Dear fellow Shareholder

In this section of the Annual Report, we describe governance at National Express, the principal activities of the Board and its Committees and how we have complied with the principles of the September 2014 edition of the UK Corporate Governance Code (the ‘Code’) which applied to the Company for the whole of the financial year ended 31 December 2016.

Culture
The Board believes that effective governance is essential to protecting shareholder value and the sustainable growth of the Group. Strong governance is also a foundation stone for a healthy corporate culture of values, attitudes and behaviours demonstrated by a company, not only within its operations, but also in its relations with its stakeholders and the wider community and environment which are affected by the Company’s conduct. As a Board, we recognise that the correct tone needs to be set from the top with the Directors leading by example to ensure that good standards of behaviour permeate throughout all levels of the National Express Group. The way we live and breathe our culture can be seen by the way in which our Values are becoming increasingly embedded across all our businesses and how they underpin our business model and strategy of delivering long-term shareholder value.

Leadership
The role and effectiveness of the Board is essential to a successfully run company and the way in which we operate is set out on the following pages. We have a strong cast of Directors with a broad range of sector and function experience across different geographies and in the key areas of transport and digital technology – a balance that results in effective collective decision making. As announced in January, after two and a half successful years as Group Finance Director and as part of his career development with the Group, Matthew Ashley will be moving to become President and Chief Executive Officer for North America. Matthew will take up this operational role from 1 September 2017 and will remain on the Board as an Executive Director. To fill the Group Finance Director role as a result of this move, I am delighted that Chris Davies will be joining the Board as an Executive Director following our AGM on 10 May 2017. Chris brings significant international and strategic experience that will benefit the Company as we continue our growth strategy.

Effectiveness
National Express continues to evolve and expand geographically through pursuing business opportunities in new markets and through its programme of bolt-on acquisitions in North America as described in the Strategic Report. The Board recognises that managing such growth effectively requires clear oversight by an effective Board. This year’s evaluation of the effectiveness of the Board and its Committees identified the main areas for continued focus and development for the year ahead being a review of the Executive pipeline and succession planning, greater diversity on the Board and bringing more external viewpoints to the Board.

Accountability
The Board recognises its responsibility to present a fair, balanced and understandable assessment of the Group’s position and prospects in this Annual Report, to assess the principal risks of the Group, to ensure that effective systems of risk management and internal control are in place and to provide a statement as to the Group’s long-term viability. The actions that we have taken during the year to comply with these requirements can be found in this section of the Annual Report.
Relations with shareholders
The Board recognises and values the importance of maintaining healthy and open communications with our shareholders to ensure mutual understanding of the Group’s strategy, objectives, governance and performance. The Board receives regular investor reports which detail the feedback from investor meetings. This helps inform Board discussion on the views of investors and analysts on strategy.

Remuneration
We were pleased to have received 98.30% of votes in favour of our Remuneration Report at the 2016 AGM. Whilst our current remuneration policy will continue for its final year during 2017, one of the Remuneration Committee’s principal areas of focus for this year will be to review the existing policy and engage with shareholders to consider the changes required to ensure that our remuneration framework continues to support and drive the delivery of our strategic vision. The resulting revised policy will be put forward for approval at the 2018 AGM.

Annual General Meeting
This year, our Annual General Meeting will be held at 2.00pm on Wednesday, 10 May 2017, once again in Hall 9 at the International Convention Centre, Broad Street, Birmingham B1 2EA. I would encourage you to attend and meet me and the Board.

Sir John Armitt CBE
Chairman
23 February 2017

“We recognise that the correct tone needs to be set from top with the Directors leading by example to ensure that good standards of behaviour permeate throughout all levels of the National Express Group.”

Compliance with the UK Corporate Governance Code
The Governance Report set out below, together with the Directors’ Remuneration Report, is designed to provide shareholders with a summary of the Group’s governance policies and practices and an explanation of how the Company has applied the main principles of the UK Corporate Governance Code (the “Code”) that was published in 2014 by the Financial Reporting Council and which applied to the Company for the whole of the financial year ended 31 December 2016. The Directors believe that the Company has complied with the provisions set out in the Code during 2016 as described below. A copy of the Code is available at www.frc.org.uk.
Leadership

The Role of the Board
The Board provides leadership of the Group and direction for management. It is collectively responsible and accountable to the Company’s shareholders for the long-term success of the Group and for ensuring the appropriate management and operation of the Group in pursuit of its objectives. The Board is responsible for setting the Group’s strategy, values and standards and ensuring that the necessary controls and resources are in place to deliver these.

Corporate governance framework
The Board discharges its responsibilities for the leadership and control of the Group by:

- providing strategic direction and support in a manner which maximises opportunities to develop the business’ profitability, whilst at the same time assessing and managing associated risks;

Key matters reserved for Board approval

Group strategy and risk management
- Formulation and approval of long-term objectives
- Approval of changes to capital structure
- Approval of major changes to management and control structures
- Approval of extension of activities into new businesses or geographical areas

Financial and internal controls
- Oversight of risk management and internal control framework
- Approval of Financial Statements and results announcements
- Approval of Shareholder communications, circulars and notices of meeting
- Approval of the auditor’s remuneration and recommendations for their appointment/removal
- Monitoring the Group’s businesses against plan and budget
- Approval of major capital expenditure projects
- Approval of material contracts

Board membership and Committees
- Appointment of Directors
- Approval of remuneration of the Non-Executive Directors
- Setting of Board Committees’ terms of reference
- Approval of new share incentive plans

Corporate governance
- Undertaking formal performance reviews of the Board, Committees and individual Directors
- Determining the independence of Directors
- Receiving reports from the Company’s major shareholders

Policies
- Review and approval of Group policies, for example:
  - health and safety
  - anti-corruption and bribery
  - risk management strategy
  - environment
  - charitable and political donations
  - workplace rights
  - human rights
• engaging at Board meetings with, and challenging, the Group Chief Executive, Group Finance Director and other members of the Senior Management Group, as appropriate, on the financial and operating performance of the Group and external issues material to the Group’s prospects; and
• ensuring that the financial, management and other resources required to meet its objectives are in place.

To help discharge its responsibilities, the Board has a formal schedule of matters specifically reserved for its decision, which forms the core of the Board’s agenda. The Board has also delegated certain aspects of its responsibilities to the following principal Committees: the Audit Committee, the Remuneration Committee, the Nomination Committee and the Safety & Environment Committee. More details on each of these Committees can be found in this report.

### Reporting framework

**Remuneration Committee**
Reviews and recommends to the Board the Executive Remuneration Policy and determines the remuneration packages of the Executive Directors and members of the Senior Management Group.

*Read more p86*

**Nomination Committee**
Reviews and recommends to the Board the structure, size and composition of the Board and its Committees. It also has oversight for succession planning of the Board and senior management.

*Read more p72*

**Group Board**
Provides leadership of the Group and direction for management. It is collectively responsible and accountable to the Company’s shareholders for the long-term success of the Group and for ensuring the appropriate management and operation of the Group in pursuit of its objectives. It sets strategy, values and standards and ensures that the necessary controls are in place to deliver these.

**Audit Committee**
Reviews and is responsible for oversight of the Group’s financial and reporting processes; the integrity of the Financial Statements; the external and internal audit processes; and the systems of internal control and risk management.

*Read more p76*

**Group Executive Committee**
Under the leadership of the Group Chief Executive, this Committee comprises the Executive Directors, the Managing Directors of each of the businesses and functional heads. It meets on a monthly basis and is tasked with considering and approving operational business matters.

In addition, the UK and Middle East, Spanish and North American Executive groups meet on a monthly basis and matters dealt with at these meetings are reported to the Group Executive Committee.

**Safety & Environment Committee**
Reviews and challenges constructively the structure, content and operation of the safety management arrangements put in place by members of the Executive management. It also reviews and monitors the Group’s environmental performance and targets.

*Read more p82*
Board meetings
The Board and its Committees have regular scheduled meetings and hold additional meetings as and when required. Directors are expected, where possible, to attend all Board meetings, relevant Committee meetings, the AGM and any General meetings. The Board met seven times during 2016: five meetings were held in the UK, one in Germany and one in Canada. A separate strategy meeting was also held following on from the September Board meeting. Each Director attended as follows:

### Number of Board meetings

<table>
<thead>
<tr>
<th>Number of Board meetings</th>
<th>The Board of Directors</th>
<th>Audit Committee</th>
<th>Nomination Committee</th>
<th>Remuneration Committee</th>
<th>Safety &amp; Environment Committee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total meetings in 2016</td>
<td>7</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td><strong>Executive Directors</strong></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dean Finch, Group Chief Executive</td>
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<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Matthew Ashley, Group Finance Director</td>
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<td>–</td>
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</tr>
<tr>
<td><strong>Non-Executive Directors</strong></td>
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</tr>
<tr>
<td>Sir John Armitt, Chairman</td>
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<td>–</td>
<td>3</td>
<td>–</td>
<td>3</td>
</tr>
<tr>
<td>Joaquin Ayuso</td>
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<td>–</td>
<td>3</td>
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<td>3</td>
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<tr>
<td>Jorge Cosmen</td>
<td>7</td>
<td>–</td>
<td>3</td>
<td>–</td>
<td>3</td>
</tr>
<tr>
<td>Matthew Crummack</td>
<td>7</td>
<td>–</td>
<td>–</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Jane Kingston</td>
<td>7</td>
<td>–</td>
<td>1(1)</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Mike McKeon</td>
<td>7</td>
<td>3</td>
<td>–</td>
<td>–</td>
<td>3</td>
</tr>
<tr>
<td>Chris Muntwyler</td>
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<td>2</td>
<td>3</td>
<td>–</td>
<td>3</td>
</tr>
<tr>
<td>Lee Sander</td>
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<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Dr Ashley Steel</td>
<td>7</td>
<td>3</td>
<td>–</td>
<td>–</td>
<td>3</td>
</tr>
</tbody>
</table>

Company Secretary, Joy Baldry, also acts as Secretary to the Board Committees. Eligible meetings are shown in brackets.

If a Director is unable to attend a Board or Committee meeting, he or she still receives all the papers and materials for discussion at the meeting. He or she will review them and then advise the Board Chairman or Committee Chairman of their views and comments on the matters to be discussed so that they can be conveyed to others at the meeting. For unavoidable reasons, Chris Muntwyler was unable to attend the July Board and Audit Committee meetings.

Only members of the Board are entitled to attend Board meetings, with the Company Secretary in attendance to formally record each meeting. This is also the case in respect of Committee members and meetings. The Executive Directors and representatives of management, together with the Company’s advisers, are also invited to attend Committee meetings as required. Directors have the right to raise any concerns they may have about the running of the Company, or a proposed course of action which cannot be resolved, and have them recorded in the relevant meeting minutes and may also provide a written statement to the Chairman for circulation to the Board, setting out such concerns. During the year the Chairman met on several occasions with the Non-Executives without the Executive Directors present to allow informal discussions on a variety of issues.

### Principal Committees of the Board

The main Committees established by the Board are the Audit Committee, the Remuneration Committee, the Nomination Committee and the Safety & Environment Committee. Each Committee operates within defined terms of reference, the full versions of which can be found on the Company’s website, www.nationalexpressgroup.com. Each Committee reports its proceedings to the Board through the submission of reports and minutes as appropriate. A Disclosure Committee of the Board is also established with its membership comprising the Chairman, Group Chief Executive and Group Finance Director. This Committee meets as required to deal with the control of price sensitive information within the Group and to ensure that timely announcements are made in accordance with the Company’s obligations under the Market Abuse Regulation and the Financial Conduct Authority’s Listing Rules and Disclosure Guidance and Transparency Rules. Its terms of reference are also available on the Company’s website, www.nationalexpressgroup.com.

All Board Committees are authorised to obtain legal or other professional advice as necessary, to secure the attendance of external advisers at their meetings and to seek information required from any employee of the Group in order to perform their duties.

Reports of each of the principal Committees are provided on pages 72 to 113, and include information on each Committee’s membership, duties and activities throughout the year.

### Setting the Board agenda

The Chairman and the Company Secretary are responsible for ensuring that the Directors receive accurate, timely and clear information on all relevant matters so that they are properly briefed in advance of meetings, and that the information is of sufficient quality to assist Directors in making informed contributions and decisions.
The Board regularly and rigorously reviews and benchmarks operational and functional performance. At each meeting the Board receives a report from the Group Chief Executive on operational performance, and from the Group Finance Director on the financial performance of the Group as a whole and each of the Group’s businesses individually. Other regular reports for the Board’s consideration at its meetings include capital expenditure requests, key project reviews, summary activities of the Board Committees and human capital, legal, governance and investor relations reports. Presentations from either a business Managing Director or a functional head are also given at each meeting.

