

Directors' Report

Directors' Report

This Directors' Report and the Strategic Report collectively comprise the 'management report' for the purposes of Disclosure and Transparency Rule 4.1.5R.

Additional disclosures

Other information that is relevant to this report, and which is incorporated by reference, including information required in accordance with the UK Companies Act 2006 and Listing Rule 9.8.4R, can be located as follows:

| Information | Page No |
|--|---------|
| Likely future developments in the business | 13 |
| Going concern and viability statement | 45 |
| Governance | 58-84 |
| Financial instruments | 175-179 |
| Risks | 34-37 |
| Related market transactions | 190 |
| Greenhouse gas emissions | 28-31 |
| Long-term incentive schemes | 149 |
| Waiver of dividends | 179 |

Strategic Report

The Company is required by the Companies Act 2006 to include a strategic report in this document. The information that fulfils the requirements of the Strategic Report can be found on pages 1 to 57, which are incorporated in this report by reference.

Company status

The Company (company number: 2590560) was incorporated under the Companies Act 1985 as a limited company on 11 March 1991 and re-registered as a public company on 20 October 1992 as National Express Group PLC. The Company is listed on the London Stock Exchange's main market for listed securities (LON:NEX) and is a constituent member of the FTSE 250 Index.

Disclaimer

This Annual Report and Accounts is intended to focus on matters which are relevant to the interests of shareholders of the Company. The purpose of this Annual Report and Accounts is to assist shareholders in assessing the strategies adopted and performance delivered by the Company and the potential for those strategies to succeed. It should not be relied on by any other party or for any other purpose.

Forward looking statements are made in good faith, based on a number of assumptions concerning future events and information available to Directors at the time of their approval of this report. These forward looking statements should be treated with caution due to the inherent uncertainties underlying any such forward looking information. The user of this Annual Report and Accounts should not rely unduly on these forward looking statements, which are not a guarantee of performance and which are subject to a number of uncertainties and other facts, many of which are outside the Company's control and could cause actual events to differ materially from those in these statements. No guarantee can be given of future results, levels of activity, performance or achievements.

Branches outside the UK

The Company has branches in Spain.

Results and dividends

The profit on ordinary activities before tax from continuing operations for the year ended 31 December 2016 was £136.3m (2015: £122.7m) and a profit attributable to equity shareholders of £117.2m (2015: £107.0m) was transferred to reserves.

The Directors recommend a final dividend for the year of 8.41p per ordinary share (2015: 7.645p) which, together with the interim dividend of 3.87p per ordinary share (2015: 3.685p), paid on 23 September 2016, gives a total dividend for the year of 12.28p per share (2015: 11.33p). Subject to shareholder approval, the final dividend will be paid on 19 May 2017 to ordinary shareholders on the register of members at the close of business on 28 April 2017.

Directors

The Directors of the Company as at the date of the approval of this Annual Report are listed on pages 64 and 65, together with their biographical details and identification of the Board Committees on which they serve.

With effect from 1 January 2016, Dr Ashley Steel became a Non-Executive Director of the Company. Subsequent to the financial year end, the Board appointed Chris Davies as Group Finance Director. His appointment will take effect from the conclusion of the AGM on 10 May 2017. Chris Davies replaces Matthew Ashley who, after two and half successful years in this role, will be moving to become President and Chief Executive Officer for National Express North America from September 2017. Matthew will remain as an Executive Director.

Powers of the Directors

Subject to its Articles of Association and relevant statutory law and to any direction that may be given by the Company in general meeting by special resolution, the business of the Company shall be managed by the Directors, who may exercise all powers of the Company which are not required to be exercised by the Company in general meeting.

Appointment and replacement of Directors

The rules for the appointment and replacement of Directors of the Company are set out in the Articles of Association, the UK Corporate Governance Code (the 'Code'), the Companies Act 2006 and related legislation. In accordance with the Code, all the Directors will retire at the 2017 AGM and offer themselves for re-election. The Board is satisfied that each of those Directors standing for re-election is qualified by virtue of their skills, experience and contribution to the Board.

