787	–	–	–	36,787	nil	1.4.08	1.4.15	
		2006	61,567	–	–	–	61,567	nil	1.4.11	1.4.16	
		2007	37,362	–	–	–	37,362	nil	1.4.12	1.4.17	
		2008	24,145	–	–	–	24,145	nil	1.4.11	1.4.18	
		2009	14,628	–	–	–	14,628	nil	1.4.12	1.4.19	
		LTIP: ⁴	2008	174,033	–	–	–	174,033	nil	1.4.11	1.4.12
			2009	232,833	–	–	–	232,833	nil	1.4.12	1.4.13
	2010	–	244,257	–	–	244,257	nil	1.4.13	1.4.14		
Nicola Shaw	Deferred share bonus:	2006	22,803	–	–	–	22,803	nil	1.4.11	1.4.16	
		2007	15,096	–	–	–	15,096	nil	1.4.12	1.4.17	
		2008	9,617	–	–	–	9,617	nil	1.4.11	1.4.18	
		2009	14,276	–	–	–	14,276	nil	1.4.12	1.4.19	
		2010	–	3,773	–	–	3,773	nil	1.4.13	1.4.20	
	LTIP:	2008	72,013	–	–	–	72,013	nil	1.4.11	1.4.12	
		2009	110,796	–	–	–	110,796	nil	1.4.12	1.4.13	
Tim O'Toole	LTIP: ⁴	2010	–	224,996	–	–	224,996	nil	1.4.13	1.4.14	
	Retention share award:	2011	–	214,826	–	–	214,826	nil	1.11.13	N/A	
Martyn Williams	SAYE:	2006/07	340 ⁵	–	–	340	–	444	1.2.10	31.7.10	
		2007/08	263	–	–	–	263	583	1.2.11	31.7.11	
		2008/09	414	–	–	–	414	371	1.2.12	31.7.12	
		2009/10	468	–	–	–	468	310	1.2.13	31.7.13	
		2010/11	–	451	–	–	451	319.04	1.2.14	31.7.14	

¹ Tim O'Toole was appointed as Group Chief Operating Officer on 14 June 2010 and as Chief Executive on 1 November 2010.

² Nicola Shaw resigned as a Director on 8 June 2010. Sir Moir Lockhead resigned as a Director on 1 November 2010.

³ The figures shown represent the number of nil-cost options, or conditional share awards in respect of Tim O'Toole, which were granted under the deferred share element of the EABP in respect of the relevant financial year. The cash values of the 2010/11 awards are: Sidney Barrie: £37,000; Jeff Carr: £47,000; Sir Moir Lockhead: £40,000; and Tim O'Toole: £245,000. These awards will take the form of nil-cost options, or in the case of Tim O'Toole in the form of a conditional award, over shares. They will, in the case of Sidney Barrie, Jeff Carr and Tim O'Toole subject to satisfaction of the requirements of the plan vest on 1 April 2014. They will, in the case of Sir Moir Lockhead, vest on the date of grant. The number of shares awarded will depend on the market price of shares at the close of business on 11 May 2011.

⁴ The figures shown represent the number of nil-cost options which were granted under the LTIP in respect of the relevant financial year.

⁵ Lapsed 1 August 2010.

Retirement benefits

Details of the retirement benefits for each of the Directors are set out in the table below:

Director	Directors' contributions during the year for relevant defined benefit scheme ¹ £	Accrued pension at 31 March 2011 £	Increase in accrued pension £	Increase in accrued pension (net of inflation) ⁶ £	Transfer value of increase in accrued pension and cash (net of inflation) £	Transfer value at 31 March 2010 £	Transfer value at 31 March 2011 £	Increase in transfer value less Directors' contributions £
Sidney Barrie	17,067	17,510	3,090	2,362	52,577	329,333	389,818	43,418
Jeff Carr	16,686	4,635	3,090	2,897	39,743	19,646	63,581	27,249
Sir Moir Lockhead ²	44,904	350,366 ⁴	25,153 ⁵	10,580 ⁵	190,227	7,513,012 ⁷	7,676,824 ⁷	118,908
Nicola Shaw ³	3,863	11,147	(801)	(1,265)	(2,403)	110,656	114,087	(432)
Tim O'Toole	8,807	1,854	1,854	1,777	32,622	–	34,038	25,231

1 The above Directors, with the exception of Sir Moir Lockhead, participated in salary sacrifice arrangements during the year. The defined benefit contributions in the table above and the Group SIPP Director contributions referred to below have been paid via salary sacrifice by the Directors with an equivalent contribution being paid directly to the pension schemes by the Company.

2 Sir Moir Lockhead resigned as a Director on 1 November 2010 but remained as an employee of the Group until his retirement on 31 March 2011.

3 Nicola Shaw resigned as a Director on 8 June 2010.

4 Sir Moir Lockhead also has a cash benefit of £978,680 in the Local Government Pension Scheme.

5 Increase in cash is £35,164. Increase in cash net of inflation is (£5,544).

6 The inflation assumption is 4.34% using the annual change in CPI as at February 2011.

7 Transfer values assume immediate retirement at both dates as Sir Moir Lockhead can retire immediately without reduction.

The Group does not have one pension scheme but instead operates a number of different schemes. All of the schemes in which the Executive Directors participate are defined benefit schemes and are not limited in membership to Executive Directors.

Sidney Barrie, Jeff Carr, Nicola Shaw and Tim O'Toole participated in a final salary arrangement restricted through a scheme earnings cap (based on the previous HMRC definition). To reflect the need to provide a competitive pensions package, a Group SIPP arrangement operates, in which these individuals are allowed to participate. Each individual contributes a minimum of 5% of their basic salary in excess of the scheme earnings cap and the Company contributes 20% on the same basis. This amounted to a Company contribution during the financial year of £43,280 in respect of Sidney Barrie, £62,405 in respect of Jeff Carr, £8,672 in respect of Nicola Shaw and £88,543 in respect of Tim O'Toole.

This report was approved by the Board of Directors, on the recommendation of the Remuneration Committee, on 5 May 2011 and signed on its behalf by:

Audrey Baxter
Chairman of the Remuneration Committee