The core activities of the Board and its Committees are documented and planned on an annual basis and a list of matters arising from each meeting is maintained and followed up at subsequent meetings. The main items of business addressed by the Board during the year are shown below.

**Strategy, operational and funding**
- Reviewed the Group Strategy for 2017-2019 with external viewpoints being provided
- In depth review of Chattanooga tragedy and consideration of any lessons that can be learned
- Consideration and approval of sale of c2c to Trenitalia
- Reviewed, approved and received regular updates on bid opportunities and progress
- Reviewed and approved bolt-on acquisitions in North America and received updates on their performance and integration one year post acquisition

**Financial performance**
- Considered the financial performance of the business and approved the budget and key performance targets
- Reviewed the half year and annual results and approved the Annual Report

**Internal controls and risk management**
- Reviewed the Group’s risk register and reviewed and validated the effectiveness of the Group’s internal control and risk management systems
- Assessed significant and emerging risks and quantified the potential impact on business objectives, and reviewed the effectiveness of the mitigating actions in place

**Governance, stakeholders and shareholders**
- Reviewed the Group’s Values and the extent to which they continued to underpin the Group’s Vision
- Reviewed regular safety updates together with the structure, content and operation of the safety management arrangements in place and the initiatives to enhance the Group’s safety profile
- Reviewed and monitored the Group’s environmental performance and targets
- Reviewed developments in corporate governance and received regular updates
- Reviewed regular feedback from investors and other stakeholders
- Discussed the outcome of the Board evaluation and effectiveness review and agreed improvement opportunities
- Reviewed the impact of the Market Abuse Regulation, adopted a revised Share Dealing Code and updated procedures to ensure compliance

**Leadership and people**
- Reviewed the composition of the Board and its Committees, including consideration of diversity in its widest sense
- Reviewed succession planning for senior roles and new initiatives for the identification and development of talent within the Group to deliver strategy
- Reviewed the Delivering Excellence initiative – a new Group-wide programme to support and improve operational performance and efficiency
1. Sir John Armitt CBE (71)
Chairman
Date appointed to Board: January 2013
and as Chairman on 1 February 2013
Tenure on Board: 4 years
Independent: Independent upon appointment
Committee memberships: Nomination (Chairman), Safety & Environment
Relevant skills and experience:
Sir John Armitt is currently Deputy Chairman of Berkeley Group Holdings PLC, Chairman of the City & Guilds Group and Deputy Chairman of the National Infrastructure Commission. Sir John is also an independent Non-Executive Director of Expo 2020. He was President of the Institution of Civil Engineers from 2015 to 2016 and a member of the Board of Transport for London from 2012 to 2016. Sir John was Chairman of the Olympic Delivery Authority from 2007 to 2014 and Chairman of the Engineering and Physical Science Research Council from 2007 to 2012. From 2001 to 2007 he was Chief Executive of Network Rail and its predecessor, Railtrack. In 1997 he was appointed as Chief Executive of Costain Group PLC, a position he held until 2001. Before this, Sir John was Chief Executive of Union Railways, the company responsible for the development of the high speed Channel Tunnel Rail Link. This followed a 27-year career at John Laing PLC.

Sir John was awarded the CBE in 1996 for his contribution to the rail industry and received a knighthood in 2012 for his contribution to the rail industry and received a knighthood in 2012 for services to engineering and construction.

2. Lee Sander (60)
Senior Independent Director
Date appointed to Board: June 2011
Tenure on Board: 5 years, 6 months
Independent: Yes
Committee memberships: Audit, Remuneration, Nomination and Safety & Environment
Relevant skills and experience:
Elliot ‘Lee’ Sander is the former Chief Executive Officer of the Metropolitan Transportation Authority of New York and the former Commissioner of the New York City Department of Transportation. He is the Chairman Emeritus of the Regional Plan Association, an NGO that has played a guiding role in the planning of the New York Metropolitan area. Lee was Group Chief Executive for Global Transportation at AECOM, a global architecture and engineering firm. He served as President of The HAKS Group Inc and The I. Grace Company, which also specialised in architecture, engineering, and construction in the public and private sectors. In addition, Lee founded the Rudin Center for Transportation Policy and Management at New York University. Lee is also currently Vice Chairman of the Greater Jamaica Development Corporation and Senior External Adviser to McKinsey & Company.

3. Jorge Cosmen (48)
Deputy Chairman
Date appointed to Board: December 2005
Tenure on Board: 11 years
Independent: No
Committee memberships: Nomination, Safety & Environment
Relevant skills and experience:
Jorge Cosmen was appointed to the Board at the time of the ALSA transaction. He was appointed Deputy Company Chairman in October 2008. He was Corporate Manager for the ALSA Group from 1995, becoming Chairman in 1999. Between 1986 and 1995, he worked in sales, distribution and banking. He is a Business Administration graduate and has an International MBA from the Instituto de Empresa in Madrid. He is a Non-Executive Director of Bankia, as well as of other private companies.

4. Dean Finch (50)
Group Chief Executive
Date appointed to Board: February 2010
Tenure on Board: 6 years, 11 months
Independent: No
Committee membership: None
Relevant skills and experience:
Prior to joining National Express, Dean Finch was Group Chief Executive of Tube Lines from May 2009. Before that he worked for over ten years in senior roles within FirstGroup PLC. He joined FirstGroup in 1999 having qualified as a Chartered Accountant with KPMG, where he worked for 12 years specialising in Corporate Transaction Support Services, including working for the Office of Passenger Rail Franchising on the privatisation of train operating companies. At FirstGroup, he was Managing Director of the Rail Division from 2000 to 2004 and then was appointed to the main board as Group Commercial Director in 2004, before being made Group Finance Director. With the completion of the Laidlaw acquisition, he became Chief Operating Officer in North America before returning to the UK as Group Chief Operating Officer. Dean currently has no external directorships, having relinquished his role as Non-Executive Director of the Royal Free London NHS Foundation Trust in May 2016.

5. Matthew Ashley (43)
Group Finance Director
Date appointed to Board: January 2015
Tenure on Board: 2 years
Independent: No
Committee membership: None
Relevant skills and experience:
Matt Ashley joined National Express as Group Financial Controller in 2010 from Deloitte where he was a Director specialising in transport and infrastructure and the auditing of listed companies, having previously qualified as a Chartered Accountant in 1998. He was then promoted to the role of Finance Director of the UK Bus division in 2013 before becoming interim Group Finance Director in October 2014. Matt has no external directorships.
Committee membership

- Chairman
- Member

* Dean Finch and Matthew Ashley, as Executive Directors, may attend Board Committee meetings at the invitation of the respective Committee Chairman. No Director attends any discussion or participates in any decision concerning their own remuneration.

### 6. Mike McKeon (60)
Non-Executive Director

- **Date appointed to Board:** July 2015
- **Tenure on Board:** 5 years, 6 months

**Independent:** Yes

**Committee membership:** Audit (Chairman), Nomination, Safety & Environment

**Relevant skills and experience:** Prior to his retirement in 2016, Mike McKeon served as Group Human Resources Director for BPB PLC from 2002 until its acquisition by Saint Gobain SA in 2006. He has held various senior roles, both in the UK and internationally, at Rolls-Royce plc, CarmaniMetalbox, Elf Atochem and PricewaterhouseCoopers. Until 31 January 2017, Mike was also Senior Independent Director and Chairman of the Audit Committee at investment trust, The Merchants

### 8. Chris Muntwyler (64)
Non-Executive Director

- **Date appointed to Board:** May 2011
- **Tenure on Board:** 5 years, 7 months

**Independent:** Yes

**Committee membership:** Audit, Nomination, Safety & Environment (Chair)

**Relevant skills and experience:**
- Chris Muntwyler is President and CEO of the Swiss Management Consulting company Conligic Ltd.
- He is also Non-Executive Director of Panalpina

### 9. Joaquin Ayuso (61)
Non-Executive Director

- **Date appointed to Board:** June 2011
- **Tenure on Board:** 5 years, 6 months

**Independent:** Yes

**Committee membership:** Nomination, Safety & Environment

**Relevant skills and experience:**
- Joaquin Ayuso is Board Vice Chairman for Ferrovial, the €10 billion Spanish transport infrastructure and services group that employs over 100,000 people worldwide. He has been with Ferrovial since 1981 and was appointed CEO in 2002, and held that position until October 2009. During this period, Ferrovial expanded internationally with business interests in the UK, US, Canada, Latin America and Europe. He is also currently a Non-Executive Director of Bankia, Chairman of the Board of Autopista del Sol SA, Non-Executive Director of Hispania Activos Inmobiliarios SA and Senior Advisor to AT Kearney in Spain and Portugal.

### 10. Matthew Crummack (46)
Non-Executive Director

- **Date appointed to Board:** May 2015
- **Tenure on Board:** 1 year, 7 months

**Independent:** Yes

**Committee memberships:** Remuneration, Safety & Environment

**Relevant skills and experience:**
- Matthew Crummack is President and CEO of Gocompare.com Group plc, a financial services price comparison website which is listed on the London Stock Exchange. Previously, Matthew served as CEO of lastminute.com, the online travel and leisure retailer, from 2011 until March 2015 when the business was acquired by Bravofly Rumbo Group (subsequently renamed lastminute.com Group). He served as Deputy CEO and Chief Integration Officer until December 2015, following which he served as a member of its Strategic Advisory Committee.

### 11. Dr Ashley Steel (57)
Non-Executive Director

- **Date appointed to Board:** January 2016
- **Tenure on Board:** 1 year

**Independent:** Yes

**Committee memberships:** Audit, Safety & Environment

**Relevant skills and experience:**
- Dr Ashley Steel is a former Vice Chairman at KPMG and was Global Chair for its transport, leisure and logistics practice until her retirement from the firm in September 2014. Ashley has significant international experience and has advised numerous FTSE/Fortune 500 boards. Her other sector experience includes professional services, technology, media, business services and healthcare.

Ashley is currently a Non-Executive Director of the Civil Aviation Authority and previously served on the International Business Advisory Board at British Airways. She is also an independent Non-Executive Director to global law firm, Ince & Co. She is also a founding member on the Global Advisory Board for Out Leadership, a New York-based business helping chairmen and CEOs of finance and law firms become LGBT aware. Ashley has a PhD in Management from Heriot-Watt University.
Composition of the Board
We seek to build an effective and complementary Board which comprises the correct balance of individuals whose capabilities are appropriate for the scale, complexity and strategic positioning of our business. The Board consists of an appropriate balance of Executive and Non-Executive Directors who collectively bring a strong and in-depth mix of business skills and experience and considerable knowledge to assist with Board decisions. The process for Board appointments is led by the Nomination Committee and is described on page 72.

A list of the individual Directors, their biographies and Committee memberships as at the date of this report are set out on pages 64 and 65.

The Chairman and the Group Chief Executive
The roles of the Chairman and Group Chief Executive are held separately and the division of responsibilities between these roles is clearly established as shown below. The Chairman is responsible for leading the Board and ensuring its effectiveness. The Group Chief Executive is responsible for running the business of the Group and implementation of the strategy and policies adopted by the Board.

Chairman's responsibilities
- Chairing and managing the business of the Board
- Together with the Group Chief Executive, leading the Board in developing the strategy of the business and ensuring its effective implementation by the executive management team
- Ensuring effective dialogue with investors concerning mutual understanding of objectives
- In conjunction with the Nomination Committee, taking responsibility for the composition and replenishment of the Board
- Periodically reviewing with the Board its working practices and performance
- Ensuring there is an effective contribution from the Non-Executive Directors and a constructive relationship between Executive and Non-Executive Directors

The Chairman's other significant commitments are detailed in his biography on page 64.

Group Chief Executive's responsibilities
- Communicating a shared purpose and the culture, vision and values of the Group
- The development and implementation of management strategy
- The day-to-day management of the Group
- Managing the executive management team
- Fostering relationships with key stakeholders
- Leading the Group Executive Committee
- In conjunction with the Group Finance Director, communicating the Group’s financial performance to investors and analysts
- Liaising with the Chairman to ensure effective dialogue with investors and stakeholders

Non-Executive Directors
The Non-Executive Directors collectively represent a robust element of the Board and each brings with them his or her own expertise gained in a variety of business sectors. They constructively challenge and scrutinise the performance of management and help develop proposals on strategy as well as ensuring high standards of financial probity and corporate governance. The terms and conditions of appointment of the Non-Executive Directors are available for inspection at each AGM, on the Company’s website and at its registered office during normal business hours. The Non-Executive Directors disclose to the Board their other significant commitments. The procedure adopted by the Company in relation to Directors’ conflicts of interest is detailed on page 115.