Directors' conflicts of interest

The Board has a procedure in place to deal with a situation where a Director has a conflict of interest, as required by the Companies Act 2006. As part of this process, the members of the Board prepare a list of other positions held and all other conflict situations that may need authorising either in relation to the Director concerned or his or her connected persons. The Board considers each Director's situation and decides whether to approve any conflict situations, taking into consideration what is in the best interests of the Company and whether the Director's ability to act in accordance with his or her wider duties is affected. Each Director is required to notify the Company Secretary of any potential or actual conflict situations that will need authorising by the Board. Authorisations given by the Board are reviewed annually.

Directors' and Officers' liability insurance

The Company recognises the potential personal liabilities that the Directors are subject to by agreeing to act as a Board member and believes that it is both fair and reasonable to protect them from innocent error or omission. The Company therefore maintains Directors' and Officers' liability insurance in respect of legal action that might be brought against its Directors which operates in certain circumstances. This does not extend to cover the Directors where it is proved they acted fraudulently or dishonestly. Pursuant to the Company's Articles of Association, the Company has indemnified its Directors and Officers in accordance with the provisions of Section 233 of the Companies Act 2006. A copy of the Articles of Association is available for inspection at the Company's registered office.

Directors' interests in contracts

Except as stated in note 36 to the consolidated accounts on page 190, no contract existed during the year in relation to the Company's business in which any Director was materially interested.

Directors' interests in shares

The Board of Directors' interests in shares in the Company are detailed on pages 99 and 100.

Directors' share options

Details of Directors' share options are provided in the Directors' Remuneration Report on page 105.

Directors' indemnities

The Company has entered into deeds of indemnity with each of its Directors, which are qualifying indemnity provisions for the purpose of the Companies Act 2006 and remain in force at the date of this report.

Accountability and audit

Statements of the respective responsibilities of the Directors and auditors are set out on pages 119 to 129.

Post Balance Sheet events

On 11 January 2017, the Company announced that it had reached an agreement in principle for Trenitalia, the passenger rail transportation company which is part of FS Italiane Group, to acquire the c2c franchise. Completion of the acquisition, which was conditional upon final consent from the Department for Transport, took place on 10 February 2017. The total consideration for the franchise was £72.6 million resulting in a small profit for the Group.

Employment policies

The Group strives to meet its business objectives by motivating and encouraging its employees to be responsive to the needs of its customers and continually improve operational performance. The Group is committed to providing equality of opportunity to employees and potential employees. This applies to recruitment, training, career development and promotion for all employees, regardless of physical ability, gender, sexual orientation, religion, age or ethnic origin. All businesses in the Group report diversity data.

Full and fair consideration is given to applications for employment received from disabled persons, according to their skills and capabilities. The services of any existing employee disabled during their period of employment are retained wherever possible.

Directors' Report continued

Employee involvement

The Group encourages employee involvement in its affairs. Subsidiary companies produce a range of internal newsletters and circulars which keep employees abreast of developments. Senior management within the Group meet regularly to review strategic developments and management conferences are held at Group and business levels to bring our senior managers together to share ideas and develop policy. Members of the Senior Management Group are also visible within the businesses and undertake a range of visits where they meet face to face with employees to gather feedback on safety and other issues. Dialogue takes place regularly with trade unions and other employee representatives on a wide range of issues.

Employee views are also sought through regular employee satisfaction questionnaires, both within business units and across the Group. Following such surveys, results are shared with employees and action plans are put in place to deal with issues arising. The Group encourages innovation from all levels of employees and has a structured programme to encourage suggestions and to recognise employees through awards. The Group also has a well-developed succession planning process in place and succession plans are reviewed by the Board annually. As a key part of this process, the Company focuses on emerging talent to ensure the Group has the right people being developed to meet our future business needs. Talent management remains an important priority for the Group.