Senior Independent Director
Lee Sander is currently the Senior Independent Director. As well as being available to shareholders whose concerns have not been resolved through normal channels or when such channels would be inappropriate, the Senior Independent Director provides a sounding board for the Chairman and serves as an intermediary for the other Directors, where necessary.

Executive Directors
The Executive Directors are responsible for the day-to-day management of the Group’s businesses, implementation of its strategy, policies and budgets and its financial performance. Executive management meetings comprise the Executive Directors and senior management from the divisions and are held regularly to discuss current issues. The Group Finance Director supports the Group Chief Executive in developing and implementing strategy in relation to the financial and operational performance of the Group.
Company Secretary
The Board has access to the advice and services of the Company Secretary, Joy Baldry, who is a fellow of the Institute of Chartered Secretaries and Administrators. The Company Secretary supports the Chairman in the delivery of the corporate governance framework and is responsible for advising the Board, through the Chairman, on all governance matters, including the planning of agendas for the annual cycle of Board and Committee meetings so that all key issues are considered at the appropriate times. Every effort is made to ensure that information reported to the Board is of high quality in terms of accuracy, quality, appropriateness, comprehensiveness and currency. Directors are able to seek clarification or amplification from management where necessary. The Company Secretary also facilitates the induction process and assists with professional development for Directors as required. The Company Secretary acts as Secretary to the Board and each of its Committees. The appointment or removal of the Company Secretary is a matter for the Board as a whole. As well as the support of the Company Secretary, there is a procedure in place for any Director to take independent professional advice where considered necessary.

Independence
The Board considers all of the Non-Executive Directors to be independent other than Jorge Cosmen. Sir John Armitt was considered to be independent prior to his appointment as Chairman.

Jorge Cosmen is not considered to be independent by the Board due to his close links with the ALSA business and significant interests in the shares of the Company which are held through European Express Enterprises Ltd. Despite his non-independence, the Board feels that it benefits greatly from Jorge Cosmen’s extensive local market knowledge and experience.

Non-Executive Directors do not participate in any of the Company’s share option or bonus schemes and their service is non-pensionable.

Time commitment
It is in the Board’s interest to ensure that all Directors have sufficient time to commit to their responsibilities as Directors. The Chairman monitors the extent of Directors’ other interests to ensure that the effectiveness of the individual and the Board is not being compromised.

In respect of the appointment of new Non-Executive Directors to the Board, candidates are made aware of the time commitment expected of them which is reflected in their individual letters of appointment with the Company. The Board considers that all the Directors are currently able to devote sufficient time and attention to their duties and responsibilities to the Company.

As part of their continuing development, and recognising the significant benefits to be derived to both the Company and the individual, Executive Directors are permitted to accept one external non-executive directorship with a non-competing company provided they first obtain Board approval. Until 31 May 2016, Dean Finch held an external directorship of the Royal Free London NHS Foundation Trust. Matthew Ashley does not currently hold any external directorships.

Induction of new Directors
The Chairman ensures that new Directors receive a tailored and comprehensive induction programme to introduce them. On appointment, Directors are offered training as appropriate and are thereafter encouraged to keep abreast of matters affecting their duties as a Director and to attend training courses relevant to their role.

An induction process is in place for new Directors, the aim of which is to:

- build an understanding of the nature of the Group, its businesses and the markets in which it operates;
- establish a link with the Group’s employees; and
- build an understanding of the Group’s main relationships including stakeholders and customers.

The following information is provided as part of the induction and ongoing training and development of Board Directors.

On appointment
- Governance information in relation to the Group, including the terms of reference of the Board and its Committees
- Guidance for Directors of British public companies generally, including under the law, the Code and the rules of the UK Listing Authority
- Board minutes covering the previous year
- Information on key Group policies

Following appointment
- Business briefing meetings with the Chairman, the Group Chief Executive and the Group Finance Director
- Meeting with the Company Secretary to discuss the Group structure, the Company’s constitution and Board procedures and terms of reference of the Board and its Committees
- Meetings with senior management in the business divisions
- Meeting with the Director of Safety for an overview of the Group’s health and safety policy and safety record
- Meeting with the Group’s auditor and remuneration consultants
Non-Executive Director engagement

As part of our annual Board calendar planning process, at least two Board meetings per year are held at locations where we have a local presence. In 2016, Board meetings were held in Cologne, Germany and Toronto, Canada. Such meetings provide an important opportunity for the Board to visit our operations first-hand and to engage both formally and informally with local management and front-line staff.

From Cologne, the Non-Executive Directors undertook a return trip to Wuppertal on the RB48 regional stopping service forming part of the Rhine-Münster Express line which our German Rail division launched in December 2015. The Directors were impressed with the quality and safety features of our new National Express livered trains. They also took the opportunity to engage directly with the train staff to understand local operational issues and challenges.

Ashley Steel’s induction process

In January 2016, Dr Ashley Steel joined our Board as an independent Non-Executive Director, bringing with her knowledge across a range of sectors, particularly in transport. Ashley’s induction programme included visits to a number of our national offices and operational locations, including Bahrain, North America and Morocco. Here are her first-hand impressions:

“Being able to see the operations in action really brings home how Driving Out Harm is far more than just words. Seeing our extensive safety checks being carried out day in, day out, brought home how important we take the safety of the people we carry.

“In Bahrain, I was able to witness first-hand what it means to take an existing city bus network and, in a short timeframe, reinvent it from the bottom up. This included recruiting and training over 700 new drivers from abroad. I was deeply impressed with what the National Express international team had achieved. The operation stands out as a model for other cities and countries to mirror.”
Similarly, in Toronto, where we have both a School Bus operation serving schools in the Greater Toronto Area and a Transit business, the Board took the opportunity to visit several Customer Service Centres where Directors spent time talking with drivers, maintenance technicians and local management to gain a flavour of their local business.

Also during the year, several of our Non-Executive Directors took individual trips to our ALSA, UK Bus and Bahrain Bus businesses in order to deepen their knowledge of the Group’s operations. Attendance by Non-Executive Directors at our Group Values Awards held in London each year and at our NX Network events for our graduate intake is also much appreciated by our employees and provides an excellent opportunity for a mutual exchange of views. In particular, for our pool of high potential talent, such engagement can be a source of inspiration. Colleagues from management also regularly attend and present at Board meetings, enabling Non-Executive Directors to meet senior management across the businesses and to understand the challenges they face.

Overall, getting out and about in the business and engaging with colleagues outside the confines of the Board room has given our Non-Executive Directors a useful cultural insight into how our business operates which, in turn, informs effective Board discussions.

“Being able to see the operations in action really brings home how Driving Out Harm is far more than just words.”
Board’s, Committees’, and Chairman’s performance evaluations
An evaluation of the effectiveness of the Board and its Committees is conducted annually in accordance with the following cycle:

### Board and Committee review cycle

<table>
<thead>
<tr>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>– External Evaluation by independent consultants</td>
<td>– Internal Evaluation focused on Year 1 issues raised and any specific new issues arising (questionnaire based)</td>
<td>– Internal Progress review generally (questionnaire based) with follow-up interviews with the Chairman</td>
</tr>
</tbody>
</table>

### Progress against 2015 internal board evaluation recommendations

<table>
<thead>
<tr>
<th>Area for focus during 2016</th>
<th>Progress made</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender diversity</td>
<td>Female representation on the Board currently stands at 18% following the appointment of Dr Ashley Steel as an additional Non-Executive Director in January 2016. The Board will take every opportunity, when available, to increase the gender diversity of the Board further.</td>
</tr>
<tr>
<td>Executive pipeline, succession planning and talent</td>
<td>As part of the Group’s Vision, a talent strategy with a step plan and timetable for deliverables is in place to meet future business demands and increase internationalisation. The talent assessment, development and succession planning processes already in place in each division have been enhanced to give better cross divisional view and support development of high potentials.</td>
</tr>
<tr>
<td>More external viewpoints to be heard</td>
<td>Further opportunities have been created for external presentations to be made to the Board on relevant topics. This will remain an area of focus going into 2017.</td>
</tr>
<tr>
<td>Educational/development opportunities for Directors to be provided</td>
<td>Non-Executive Directors continue to be provided with the opportunity to visit our operations across the Group. Greater focus on key areas of relevant education and development for Directors will continue to be addressed during 2017.</td>
</tr>
</tbody>
</table>
2016 internal Board evaluation
This year was the third in the Group’s three-year performance evaluation cycle. The overall aim was to focus on those areas identified for development resulting from last year’s internal Board evaluation through assessing current performance, progress made and opportunities for improvement. These were captured by completion of surveys for the Board and each Committee comprising a number of open questions on the workings and effectiveness of the Board and its Committees. The outcome of the internal evaluation was fed back to the Board at its meeting in November and a series of actions agreed. Lee Sander, the Senior Independent Director, led the evaluation of the Chairman with participation by both Non-Executive and Executive Directors.

The Board concluded that, overall, the outcome of the 2016 internal Board evaluation was very positive in respect of the Board’s, Committees’ and Chairman’s performance. It was agreed that the workings of the Board and its Committees remained effective and they continued to operate to a high level. The key strengths and the principal areas identified for further development and focus in 2017 are set out below. The outcomes arising from this year’s internal evaluation process will be further reported in next year’s Annual Report.

The review of the performance of the Chairman, led by the Senior Independent Director, concluded that the Chairman continued to operate to a high level, having a good understanding of the varying interests of shareholders and representing a strong and credible external face for the Company.

<table>
<thead>
<tr>
<th>Key strengths</th>
<th>Principal areas of focus for 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>It was felt that, overall, the Board is well balanced and works well together. There is a broad range of experience and diversity across different geographies and in key business priority areas such as transport and digital – therefore, good breadth as well as depth.</td>
<td>More external viewpoints to be heard.</td>
</tr>
<tr>
<td>Directors were in agreement that Board meetings are conducted in an open manner that invites active and direct participation.</td>
<td>More educational/development opportunities for Directors to be provided.</td>
</tr>
<tr>
<td>Overall, there was agreement that the quality of the materials provided by management to Board meetings is very good. Once again, the strategy papers were singled out as being excellent.</td>
<td>Audit Committee meetings to be extended by 30 minutes to allow for greater in-depth discussion on certain topics.</td>
</tr>
<tr>
<td>There is good leadership on the Safety &amp; Environment, Audit and Remuneration Committees.</td>
<td>The Nomination Committee to continue to keep under review the leadership needs of the Company, giving full consideration to succession planning for Directors and other senior Executives.</td>
</tr>
<tr>
<td>There is very good engagement by the Senior Independent Director, who takes his responsibilities seriously and engages appropriately and frequently.</td>
<td>Continued focus on cyber security issues and initiatives</td>
</tr>
</tbody>
</table>

Re-election of Directors
In accordance with the Company’s Articles of Association, and the Code, all Directors of the Company will offer themselves for either election or re-election at this year’s AGM. Non-Executive Directors are appointed for specific terms, subject to re-election. Non-Executive Directors will only be put forward for re-election if, following performance evaluation, the Board believes the Director’s performance continues to be effective and demonstrates commitment to the role.
Dear fellow Shareholder

I am pleased to present the Nomination Committee report for 2016. This report provides a summary of the Committee’s activities during the year. I will be available to answer any questions about the Committee and its activities at the AGM on 10 May 2017.

Membership
The membership of the Committee during the year ended 31 December 2016 is set out below. Three meetings were held during the year with attendance by members shown on page 62.

Sir John Armitt CBE (Chairman)
Lee Sander
Jorge Cosmen
Joaquin Ayuso
Chris Muntyler
Jane Kingston (appointed 26 July 2016)

The Company Secretary acts as Secretary to the Committee and attends all meetings. At the invitation of the Committee Chairman, any other Director, the Group Human Resources Director and external advisers may attend meetings of the Committee.

Full minutes are kept by the Secretary of the matters considered and decisions taken by the Committee.

Role and responsibilities
The primary role of the Nomination Committee is to ensure that the Board is appropriately structured and has in place the correct balance of individuals to discharge its duties effectively, and to lead the process by which new Board members are appointed. It also advises the Board on succession planning for Directors.

The Committee’s terms of reference are reviewed annually and are available on the Company’s website, www.nationalexpressgroup.com.

The Committee’s main duties and responsibilities in advising the Board are summarised below:

• Responsibility for identifying and nominating, for the approval of the Board, candidates to fill Board vacancies as and when they arise
• Giving full consideration to succession planning, and keeping under review the leadership needs of the organisation, both Executive and Non-Executive
• Reviewing the time required from and spent by a Non-Executive Director in fulfilling his or her duties
• Preparing a description of the role and requirements for any particular appointment based on its evaluation of the Board as a whole
Activities during 2016

A summary of the Committee’s principal activities in 2016 is as follows:

Review of Board Composition

At its February meeting, the Committee undertook a review of the composition of the Board and its Committees to ensure continued effectiveness. The Committee evaluated the balance of skills, knowledge, experience, diversity and independence of Directors to ensure that, as the Group continues to evolve, the Board is able to deliver the Group’s strategy whilst fulfilling its duties to shareholders and to the wider stakeholder community.

Members of the Board have many years of experience gained through their senior management roles within various companies across the world. The table opposite indicates certain of the areas of particular expertise of Board members. Directors’ biographies can be found on pages 64 and 65.

Advisers

During the year, the Committee worked with search consultants, Odgers Berndtson (‘Odgers’), to identify candidates for the role of Group Finance Director to replace Matthew Ashley, who will be moving to become President and Chief Executive Officer of our North America division from September. Odgers does not have any other connections with the Company.

Board tenure

- **0-2 years**: 1 female, 2 male
- **2-4 years**: 1 female, 1 male
- **4-6 years**: 4 male
- **6-9 years**: 1 male
- **9+ years**: 1 male

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### Board experience

- 91% Finance: 1 female, 9 male
- 100% Operational: 2 female, 9 male
- 100% International: 2 female, 9 male
- 82% Transport: 1 female, 8 male
- 91% Public board: 1 female, 9 male
- 82% Government/regulatory: 1 female, 8 male
- 73% Remuneration: 1 female, 7 male
- 9% Digital marketing: 1 male
- 18% Information technology: 2 male

### Board composition

- 18% Executive: 2 male
- 82% Non-Executive: 2 female, 7 male
- 73% Male: 8 male
- 18% Female: 2 female
Tenure and independence

The independence of Non-Executive Directors and the re-election of Directors and their suitability to continue in office were reviewed at the Committee’s February meeting. With the exception of Jorge Cosmen and Sir John Armitt, Chairman, who was independent upon appointment, all other Non-Executive Directors are considered to be independent. Jorge Cosmen is not considered to be independent due to his close links with the ALSA business and the significant interests in the shares of the Company, held through European Express Enterprises Ltd. Despite his non-independence, the Board feels that it benefits greatly from his extensive local market knowledge and experience. When assessing independence, the Committee was mindful of the Code requirement that any term beyond six years for a Non-Executive Director should be subject to particularly rigorous review. As at 31 December 2016, no independent Non-Executive Director had reached his or her six-year term. Lee Sander, Chris Muntwyler and Joaquín Ayuso will each reach their six-year term during 2017 and their respective independence will be subject to review during the course of the year. In addition to the Code requirement, the Committee also considered any circumstances and disclosable relationships and potential conflicts that would influence Non-Executive Directors’ judgement and affect their independence. The Committee is satisfied that, throughout the year, other than as disclosed in respect of Jorge Cosmen, Non-Executive Directors remained independent.

Succession planning

The Board as a whole, through the leadership of the Nomination Committee, recognises its role in ensuring that a strong pipeline of future senior management has been identified from which future Board appointments can be made. Equally important, talent needs to be recognised and nurtured at executive and management levels. Resulting from the 2016 Board strategy review, talent assessment, development and succession processes across the Group have been enhanced to give better cross divisional view and support of high potential talent. The Committee, as part of its more proactive role and revised enhanced duties (which were determined this year at its July meeting), continued to provide leadership and oversight in this key area during the year.

Appointment of new Group Finance Director

The Committee oversaw the process for the search for a new Group Finance Director to replace Matthew Ashley, who will be taking up the role of President and Chief Executive Officer for National Express North America from September 2017. The Company engaged Odgers, which is a signatory to the Executive Search Voluntary Code of Conduct, to assist the Committee in the search. From the long list of potential candidates produced by Odgers, a shortlist was identified to meet face to face with the Chairman, Group Chief Executive, Audit Committee Chairman and certain other Non-Executive Directors. The Committee subsequently discussed the results of these interviews and recommended to the Board that Chris Davies be appointed as Group Finance Director. Following this recommendation, the Board appointed Chris as Group Finance Director and he will take up this role on 10 May 2017.

Non-Executive Director induction

During 2016, the Chairman oversaw Dr Ashley Steel’s induction. This took to the form of a full and tailored induction programme which included site visits, meetings with senior management and briefings from the Company Secretary and the Company’s advisers. The Committee also reviewed the continued education and development process for existing Non-Executive Directors. Various informative and valuable site visits were undertaken across our businesses by the Senior Independent Director and Chairs of the Safety & Environment, Audit and Remuneration Committees.

Diversity

The Board takes the view that an increasing diversity at Board level is acknowledged as an essential element in maintaining a competitive advantage. A truly diverse Board will include and make good use of differences in the skills, regional and industry knowledge/experience, background, race, gender, independence and other qualities of Directors. These differences will be considered in determining the optimum composition of the Board and will continue to be balanced appropriately. All Board appointments are made on merit, in the context of the skills and experience that the Board as a whole requires in order to maintain and enhance its effectiveness.

Female representation on the Board is currently 18% and we are mindful of the recommendations of the ‘Women on Board’ Davies Review, published in October 2015 and the voluntary target of 33% for female Board representation to be achieved over the next five years. The Board will take every opportunity, when available, to increase the gender diversity of our Board further.

Committee evaluation

As part of the 2016 internal Board performance evaluation, it was confirmed that the Committee was overall effective and efficient in its operation and leadership. Areas identified for improvement concerned the continued focus to keep under review the Company’s leadership needs, giving full consideration to succession planning for Directors and senior executives. Details of the Board and Committee performance evaluation process are provided within the main Corporate Governance Report on pages 70 and 71.

Sir John Armitt CBE
Chairman
23 February 2017
Accountability

Internal control statement
The Board’s responsibilities
The Board has overall responsibility for the Group’s system of internal control and for reviewing its effectiveness. The Board maintains full control and direction over appropriate strategic, financial, operational and compliance issues and has put in place an organisational structure with formally defined lines of responsibility, delegated authorities and clear operating processes. The systems that the Board has established are designed to safeguard both the shareholders’ investment and the assets of the Group, and are described as follows:

Key elements of the control framework
Financial reporting process – Management and specialists within the Finance Department are responsible for ensuring the appropriate maintenance of financial records and processes to ensure that all information is relevant, reliable and in accordance with the applicable laws and regulations, and distributed both internally and externally in a timely manner. A review of the consolidation and financial statements is completed by management to ensure that the financial position and results of the Group are appropriately reflected. All financial information published by the Group is subject to the approval of the Audit Committee and Disclosure Committee, where appropriate.

Performance management – The performance of each division and operating company against its plan is closely monitored by a formal monthly reporting process and by the attendance of the relevant Executive Directors at monthly divisional Executive meetings.

Annual fitness check process – Group internal audit undertakes an annual review at each operating company to assess the integrity of the Balance Sheet and to check the effective operation of key financial reporting and information systems controls. The results of the reviews are presented to both divisional and Group finance with any required actions agreed with the relevant divisional Finance Director.

Strategic and financial planning – An annual budgeting and strategic planning process has been established whereby each division and constituent operating company assesses its competitive position and goals, taking account of the strategic risks faced. This strategy is translated into a financial plan with clear milestones and performance indicators.

Capital investment – A clear process is in place for the approval of capital expenditure, which includes detailed appraisal of the benefits of the proposed investment and any associated key risks. Material capital expenditure requires Board approval.

Health and safety – Health and safety standards and benchmarks have been established in all of our businesses and the performance of operating companies in meeting these standards is closely monitored.

Risk management reporting process – Each division and operating company evaluates its internal control environment and key risks, and the results are reviewed at management level and passed to the Audit Committee before being presented to the Board. This process is reviewed on a regular basis to ensure the validity and relevance of the key risks included in reports. The review covers strategic, financial, compliance and risk management controls. These procedures are mandated and designed to manage the risk in order to ensure that the operations achieve their business objectives.

Internal audit – The internal control system is independently monitored and supported by a Group internal audit function. The Group internal audit function reports to management and the Audit Committee on the Group’s financial and operational controls, and monitors and reviews the extent to which its recommendations have been implemented.

Board-level reporting on internal control
During the year the Audit Committee reviews regular reports from the Group internal audit function, the external auditor and Group Executive management on matters relating to internal control, financial reporting and risk management. The Audit Committee provides the Board with an independent assessment of the Group’s financial position, accounting affairs and control systems. In addition, the Board receives regular reports on how specific risks that are assessed as material to the Group are being managed.

Review of internal control effectiveness
The system of internal control and risk management, described above, has been in place for the year under review and up to the date of approval of this Annual Report and Accounts. Such a system is designed to manage, rather than to eliminate, the risks inherent in achieving the Group’s business objectives, and can therefore provide only reasonable and not absolute assurance against material misstatement or loss. The effectiveness of this system has been regularly reviewed by the Directors in line with the Guidance on Audit Committees, published by the Financial Reporting Council in April 2016. Where significant control failings or weaknesses have been identified, appropriate corrective action has been taken.

Going concern and longer-term viability
The Directors’ going concern and longer-term viability statements, as required to be made under the Code for the year ended 31 December 2016, are set out on page 45 of the Group Finance Director’s review.
Dear fellow Shareholder

As Chairman of the Audit Committee, I am pleased to introduce this report which sets out how the Audit Committee (the ‘Committee’) has discharged its responsibilities during the year.

Following the changes in the Committee’s composition last year, we have enjoyed a stable membership throughout the period to address the subjects on our agenda. We were pleased to welcome Stephen Griggs from Deloitte as our new statutory auditor and would like to thank Nigel Mercer for his work in that role over the previous five years.

The Committee continues to play a key oversight role for the Board and its focus remains on assuring the maintenance, integrity and quality of our financial reporting and controls. We do this in conjunction with management, internal and external audit and by addressing any subjects that are of interest to the Committee. We continually seek to challenge ourselves to ensure our work addresses the key areas of significance to the Group.

Over the year, we addressed several new subjects as well as reviewing more established areas through a different lens. We met a number of senior managers who were leading these matters. The new Group Risk Director presented his updated assessment of Group risk to the July Committee with a fresh set of eyes. He brings new insights from his experience of risk management in other parts of the transport industry, especially in the area of insurance management in North America, and we look forward to working with him over the coming years. During the year, we deepened our attention on cyber security, which had been identified as a risk in 2015. We received an assessment carried out by external consultants of our current position along with a management prepared detailed programme of work to address any gaps over the coming months and year. This will be an ongoing area of review by the Committee overseen by management’s Cyber Security Committee, chaired by the Group Finance Director and led by the Group Chief Information Officer. The impact of Brexit on the Group’s operations was also introduced into the Group Risk process and the Committee will look to support the whole Board in assessing the implications of this evolving subject which is covered in more detail on page 36.

We were pleased to see the new Head of Group Internal Audit presenting a modified and insightful approach into how he plans the annual audit programme which will provide a better linkage of identified risk, prior audit outcomes and other external factors into the programme. We approved the new approach and look forward to seeing the benefits of this going forward.

During the year, with the support of the Group Tax Director and Group Finance Director, we took a first look at how we will address the new requirement to publish a UK Tax Strategy by December 2017.
As always, we look at future evolving trends and what publications and recommendations are being made by the UK Financial Reporting Council ("FRC"). The new lease accounting standard (IFRS 16), to be introduced from 1 January 2019, was reviewed and it is clear that this will demand a lot of work from our financial management teams to prepare for this. A further action for management and the Committee in 2017 will be to address how we make the presentation of the annual accounts under this new standard accessible to readers; while this has the potential to change considerably how the accounts will look, the underlying economic substance will be unchanged.

The FRC’s publications and views were reviewed by the Committee over the year and this Annual Report and Accounts incorporates changes where applicable. We also noted the likely changes for 2017 and will work on these during the course of this next year.

Finally, we have, as laid out in the detail below and elsewhere, addressed and challenged the key accounting and other judgements presented by management through the year and in the preparation of the Annual Report and Accounts. As a consequence, and as supported by the continued high standard of reporting by management, both I and the Committee believe this allows us to conclude that we have discharged our duties and responsibilities effectively. As a consequence, and as supported by the continued high standard of reporting by management, both I and the Committee believe this allows us to conclude that we have discharged our duties and responsibilities effectively. On behalf of the Committee I thank them for their consideration and application during the year. I commend my review and this report to your attention.