Information regarding the Company's safeguarding of human rights forms part of the People section on pages 25 to 26 and on the Company's website, www.nationalexpressgroup.com.

Environmental policy

Information on the Group's environmental initiatives, including the mandatory reporting disclosure on greenhouse gas emissions, can be found in the Strategic Report on pages 28 to 31 and on the Company's website, www.nationalexpressgroup.com.

Political contributions

It is the Group's policy not to make political donations and accordingly none were made in the year. However, the Company did attend party political conferences during the year for which total expenditure was £14,000 (2015: £13,000).

Major shareholdings

As at 20 February 2017, the Company had been notified under the Disclosure and Transparency Rules (DTR 5) of the following interests in its shares which represent 3% or more of the voting rights in the Company:

| | Ordinary shares | Percentage of share capital* | Nature of holding |
|--|-----------------|------------------------------|-------------------|
| European Express Enterprises Ltd | 66,481,891 | 12.9 | Direct |
| Newton Investment Management Ltd | 51,180,109 | 10.0 | Direct |
| Prudential PLC | 50,987,079 | 9.9 | Direct |
| Standard Life Investments (Holdings) Ltd | 26,616,766 | 5.0 | Indirect |

* The holdings for European Express Enterprises Ltd are included in Jorge Cosmen's holdings which are shown in the Directors' Remuneration Report on page 100.

Share capital and rights attaching to the Company's shares

Under the Company's Articles of Association, any share in the Company may be issued with such rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise as the Company may from time to time by ordinary resolution determine (or, in the absence of any such determination, as the Directors may determine).

The Company has one class of ordinary shares with a nominal value of 5 pence. At the date of this Annual Report, the issued share capital consisted of 511,738,648 ordinary shares of 5 pence each.

At a general meeting of the Company every member has one vote on a show of hands and on a poll one vote for each share held. The Notice of AGM will specify deadlines for exercising voting rights either by proxy or by being present in person in relation to resolutions to be passed at a general meeting. Details of the authorised and issued share capital of the Company and details of shares issued during the year can be found in note 32 to the consolidated accounts on page 179.

No shareholder is, unless the Board decides otherwise, entitled to attend or vote either personally or by proxy at a general meeting or to exercise any other right conferred by being a shareholder if he or she or any person with an interest in his or her shares has been sent a notice under Section 793 of the Companies Act 2006 (which confers upon public companies the power to require information with respect to interests in their voting shares) and he or she or any interested person failed to supply the Company with the information requested within 14 days after delivery of that notice. The Board may also decide that no dividend is payable in respect of those default shares and that no transfer of any default shares shall be registered. These restrictions end seven days after receipt by the Company of a notice of an approved transfer of the shares or all the information required by the relevant Section 793 notice, whichever is earlier.

The Directors may refuse to register any transfer of any share which is not a fully paid share, although such discretion may not be exercised in a way which the Financial Conduct Authority regards as preventing dealings in shares of that class from taking place on an open or proper basis. The Directors may likewise refuse any transfer of a share in favour of more than four persons jointly.

The Company is not aware of any other restrictions on the transfer of ordinary shares in the Company other than:

- certain restrictions that may from time to time be imposed by laws and regulations (for example, insider trading laws); and
- pursuant to the Listing Rules of the Financial Conduct Authority whereby certain employees of the Company require approval of the Company to deal in the Company's shares.

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities or voting rights.

Resolutions will be proposed at the 2017 AGM to authorise the Directors to exercise all powers to allot shares, or grant rights for, or to convert any security into, shares, and approve a limited disapplication of statutory pre-emption rights. Details are set out in the Notice of AGM accompanying this document.

The Company was granted authority at the AGM in 2016 to purchase its own shares up to an aggregate value of 10% of the issued nominal capital. The authority was not used during the year. The authority is renewed annually and approval will be sought at the AGM in 2017 for its renewal. Further details are set out in the Notice of AGM accompanying this document.