Membership
The membership of the Committee during the year ended 31 December 2016 is set out below. All members are independent Non-Executive Directors. Attendance at meetings held during the year is shown on page 62.

Mike McKeon (Chairman)
Lee Sander
Chris Muntwyler
Dr Ashley Steel

The Company Secretary acts as Secretary to the Committee and attends all meetings as does the Head of Group Internal Audit, who reports to the Committee on internal audit activities. In addition, the Board Chairman, Group Chief Executive, Group Finance Director, Group Financial Controller and representatives from our external auditor along with other Group managers attend by invitation.

Qualifications of Audit Committee members
As a Chartered Accountant and former Group Finance Director of Severn Trent plc (2005 to 2015), I am considered by the Board to meet the requirements of the Code that at least one Committee member has recent and relevant financial experience. To address the new Code provision C3.1 that the Audit Committee, as a whole, is required to have competence relative to the sector in which the company operates, all other members are considered to bring specific depth of industry experience to the Committee. Their biographies can be found on pages 64 and 65.

Role and responsibilities
The primary role of the Committee is to assist the Board in fulfilling its oversight responsibilities with regard to financial reporting, risk management and internal control procedures, and the work of its internal audit function and external auditor. The Committee’s terms of reference are reviewed annually and are available on the Company’s website, www.nationalexpressgroup.com.

The Committee’s main duties and responsibilities in advising the Board include the following:

- Reviewing the half year and annual financial statements including accounting policies, key accounting and auditing issues, significant financial judgements and the financial control environment
- Overseeing the process for selecting the external auditor, assessing the continuing independence of the external auditor and approving the audit fee
- Responsibility for ensuring that provision of non-audit services does not impair the external auditor’s independence or objectivity
- Liaising with the external auditor on matters relating to the nature and scope of the audit and any issues or concerns arising from the audit process
- reviewing the effectiveness of the Company’s internal control and risk management systems, including fraud prevention and operation of the Company’s whistleblowing policy
- supervising the planning of activities under the internal audit programme and reviewing the major findings identified from internal audit investigations

Meetings
Three Committee meetings were held in 2016. Outside of the meeting process, the Committee Chairman has regular contact with the Executive Directors, other Committee members and the internal and external auditors on a variety of topics. The Committee itself meets with both the Head of Group Internal Audit and the external auditor at least once a year without the Executive Directors being present.

Full minutes are kept by the Secretary of the matters considered and decisions taken by the Committee.

As Committee Chairman, I am available to meet investors to ensure that shareholder interests are properly protected in relation to matters pertaining to the Committee’s remit.
Audit Committee activity

The key areas of Committee activity covered during the year, and through to the date of this report, included the planning, monitoring, reviewing and approval of the following:

Financial reporting
- Quality and appropriateness of the half year and annual Financial Statements (including accounting policies, key areas of financial judgement and associated reports from the external auditor regarding its audit findings); after review we concluded they were acceptable and recommended their approval to the Board as a whole
- Assessment and management of significant risks for the Group for the 2016 financial year
- The information, underlying assumptions and stress test analysis presented in support of the going concern statement. Full details of the process and outcomes from the Committee’s work can be found on page 45
- Consistency and appropriateness of the financial control environment – we concluded this was acceptable throughout the year
- The extent to which the Annual Report is fair, balanced and understandable – we concluded this was the case

Viability statement
- The Committee considered the Group’s future viability and considered the following points before recommending to the Board the statement on viability included on page 45:
  - An assessment of the prospects of the Group, taking into account the Group’s current position, opportunities, strategic plans and risk appetite
  - The future period over which it is appropriate for the Group to assess its viability
  - Identification of risks which have the potential to affect the Group’s strategic plans over the outlook period, including those principal risks and uncertainties described in the Strategic Report and others which could impact the Board’s assessment of the Group’s viability
  - Quantification of the risks identified in the context of the Group’s internal control framework and of potential mitigating actions, and the ability of the Group to withstand severe but plausible downside scenarios
  - Any qualifications necessary to inform or support the reader’s understanding of the viability statement

External audit
- The Committee, where appropriate, engaged on the following matters supported by the Deloitte external audit team led for the first time by Stephen Griggs:
  - Scope of the 2016 external audit plan and fees
  - Consideration of the conclusions of the external auditor on key risks and areas of judgement
  - Review of the effectiveness of the external audit process and assessment of the performance, continued independence and recommendation to the Board of the re-appointment of the external auditor
  - External audit tendering policy
  - Level of fees paid to the external auditor for non-audit services
  - Revision to the policy on engaging the external auditor to supply non-audit services, updated to reflect the FRC’s Revised Ethical Standard 2016 and other related corporate governance guidance on the prohibition of tax work by a company’s external auditor

Risk management and internal control
- The Committee welcomed the new Group Risk Manager and with his support and the support of other senior Group managers, reviewed the following matters:
  - Scope of the internal control and risk management programme
  - Adequacy and effectiveness of the Group’s internal control and risk management systems
  - Twice-yearly detailed review of the Group’s risk register, including significant and emerging risks
  - Review of the Group’s IT risk strategy and disaster recovery plan
  - Twice-yearly review of the Group’s Cyber Security Committee’s programme to assess, prioritise and monitor significant cyber security threats facing the Group and to monitor progress on plans for their management and mitigation. The Chairman of the Cyber Security Committee formally reports to the Audit Committee, both periodically and upon request
  - Review of reports on fraud and whistleblowing

Internal audit
- The Head of Group Internal Audit engaged with the Committee on the following matters:
  - Scope of the internal audit plans for 2016 and 2017
  - The results of internal audit reviews and the progress made against agreed management actions
  - The results of internal audit compliance testing of financial controls (Annual Fitness Checks) within the subsidiaries
  - Effectiveness of the Group’s internal audit function including feedback from divisional Managing Directors
  - Review of annual independence compliance statement

Tax and treasury
- As part of the Committee’s annual processes we addressed the following matters:
  - Review of the Group’s treasury policy, including consideration of the key treasury risks facing the Group (foreign currency, interest rate, fuel price and counterparty risk) and the approach taken on their management
  - Review of the annual update of the Group’s tax affairs
  - Preliminary review of the Group’s Tax Strategy required to be published on the Company’s website in 2017

Other matters considered included:
- Review of corporate governance and legal and regulatory compliance;
- Review of the annual rolling agenda of items for consideration by the Committee to ensure that all matters are covered in accordance with the terms of reference and in the correct order;
- Review, update and recommendation to the Board for approval of the Committee’s terms of reference;
- Internal review of the effectiveness of the Committee, concluding that it continued to operate effectively; and
- Review and approval of the Committee’s report for inclusion in this Annual Report.
Financial reporting and significant financial judgements for 2016

Goodwill impairment
As it is required to do annually, the Committee considered whether the carrying value of goodwill and intangible assets held by the Group should be impaired. The judgements largely related to the assumptions applied in calculating the value in use of the Spanish Coach and Bus and the North American School Bus businesses. When testing for impairment, the key considerations were the underlying cash flows (which were taken from the Board approved Group three year plan), the discount rates and the future growth rates. The Committee received a detailed report on the outcome of the impairment reviews performed by management and took into account the views of the external auditor emanating from their review. The Committee concluded that the goodwill and intangible assets of the Spanish Coach and Bus and the North American School Bus businesses were not impaired and it approved the disclosures included in the 2016 Financial Statements.

Insurance and other claims
With the support of the new Group Risk Director, who looked at this area from a fresh perspective, the Committee considered the adequacy of the provisions associated with insurance and other claims risks particularly in North America. The assessment focused on the advice received from a third party actuary in connection with the Group’s exposure to auto and general liability and workers’ compensation insurance claims. Consideration was also given to the most likely outcome, and associated financial effect, of other claims and exposures facing the Group. The Committee received a report from management on North American insurance and other claims and considered the views of the external auditor. The Committee concluded that the insurance and other claims provision is fairly stated.

Pensions
The Committee considered the key assumptions underpinning the Group’s defined benefit pension obligations. Management use third party advisers to produce reports which were considered by the Committee, together with the views of the external auditor. The Committee concluded that the pension assumptions were reasonable and the net pension liability fairly stated.

Taxation
The Committee considered the adequacy and sufficiency of the disclosure of the Group’s tax affairs in the Annual Report and the appropriateness of the accounting treatments adopted to reflect the Group’s tax charge, assets and provisions in accordance with International Financial Reporting Standards. Tax legislation across the markets in which the Group operates is complex, and sometimes management and the relevant tax authorities differ in the interpretation and application of tax law, which can lead to uncertainties in the estimation of provisions and recognition of deferred tax balances. On complex issues, management may seek external tax advice to ascertain whether provisions should be made. Where tax exposures can be quantified and meet the criteria for recognition, best estimates are made and provisions recognised. These estimates are based on the judgement of senior management in the light of the facts and available information, and are reviewed by the Committee. The Committee also reviewed reports from the external auditor on the fair value of the Group’s financial derivatives following continued changes in market value. Following consideration, the Committee is satisfied that the policies relating to financial derivatives are appropriate and that they are fairly stated.

Fuel hedge accounting
The Committee considered the accounting for the Group’s financial derivatives and the associated tests for hedge accounting. The Committee received reports from management and the external auditor on the fair value of the Group’s financial derivatives and support for the tests for hedge effectiveness, particularly on the Group’s fuel derivatives following continued changes in market value. Following consideration, the Committee is satisfied that the policies relating to financial derivatives are appropriate and that they are fairly stated.

Sale of Essex Thameside franchise
The Committee considered the accounting and disclosure requirements regarding the sale of the National Express Essex Thameside c2c’ franchise to Trenitalia. The Committee considered management’s approach and, having taken input from the external auditor, agreed that it was appropriate.

Fair, balanced and understandable
At the request of the Board, the Committee undertook a formal review of the Annual Report process in terms of preparation, quality of content, key themes and messages, consistency of information and presentation. From the information and assurance provided by management and the review conducted by the external auditor, the Committee was able to confirm to the Board that the 2016 Annual Report, taken as a whole, is fair, balanced and understandable and provides the necessary information for shareholders to assess National Express’ performance, business model and strategy.

Risk management and internal controls
The Board as a whole, including the Committee members, considers the nature and extent of National Express’ risk management framework and the risk profile that is acceptable to achieve the Company’s strategic objectives. As a result, it is considered that the Board has fulfilled its obligations under the Code.

The Committee continues to be responsible for reviewing and monitoring the adequacy, design and effectiveness of the Group’s ongoing systems of internal control and risk management. In that regard, the Committee received reports from management and the Head of Group Internal Audit as well from the external auditor.
Further details of the internal controls are set out on page 75. A summary of the Company’s risk management framework and an overview of its principal risks are detailed on pages 34 to 37.

Internal audit
The Committee has oversight responsibilities for the internal audit function which is led by the Head of Group Internal Audit.

The purpose of the internal audit function is to provide an independent, objective assessment of the effectiveness of internal controls, risk management and governance processes throughout the Group. The function adds value by:

- contributing to the continuous improvement of internal control and related processes, including identifying and sharing good practice across the Group;
- addressing the safeguarding of assets, compliance with applicable laws and regulations and achievement of management’s operational objectives;
- promoting business processes that deliver effective internal control at reasonable cost; and
- providing alignment with the Group’s risk management process.

An Internal Audit Charter sets out the responsibilities of both the internal audit function in terms of its focus, programme of activity, scope of investigations and reporting lines and management in terms of it providing support and co-operation at all levels of the business.

During 2016, a carefully targeted internal audit plan was agreed and undertaken on certain of the Group’s operations, systems and support functions with subsequent reports, including management responses and recommended actions plans, considered by the Audit Committee in February, July and November. The Committee also reviewed and agreed a modified and insightful approach by the Head of Group Internal Audit to the planning of their interventions in 2017.

Internal auditor effectiveness
The Committee is required by the Code and its own terms of reference to monitor and review the effectiveness of the Group’s internal audit function. The Committee fulfils this requirement principally through the review of the annual internal audit programme and allocated internal audit resource, consideration of the major findings identified from completed internal audit work and feedback from executive management. To supplement this approach, feedback on the effectiveness of the internal audit function was also sought through post-audit questionnaires and feedback from management across all our divisions. The questionnaire scored the internal audit team against a set of criteria and captured any specific comments or observations that management wished to make. Overall, for 2016 the Committee concluded that the Group’s internal audit function continued to be effective in the role it undertakes, with areas scoring relatively highly being around audit planning and the completion of audit fieldwork. Areas identified for further focus were timeliness of reporting, in respect of both issue of draft reports and agreement of appropriate management responses. Internal audit will also be looking to add more value through increased focus on sharing good practices across the Group businesses.