Share schemes

First Names (Jersey) Limited is Trustee of the National Express Group Employee Benefit Trust. As at 20 February 2017 it held 2,260,292 shares (0.44% of the issued share capital) of the Company for employee share schemes. Further details of the Company's employee share schemes can be found in note 7 to the consolidated accounts on pages 148 to 151 and are incorporated by reference into this report. The Trustee may vote the shares held by the Trust at its discretion.

The current Investment Association ('IA') guidance on dilution limits provides that the overall dilution under all share plans operated by a company should not exceed 10% over a ten-year period in relation to the Company's share capital, with a further limitation of 5% in any ten-year period on executive plans. National Express share plans operate within IA recommended guidelines on dilution limits.

Articles of Association

Any amendments to the Company's Articles of Association may be made in accordance with the provisions of the Companies Act 2006.

Annual General Meeting

The AGM will be held at 2.00pm on 10 May 2017 in Hall 9 at the International Convention Centre, Broad Street, Birmingham B1 2EA. At the Meeting, special resolutions will be proposed to authorise the Directors to issue shares without applying statutory pre-emption rights, to authorise the Company to make market purchases of its own shares and to authorise the calling of general meetings (other than Annual General Meetings) on 14 clear days' notice.

Full details are provided in the Notice of AGM. If you would like to register any question you may have in advance of the AGM you can do so at agm@nationalexpress.com or you can write to the Company Secretary at National Express Group PLC, National Express House, Birmingham Coach Station, Mill Lane, Digbeth, Birmingham B5 6DD.

Directors' Report continued

Material contracts and change of control agreements

There are a number of agreements that take effect, alter or terminate upon a change of control of the Company following a takeover bid. Save as disclosed below, none of these are considered significant.

Under the terms of the Company's revolving credit facilities upon a change of control, the Company would have five days to enter into negotiations with the lenders to alter the terms. Following ten days of negotiations, if no agreement has been reached, outstanding balances may become repayable.

Under the terms of the £1 billion Euro Medium Term Note Programme (as updated on 3 October 2016) under which the Company issued Medium Term Notes ('MTNs') to various institutions on 13 January 2010, 15 June 2010 and 11 November 2016, there is a change of control put option such that, upon a change of control event, any holder of any MTN may require the Company to redeem or purchase that MTN.

The Company entered into a private placement Note Purchase Agreement on 30 July 2012 relating to the issue by the Company of €78,500,000 4.55% Senior Notes due 16 August 2021. Under the terms of the Agreement the Company is required to offer to Note holders to repay to them the entire unpaid principal amount and interest thereon upon a change of control.

The National Express Group PLC Long-Term Incentive Plan 2015 (the 'Plan') contains provisions as a result of which options and awards may vest and become exercisable on a change of control of the Company in accordance with the rules of the Plan.

The Group's UK Bus business operates the Midland Metro tram service and the UK Bus operating subsidiary is party to a contract with Transport for West Midlands ('TfWM' and formerly known as Centro) governing certain aspects of such operation. The contract with TfWm contains an event of default on a change in control of the UK operating subsidiary (which would be triggered on a change in control of the Company) if such change in control is not approved by TfWM.

The Group's UK Coach business operates a number of coach and bus services from or at certain UK airports and the UK Coach operating subsidiary is also contracted to provide passenger transport services for certain other third parties. A number of these contracts contain rights for the counterparties to terminate them on a change of control of the relevant subsidiary company party to such contracts (certain of which would be triggered by a change in control of the Company).

While no one of these contracts is considered significant in the context of the Group's business as a whole, the impact on the Group if all such contracts were terminated could be significant.

Directors' and employees' service contracts

There are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) that occurs because of a takeover bid.

Auditor

Resolutions to re-appoint Deloitte LLP as auditor of the Company and to authorise the Directors to determine their remuneration will be proposed at the 2017 AGM.

Disclosure of information to auditor

The Directors confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware and that each Director has taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

By order of the Board



Joy Baldry

Company Secretary
23 February 2017