Anti-bribery policy
A Group anti-bribery policy has been established and issued to all Group companies and is also available on the Company’s website, www.nationalexpressgroup.com. The policy prohibits any inducement which results in a personal gain or advantage to the recipient or any person or body associated with them, and which is intended to influence them to take action which may not be solely in the interests of the Group or of the person or body employing them or which they represent.

The prevention, detection and reporting of bribery is the responsibility of all employees throughout the Group. Employees can report confidentially any suspicion of bribery via an externally facilitated whistleblower helpline. During the year, a refresh and reminder programme on the Group’s anti-bribery policy, comprising an e-training module, was implemented.

Whistleblowing policy
“Whistleblowing” policies are in place in each of the Group’s businesses and are also available on the Company’s website, www.nationalexpressgroup.com. The Board supports the highest standards of corporate governance and ethical practices within all its operations and continues to review its policies on an ongoing basis. The Board has endorsed a set of principles which establish the framework for how its businesses operate. Key to these is working in an open and honest manner. The Group is committed to the highest standards of quality, honesty, openness and accountability.

Employees are encouraged to raise genuine concerns under the policy by either contacting their line manager or telephoning a dedicated external helpline. Any concerns raised are investigated carefully and thoroughly to assess what action, if any, should be taken and confidential records are maintained.

External audit
The external auditor is engaged to express an opinion on the Company’s Financial Statements. The audit includes the review and testing of the systems of internal financial control and the data contained in the Financial Statements to the extent necessary to express an audit opinion on the truth and fairness of the Financial Statements.

External audit lead partner
The current external audit engagement partner is Stephen Griggs, Head of Audit and Risk Advisory for Deloitte in the UK. Stephen took up his duties from 1 January 2016 following the mandatory rotation of Nigel Mercer after his five years of engagement.

External audit tendering policy
The Committee confirms its compliance for the financial year ending 31 December 2016 with the provisions of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014. The Company last put its external audit contract out to tender in 2011, following which Deloitte LLP replaced Ernst & Young LLP and was appointed as the Group’s auditor. The Committee regularly considers the marketplace, benchmarking the current level of audit services that the Company receives along with the fees it pays and the value being delivered. The Committee recognises that audit tenders and transitions to new auditors require significant resource. Under current regulations, the Company will be required to retender the audit no later than in respect of the year ending 31 December.
The Committee will assess the quality of the external audit annually and, on the basis that the quality of service remains high and the audit fee represents good value to shareholders, will tender the audit no later than for the year ending 31 December 2021.

Assessment of the effectiveness and independence of the external auditor and external audit process

The Committee assesses and reviews on a regular basis the independence and effectiveness of the external auditor. As part of its determination the Audit Committee reviewed the scope, materiality threshold and fees for the external audit plan and received and considered the external auditor’s assessment of the significant risks affecting the Group (as detailed above). The Committee also considered a report by the external auditor on the firm’s independence, which is required in order to carry out its professional duties and responsibilities as auditors.

Additionally, the effectiveness of the 2016 external audit process was formally assessed by the Committee to meet the expectations set out in provision C3.2 of the Code. This was carried out through the use of a survey and analysis approach taking into account the views and opinions of the Group Finance team and divisional Finance Directors. In so doing, the Committee’s review and qualitative assessment focused on feedback and insights, process and communication, handling of issues and quality of the team. The Committee is satisfied that the external audit process continues to be effective and provides an appropriate independent challenge to the Group’s senior management.

Having completed its assessment of both the external audit process and the external auditor for the financial period under review, the Committee is satisfied that the auditor has performed satisfactorily in 2016, that the audit process implemented was effective and that the external auditor remains independent. Based on Deloitte’s work during the year, the Committee concluded that it was satisfied with its performance and we were happy to recommend to the Board that Deloitte LLP be put forward to for re-appointment at the 2017 AGM.

Non-audit services

During the year, taking into account the Financial Reporting Council’s Revised Ethical Standard 2016, Guidance on Audit Committees and the revised 2016 UK Corporate Governance Code, the Committee approved a revised policy on the provision of non-audit services by its external auditor for the following types of service:

- Services that are considered to have ‘general pre-approval’ by the Audit Committee, by virtue of the approval of the policy
- Services that require ‘specific pre-approval’, on a case by case basis, before any work can commence
- Services that are prohibited

The services that have general pre-approval are assistance with the preparation of statutory accounts during the audit process, audit-related services, including reports that are required by law or regulation to be prepared by the external auditor, reviews of interim financial reports, regulatory returns and reports to support government grants, work on financial information or controls that are authorised by those charged with governance and where the work is integrated with the external audit and carried out under the same terms and conditions.

Non-audit services requiring specific Committee approval are those which could threaten the overriding principles of integrity, independence and objectivity because of their size and nature, or because of the nature of their terms and conditions (such as contingent fee arrangements). In the event that the required conditions are met, as detailed in the policy, the Committee will consider carefully whether it is in the Group’s interest to purchase the services from the external auditor and whether relevant safeguards put into place by the auditor are likely to be effective in practice. The approval of the Committee is sought, prior to the following types of assignment being undertaken:

- Due diligence work on possible acquisitions
- Assistance with reviewing IT systems, except as part of the external audit
- Valuation services, including valuations performed in connection with actuarial services or litigations support services

In addition to the approvals required in the policy and in accordance with the Ethical Standards, with effect from the Group’s audit for the year ended 31 December 2020, a cap of non-audit services will be set at 70% of the average of the audit fees for the preceding three-year period. The Committee will monitor all non-audit fees and ensure that in any given year non-audit services are less than 70% of the audit fee for that year.

Whilst the Revised Ethical Standard permits certain tax-related services, it is the view of the Group and the Committee that it is in the Group’s best interest that these services should not be performed by the external auditor and therefore these services are effectively on the prohibited list.

The split between audit and non-audit fees for the year ended 31 December 2016 appears in note 6 to the consolidated accounts.

FRC’s Corporate Reporting Review

It is confirmed that the Company’s Annual Report has not been reviewed by the FRC’s Corporate Reporting Review team.

Committee performance evaluation

As part of the 2016 internal Board performance evaluation as described earlier in this governance report on page 71, the Committee assessed its own effectiveness. Committee members agreed that, overall, the Committee’s performance had been effective during the year. An area for focus for the 2017 financial year would be to extend each Committee meeting by up to 30 minutes to allow for deeper discussion on certain topics.

Mike McKeon
Audit Committee Chair
23 February 2017
Dear Shareholder

We were deeply saddened by the Chattanooga accident in the North American School Bus business, the details of which have been covered earlier in this Annual Report. The Safety & Environment Committee (the ‘Committee’) was reassured by the Group Chief Executive’s prompt and engaged action taken to lead the Company’s review into the causes of, and the complexity of issues arising from, this tragic accident. The Committee is encouraged by the steps being taken and fully support Dean Finch and his management team in this matter. National Express will, of course, continue to assist in any reviews into the incident and is determined to learn any necessary lessons from this tragic accident.

Safety continues to be our highest priority across the Group with overall responsibility lying with the Group Chief Executive and our Divisional Managing Directors, who set out annual plans and priorities for improved performance. The management of the Group’s environmental impact on the communities it serves forms a key component of our Community Value. The Committee, comprised solely of Non-Executive Directors, plays a fundamental role in the oversight of safety and environmental issues and initiatives by reviewing and challenging the structure, content and operation of the safety management arrangements which have been put in place by the executive management and monitoring environmental performance and targets.

The Committee was pleased to see the extent to which management has leveraged technology during the year in support of our World Class Driver training initiative, which forms part of our strategy. All new vehicles joining the National Express network of coaches are now fitted with Lytx DriveCam, an incident alert system provided by an on-board camera. Over the next year, a programme will be rolled out to fit around half of our UK buses with this new technology, with plans in place to bring all school buses into the programme over the next three years. Under this system, incidents are triggered by different events, such as harsh braking, swerving or collisions. Footage is then sent directly to the operator for review immediately after an event has happened, allowing the operator to coach the driver on the relevant behaviours displayed, using the footage to talk through the event. The Committee recognises the value added by management’s investment in these new systems which will help us continue to improve driving standards and manage our safety programme more proactively.

The Committee continues to be supported in its safety oversight role by independent safety consultant Arthur D Little which, on an annual basis, undertakes an audit of corporate governance in line with our Global Standard: Safety Audit and Management Check. Their audit examines the role and effectiveness of the Committee, the Group-level monitoring of safety performance, the effectiveness of the safety management review and the safety management arrangements in place across all Group companies. As Committee Chairman, I am pleased to report that the
considered and decisions taken by the Committee. Full minutes are kept by the Secretary of the matters.

The Committee was also pleased to learn of several safety awards received by the Group during 2016. All three UK businesses, Coach, Bus and c2c, received the British Safety Council Sword of Honour, which recognises commitments to excellent health and safety management standards. Our achievements through our Driving Out Harm programme have also been recognised by the Prince Michael International Road Safety Awards, which reward outstanding achievements and innovation that improve road safety. Single out for notable mention relating to this award was our ALSA business in Morocco where incidents have fallen by 85% in the five years since these standards were introduced. It is heartening to know that our safety measures and arrangements are externally recognised and validated.

With respect to the management of the Company’s environmental responsibilities, I am pleased to report that, for 2016, the Group continued to have zero prosecutions, enforcement notices or violations and is fully compliant with all new environmental legislation introduced in 2015. As part of the Group’s climate change strategy, we are committed to working in partnership with our stakeholders to mitigate the impacts of climate change. The Committee has been pleased to see management’s approach to constantly striving to reduce our emissions through the use of innovative fuel efficiency technologies, carbon reduction programmes (linked to energy and water use in buildings) and the broader supply chain to address our static emissions. Investment has continued during the year in carbon efficient fleet and energy saving initiatives being delivered across the Group with enhanced employee engagement on environmental actions plans.

Membership
The membership of the Committee during the year ended 31 December 2016 is set out below. All members are Non-Executive Directors. Three meetings were held during the year with attendance by members shown on page 62.

Chris Muntwyler (Chairman)
Jorge Cosmen
Joaquin Ayuso
Matthew Crummack
Dr Ashley Steel
Sir John Armit CBE
Lee Sander
Jane Kingstone
Mike McKeon

The Company Secretary acts as Secretary to the Committee and attends all meetings. In addition, the Group Chief Executive, Group Finance Director, Group Safety Director, Group Property & Environment Director and representatives from our external safety adviser, Arthur D Little, attend by invitation.

Full minutes are kept by the Secretary of the matters considered and decisions taken by the Committee.

The Committee’s terms of reference are reviewed annually and are available on the Company’s website, www.nationalexpressgroup.com.

Role and responsibilities
The Committee’s key responsibilities are summarised below:

- Responsibility for reviewing and challenging constructively the structure, content and operation of the safety management arrangements put in place by members of the executive management
- Reporting to the Board on its observations on the safety management arrangements in place, and reviewing and making recommendations to the Board on any specific safety management issues relating to the Company or any subsidiary company
- Reviewing and monitoring the Company’s environmental performance and targets

Committee activity
The key areas of Committee activity during the year, and through to the date of this report, included the following:

- Adopted a new benchmarking approach to focus on risk management at Group and divisional level
- Approved updated KPIs to provide greater analytical insight over the next five years
- Reviewed the focus on water consumption and treatment as the business continues to expand into new territories
- Oversaw the introduction of a more tailored cost/benefit analysis carried out on environmental initiatives and actions being delivered across the Group
- Reviewed the impact of the continued investment in vehicle safety systems and on-board supporting technology to reduce the risk of accidents
- Reviewed the safety-related benefits arising from the implementation of the World Class Driver programme
- Reviewed the health and wellbeing activities being implemented across the Group

The Company’s detailed mandatory report on greenhouse gas emissions in all of its businesses during 2016 can be found on pages 28 to 31.

Committee Effectiveness
Feedback from the annual performance evaluation of the Board and its Committees, which was conducted internally this year as described earlier in this report, confirmed that the Committee continued to be effective in fulfilling its duties with no particular areas of concern identified for development.

Conclusion
The safety of our employees and customers is of critical importance to the Board, as is the responsible management of our environmental obligations. I would like to thank Dean Finch and his team for the leadership they show in these areas and, in particular, their personal engagement with safety matters across the Group over the course of the past 12 months.

Chris Muntwyler
Safety & Environment Committee Chair
23 February 2017
Relations with Shareholders

Highlights

- Roadshows following financial results
- Meetings between Chairman, Non-Executive Directors and shareholders
- Meetings with shareholders on remuneration and sustainability issues
- Investor conferences participation
- Annual General Meeting

The Board recognises the importance of maintaining good communications with the Company’s shareholders to ensure mutual understanding of the Group’s strategy, objectives, governance and performance.

During the year shareholders are kept informed of the progress of the Group through regular corporate communications: the Preliminary Results Announcement, the Annual Report and Accounts, the Half Year Results Announcement, the Notice of Annual General Meeting, Interim Management Statements and press releases regarding any other significant developments, as well as the dissemination of regulated information. Such communications are made available to the London Stock Exchange and are simultaneously available on the Company’s website, www.nationalexpressgroup.com.

The Company’s website houses a wide range of information about the Group, including the Annual Report and Accounts, press releases, share price data and links to subsidiary company websites.

From time to time the Company invites research analysts and institutional investors to presentations and site visits that are designed to provide more understanding of the strengths and capabilities of its business operations and strategy.

Shareholders can receive documentation such as the Annual Report and Accounts electronically and are also able to cast their votes by proxy electronically. The Company also has an electronic proxy appointment service for CREST members.

Investor relations programme in 2016

**February**
- 2015 Full Year results presentation (London)

**March**
- Full Year results roadshow (London and Edinburgh)

**April**
- Meetings with shareholders ahead of the AGM

**May**
- Q1 Interim Management Statement
- Conference call with analysts and investors
- Annual General Meeting (Birmingham)

**July**
- 2016 Half Year results presentation (London)

**September**
- Investor conferences (London)

**October**
- Q3 Interim Management Statement
- Conference call with analysts and investors
- £400 million bond placing with roadshow for bondholders

Institutional shareholders

The Board is committed to maintaining an open dialogue with shareholders and recognises the importance of that relationship in the governance process. A focused and proactive investor relations programme is in place. The Chairman, Group Chief Executive and Group Finance Director have held a number of meetings with existing and prospective institutional shareholders during the year and given presentations following the full year and half year results. They have also met and given presentations to research analysts and stockbrokers’ sales teams. The Company’s appointed brokers and investor relations advisers in turn have provided regular confidential feedback to the Company on the views of the major institutions.

The Chairman, Senior Independent Director and other Non-Executive Directors are also given the opportunity to meet institutional shareholders and are available by contact through the normal channels.

The Board is provided with regular updates on the views and issues raised by the Company’s investors. During the year the Board received external presentations from advisers on shareholder and market perception of the Group’s performance and strategy. Formal written responses are given to correspondence received from shareholders, as well as bilateral engagement through the Group Chief Executive, Group Finance Director and the Company’s investor relations function.
Analyst coverage
The Company is aware of 16 analysts who have published equity research notes covering National Express Group PLC during 2016. The names and contact numbers of those firms which currently follow us are shown on our website.

Private shareholders
We welcome contact from our private shareholders and are pleased to answer their queries. We encourage our shareholders to make use of our website to access Company reports, notices of meeting and general shareholder and dividend information. The website also provides a direct link to Shareview (www.shareview.co.uk), which enables shareholders to view and manage their shareholder account online.

Annual General Meeting
Notice of the Annual General Meeting and related papers are sent to shareholders at least 20 working days before the meeting. Last year’s Annual General Meeting included a presentation by the Group Chief Executive on the progress of the business and an opportunity for shareholders to ask questions. All of our Directors were available to answer questions formally during the meeting and many circulated and talked to shareholders informally afterwards.

Voting on the resolutions was conducted by poll. Some 84% of the shares in issue were voted and all the resolutions were passed. The results were published on the Group’s website shortly after the meeting.

We look forward to welcoming shareholders to our 2017 Annual General Meeting and updating them on the progress of the business this year.

Geographical breakdown as at 31 December

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of shareholders</td>
<td></td>
<td></td>
</tr>
<tr>
<td>UK</td>
<td>66.0</td>
<td>64.7</td>
</tr>
<tr>
<td>Europe</td>
<td>23.7</td>
<td>21.9</td>
</tr>
<tr>
<td>North America</td>
<td>6.4</td>
<td>8.5</td>
</tr>
<tr>
<td>Rest of world</td>
<td>3.9</td>
<td>4.8</td>
</tr>
</tbody>
</table>

Analysis of ordinary shareholdings at 20 February 2017

<table>
<thead>
<tr>
<th>By size of holding</th>
<th>Number of accounts</th>
<th>Percentage of total number of accounts</th>
<th>Number of shares</th>
<th>Percentage of ordinary capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-500</td>
<td>5,404</td>
<td>47.43</td>
<td>744,163</td>
<td>0.14</td>
</tr>
<tr>
<td>501-1,000</td>
<td>1,364</td>
<td>11.97</td>
<td>1,066,606</td>
<td>0.21</td>
</tr>
<tr>
<td>1,001-5,000</td>
<td>3,079</td>
<td>27.02</td>
<td>7,259,723</td>
<td>1.42</td>
</tr>
<tr>
<td>5,001-50,000</td>
<td>1,286</td>
<td>11.29</td>
<td>15,591,530</td>
<td>3.05</td>
</tr>
<tr>
<td>50,001-1,000,000</td>
<td>195</td>
<td>1.71</td>
<td>55,536,584</td>
<td>10.85</td>
</tr>
<tr>
<td>Over 1,000,000</td>
<td>66</td>
<td>0.58</td>
<td>431,540,042</td>
<td>84.33</td>
</tr>
<tr>
<td></td>
<td>11,394</td>
<td>100.00%</td>
<td>511,738,648</td>
<td>100.00%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>By investor type</th>
<th>Number of accounts</th>
<th>Percentage of total number of accounts</th>
<th>Number of shares</th>
<th>Percentage of ordinary capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individuals</td>
<td>10,655</td>
<td>93.52</td>
<td>21,339,738</td>
<td>4.17</td>
</tr>
<tr>
<td>Institutional investors</td>
<td>439</td>
<td>3.85</td>
<td>399,246,719</td>
<td>78.02</td>
</tr>
<tr>
<td>Other corporate investors</td>
<td>300</td>
<td>2.63</td>
<td>91,152,191</td>
<td>17.81</td>
</tr>
<tr>
<td></td>
<td>11,394</td>
<td>100.00%</td>
<td>511,738,648</td>
<td>100.00%</td>
</tr>
</tbody>
</table>
Directors’ Remuneration Report

At a glance

Introduction
In this section, we summarise the purpose of our Remuneration Policy and its linkage to our corporate strategic objectives, and we highlight the performance and remuneration outcomes for the 2016 financial year. More detail can be found in the Annual Report on Remuneration.

Our principles of remuneration
The Remuneration Policy is based on the following broad principles set by the Committee to:

- provide a competitive remuneration package to attract and retain quality individuals;
- align remuneration to drive the overall objectives of the business;
- align the interests of management with the interests of shareholders; and
- provide the foundation for overall reward and remuneration beyond the specific roles falling within the direct remit of the Remuneration Committee.

In implementing its policy, the Committee gives full consideration to the principles set out in the Code with regard to Directors’ remuneration and due regard is given to the guidance issued by investor protection bodies and institutional investors more generally.

Remuneration policy is reviewed on an ongoing basis against the Committee’s broad principles and in the light of emerging best practice in corporate governance.
Link to strategy
Our focus is to deliver sustainable growth and profitability and we seek to achieve this through the following strategic initiatives:

<table>
<thead>
<tr>
<th>Strategic initiatives</th>
<th>Measurement through the incentives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue growth</td>
<td>Short term through the profit targets in the annual bonus plan and longer term through EPS growth targeted by the Long-Term Incentive Plan (‘LTIP’).</td>
</tr>
<tr>
<td>Cost efficiency and better margins</td>
<td>Targeted through ROCE metric under the Performance Shares and indirectly through relative TSR condition attached to Performance Shares.</td>
</tr>
<tr>
<td>Operational excellence – safety, customers, people, community</td>
<td>Measured by non-financial metrics in the annual bonus plan.</td>
</tr>
<tr>
<td>Superior cash and returns</td>
<td>Measured by free cash flow metric in the annual bonus plan, and ROCE and TSR conditions attached to the Performance Shares.</td>
</tr>
<tr>
<td>Creating new business opportunities</td>
<td>Measured by non-financial metrics in the annual bonus plan.</td>
</tr>
</tbody>
</table>

How we have performed in 2016

<table>
<thead>
<tr>
<th>Bonus KPIs</th>
<th>Threshold</th>
<th>Target</th>
<th>Maximum</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Normalised PBT (£m)</td>
<td>£146.7m</td>
<td>£163.0m</td>
<td>£179.3m</td>
<td>£175.0m</td>
</tr>
<tr>
<td>Free cash flow (£m)</td>
<td>£104.3m</td>
<td>£115.9m</td>
<td>£127.5m</td>
<td>£138.6m</td>
</tr>
</tbody>
</table>

1 The original normalised profit target set was £152 million. This adjusted upwards to £163 million for exchange rate gains, bond costs and acquisitions.
2 Includes contribution from UK Rail.
3 The original free cash flow target set was £103.5 million. This was adjusted upwards to £115.9 million for exchange rate gains.

Single total figure of remuneration for Executive Directors for 2016

<table>
<thead>
<tr>
<th>£’000</th>
<th>Base salary</th>
<th>Taxable benefits¹</th>
<th>Performance-related bonus</th>
<th>Value of LTIP vested¹</th>
<th>Pension-related benefits²</th>
<th>2016 Total</th>
<th>2015 Total³</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group Chief Executive – Dean Finch</td>
<td>589</td>
<td>29</td>
<td>984</td>
<td>2,050</td>
<td>206</td>
<td>3,858</td>
<td>3,661</td>
</tr>
<tr>
<td>Group Finance Director – Matthew Ashley</td>
<td>325</td>
<td>17</td>
<td>431</td>
<td>533</td>
<td>81</td>
<td>1,387</td>
<td>1,390</td>
</tr>
</tbody>
</table>

¹ Taxable benefits comprise a cash alternative to a fully expensed car (£20,000 for Dean Finch and £11,520 for Matthew Ashley), health insurance and death in service and life assurance cover.
² The value of 2016 LTIP vested is based upon the average share price for the last quarter of 2016 (356.65 pence). The 2015 comparison total takes into account the actual LTIP payout made in 2016.
³ In addition, Dean Finch has an entitlement under an unfunded pension arrangement as described on page 111. From 5 June 2016, benefits under this arrangement ceased to accrue.
⁴ Matthew Ashley’s base salary for 2015 is pro-rated to reflect that he was appointed as a Director on 28 January 2015.
Annual Statement by the Chairman of the Remuneration Committee

Jane Kingston
Chair of the Remuneration Committee

How the Remuneration Committee spent its time in 2016

- Executive Directors’ remuneration: 20%
- Senior Management: 15%
- LTIP: 10%
- Bonus rewards: 25%
- Chairman’s fee: 5%
- Other employee share schemes: 5%
- Remuneration Report and governance: 20%

Company highlights for the 2016 financial year

The following financial results were achieved in 2016:

- Group revenue of £2.10 billion, a 10.6% increase on 2015 on a constant currency basis;
- Normalised Group Profit Before Tax of £175.0m, which includes the contribution from UK Rail, and is a 16.6% increase from the prior year;
- Statutory Profit for the year from continuing operations and UK Rail of £120m which is 10% higher than 2015 and double the profit earned in 2014;
- Free cash flow was £138.6m.

Dear fellow Shareholder

On behalf of the Board, I am pleased to present the Remuneration Report for 2016 which provides details of the remuneration earned by the Directors in the 2016 financial year.

Executive remuneration – major decisions made in 2016

As you can see from these highlights, 2016 was another very successful year for the Group, (the best since the Company’s incorporation) in which the share price increased by 6.3% and a 10% increase in the final dividend is being proposed.

As described in Chris Muntwyler’s Safety section, and elsewhere in the Annual Report, the Board has spent a considerable amount of time reviewing the tragic accident in Chattanooga and any lessons that can be learned. As the Chairman has said in his statement, we will implement any appropriate changes that the ongoing investigations identify. But the Remuneration Committee (the ‘Committee’) is also very aware of the progress that the business has made under the current leadership. Since the introduction of Driving Out Harm seven years ago, the Group’s measure of harm (‘FWI’) has more than halved. Arthur D Little’s annual review of our safety performance commented on the strength of our safety systems stating:

“We conclude that continuing and strong focus on Driving Out Harm is delivering further group-wide improvement in safety management. Whilst the Group has continued to grow, and despite mobilisation challenges, the newest businesses (German Rail, Bahrain) have made good progress in safety and are demonstrating standards above those typical in-country. World Class Driver is providing an effective framework for engaging divisions with improvements to safe driving.”

There is a longer statement by Arthur D Little on page 24. Three months after the tragic accident in Chattanooga, the regulatory authorities have not identified any faults in our maintenance systems or the background screening, training or management of our driver.

In addition, all three UK divisions have now been presented with the British Safety Council Sword of Honour. Complementing their five-star ratings, our road safety achievements have also been recognised with a Prince Michael International Road Safety Award.

In the light of the tragic event in Chattanooga, the Committee and Executive Directors unanimously agreed that it would not be appropriate to award the safety element of the bonuses this year. However, given the initial findings from Chattanooga, coupled with the significant, independently audited, progress in safety in recent years, the Remuneration Committee concluded
From 1 January 2017, Matthew’s salary be increased by 7.7% to £350,000 effective. The Committee determined that it was appropriate that the second step of the salary progression be implemented and that role, the Committee determined that it was appropriate that the during 2016 and in recognition of his strong performance in the his first year in the role, his salary had increased to £325,000 from order to align with the market. Following successful completion of Group Finance Director in January 2015 on a base salary of £300,000 with a commitment to review subject to performance in allowing for other factors such as progression increases within a grade structure, promotional increases and market adjustments, the UK employees within the Group have seen a 4% increase in base pay over the previous 12 months.

The three-year performance period for the LTIP award granted in 2014 concluded on 31 December 2016. The Executive Directors will receive 98.7% of the award when it vests in April 2017. The Committee believes that the vesting of the award demonstrates the strong performance of the Group over the past three years.

The performance period for the Group Chief Executive’s five-year award granted in 2012 also concluded on 31 December 2016. The award was based on a 50/50 split between EPS and TSR. As it was determined that only the EPS performance condition had been met, 50% of the award is due to vest in August 2017.

Effective from 1 January 2017, the Committee determined that the Group Chief Executive’s salary be increased by 4.4% to £315,000. In reaching this decision, the Committee took into account the Group Chief Executive’s strong personal performance in his role, delivering:

- Strong delivery on operational metrics;
- Significant shareholder value in the last 12 months; and
- A good outlook for the Group for 2017 under the strategy for growth and the increased international focus.

This increase is also in line with those of other high performing individuals across the workforce. Whilst the Group’s general base pay increase in 2016 across the Group was 2%, when allowing for other factors such as progression increases within a grade structure, promotional increases and market adjustments, the UK employees within the Group have seen a 4% increase in base pay over the previous 12 months.

As an internal hire, Matthew Ashley was appointed to the role of Group Finance Director on January 2015 on a base salary of £300,000 with a commitment to review subject to performance in order to align with the market. Following successful completion of his first year in the role, his salary had increased to £325,000 from January 2016. After another excellent year of personal delivery during 2016 and in recognition of his strong performance in the role, the Committee determined that it was appropriate that the second step of the salary progression be implemented and that Matthew’s salary be increased by 7.7% to £350,000 effective from 1 January 2017.

As part of his career path plan, Matthew will be relocating later in 2017 to take responsibility as President and Chief Executive Officer for National Express in North America. The Committee determined that Matthew will be assigned to North America on his current terms and conditions. He will remain an Executive Director on the main Board. As a result of Matthew’s move, Chris Davies has been appointed externally as Group Finance Director to replace Matthew when he relocates. Chris’s base salary will be £350,000 and other elements of his package are aligned with those of the current Group Finance Director and have been set in accordance with our Remuneration Policy (see details on page 110).

Wider pay environment
I am very encouraged by management’s commitment to invest in our staff at all levels. As announced last year, the Group is committed to ensure that all UK divisions secure Living Wage accreditation by the end of 2017 with UK Bus having become the first to implement this from January 2016. We have also committed that, across the Group in any country in which we operate, we will always pay at least 10% above the national minimum wage.

The full list of issues considered by the Committee during the year is summarised on page 90 of the Annual Report on Remuneration.

Looking forward – Remuneration Policy
No changes to the Remuneration Policy will be proposed at the 2017 AGM. However, one of the Committee’s principal areas of focus for 2017 will be to review the existing policy and to consider the changes required to ensure that our remuneration framework continues to support and drive the delivery of our strategic vision. The Committee, under my leadership, will work with our remuneration advisers and will engage with shareholders to ensure that their views are reflected in the revised policy which will be put to shareholders for approval at the 2018 AGM.

On behalf of the Board, I would like to thank shareholders for their continued support. I am always happy to hear from the Company’s shareholders and you can contact me via the Company Secretary if you have any questions on this Report or more generally in relation to the Company’s remuneration framework. I will be available to answer any questions at the AGM on 10 May 2017.

Jane Kingston
Chair of the Remuneration Committee
23 February 2017
Annual Report on Remuneration

The relevant sections of this report have been audited, as required by the Regulations.

Remuneration Committee composition and terms of reference
The membership of the Remuneration Committee (the ‘Committee’) during the year ended 31 December 2016 is set out below. All members are independent Non-Executive Directors. Attendance at meetings held during the year is shown on page 62.

Jane Kingston (Chair)
Lee Sander
Matthew Crummack

Role and responsibilities
The key responsibilities of the Committee are to:
• determine the fees of the Chairman;
• determine the remuneration and conditions of employment (including any termination arrangements) of the Executive Directors;
• review the remuneration and conditions of employment of the Senior Management Group; and
• select and appoint any remuneration consultants who advise the Committee.

The full terms of reference of the Committee are available on the Company’s website, www.nationalexpressgroup.com.

Meetings
The Committee met three times during the year.

Remuneration Committee activity
The key areas of Committee activity during the year were as follows:
• Reviewed salary levels for the Executive Directors and Senior Management Group
• Approved annual bonus payments to the Executive Directors and Senior Management Group having duly considered the overall strong financial performance of the Company
• Reviewed the Chairman’s fee
• Considered and approved 2016 award levels under the current LTIP
• Tested performance conditions for awards made under the previous (2005) LTIP granted in 2012 and 2014
• Set targets for the Group’s 2016 bonus scheme
• Reviewed and approved the remuneration arrangements (including relocation expenses) for Matthew Ashley ahead of his secondment to North America to take up the role of President and CEO of the North America division
• Approved the remuneration arrangements for the incoming Group Finance Director, Chris Davies
• Reviewed the fees paid to the remuneration advisers
• Review of corporate governance and legal and regulatory compliance with regard to Directors’ remuneration
• Reviewed and updated the Committee’s terms of reference
• Undertook an internal review of the effectiveness of the Committee, concluding that it continued to operate effectively
• Reviewed and approved the Committee’s report for inclusion in the 2016 Annual Report

The Committee is authorised by the Board to seek any information that it requires from any employee of the Group. The Committee members and management attendees did not participate in any discussions directly relating to their own remuneration or performance during the year.
Advisers to the Committee

Material advice or services were provided to the Committee during the year by:

PricewaterhouseCoopers LLP (‘PwC’) – independent remuneration consultants;
Dean Finch – Group Chief Executive
Matthew Ashley – Group Finance Director
Mike Goddard – Group Human Resources Director
Joy Baldry – Company Secretary

The Group Chief Executive attends meetings of the Committee to make recommendations relating to the performance and remuneration of the Senior Management Group. The Group Human Resources Director guided the Committee on reward matters relating to the Executive Directors and the Senior Management Group and the broader Group Human Resources strategy and policy. The Company Secretary acts as Secretary to the Committee.

During 2016, PwC provided advice to the management of the Group on various matters, including pensions, international taxation and business consulting. From time to time, the Company submits the remuneration consultant function to tender.

PwC is a member of the Remuneration Consultants Group and the voluntary code of conduct of that body is designed to ensure objective and independent advice is given to remuneration committees.

The Committee is satisfied that advice received was appropriate, objective and independent.

Adviser Fees in relation to remuneration advice (£’000)
PwC £781

1 The fee comprises a fixed fee element for standard work and an agreed additional amount for adhoc work undertaken during the year.

Single total figure of remuneration

Executive Directors

The table below sets out the single total figure of remuneration and breakdown for each Executive Director in post during the 2016 financial year. Comparative figures for 2015 have also been provided.

<table>
<thead>
<tr>
<th></th>
<th>£’000</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Base salary</td>
<td>Taxable benefits¹</td>
<td>Performance-related bonus</td>
</tr>
<tr>
<td>Dean Finch</td>
<td>589</td>
<td>29</td>
<td>984</td>
</tr>
<tr>
<td>Matthew Ashley</td>
<td>325</td>
<td>17</td>
<td>431</td>
</tr>
</tbody>
</table>

¹ Taxable benefits comprise a cash alternative to a fully expensed car (£20,000 for Dean Finch and £11,520 for Matthew Ashley), health insurance and death in service and life assurance cover.

² The value of 2016 LTIP vested is based upon the average share price for the last quarter of 2016 (356.65 pence). The value of the LTIP vested for 2015 has been restated to reflect actual payout.

³ In addition, Dean Finch has an entitlement under an unfunded pension arrangement as described on page 111. From 5 June 2016, benefits under this arrangement ceased to accrue.

4 Matthew Ashley’s base salary for 2015 is pro-rated to reflect that he was appointed as a Director on 28 January 2015.
Base salary
Effective from 1 January 2016, the Committee determined that the salary for the Group Chief Executive would be increased to £589,000. The Committee agreed that this increase was warranted in order to maintain the market competitiveness of his salary when compared against direct peers and companies of similar size. In the previous five years, Dean Finch had only received one increase (2% in 2014) over a period during which corporate performance had been strong.

Mathew Ashley was appointed to the role of Group Finance Director on 28 January 2015. His base salary upon appointment was set at £300,000. As Matthew had made a significant contribution to the business in his first year and performed strongly against the objectives set for him and during a period of strong corporate performance, the Committee determined that it would be appropriate to increase his salary to £325,000 which became effective from 1 January 2016. This increase positions Matthew’s base pay between the lower quartile and median against a comparator group of similarly sized businesses and still allows for future salary progression as he completes his development.

Performance-related bonus
A summary of the 2016 performance-related bonus scheme is summarised below.

The maximum potential bonus payable for 2016 to the Group Chief Executive was 200% of salary and, in respect of the Group Finance Director, 150% of salary.

- For the Group Chief Executive, 25% of the bonus earned up to 125% of salary, 50% of the bonus earned from 125% to 150% and 75% of the bonus earned from 150% to 200% of salary was to be deferred
- For the Group Finance Director, 25% of the bonus earned up to 125% of salary and 50% of the bonus earned from 150% to 150% of salary was to be deferred

The amounts deferred under the bonus plan in 2016 are deferred into shares awarded under the Executive Deferred Bonus Plan (‘EDBP’) for one year. Receipt of the deferred shares is subject to continued service and good leaver provisions under the EDBP. The 2016 bonus also includes provisions that require the deferred shares to be forfeited or repaid should it be necessary for the Company to restate materially its 2016 results within a two-year period following the deferred bonus being awarded. The proportion of the bonus that would be subject to these provisions would depend on the extent to which the original bonus payment turned out to be false following the publication of corrected results.

The Committee has reviewed the performance against the conditions attached to the performance-related bonus and, in addition, made an assessment of the performance of the Group as a whole during 2016.

The Committee has full discretion in the payment of annual bonuses. For any financial element to be payable, the Group must have achieved a threshold level of normalised profit target for the year. In addition, it is a pre-condition to the award of any bonus that the Committee has determined that there has been an improvement in safety processes, procedures and outcomes during the year before any bonus is paid.

In respect of the targets applying to the annual bonus for 2016 for the Group Chief Executive and Group Finance Director, a maximum of 150% and 112.5% respectively of salary was payable based on achievement against a sliding scale of challenging financial targets. A maximum of 50% of salary for the Group Chief Executive and 37.5% for the Group Finance Director was payable based on non-financial targets that encompassed customer, operational excellence and people objectives.

The targets set in relation to non-financial performance are key strategic Group objectives that are tailored to the responsibilities of each individual Executive Director and, in aggregate, are considered to be similarly challenging to the range of financial targets set.
The table below summarises the performance conditions attaching to the 2016 awards and the actual performance and bonus value achieved.

### Bonus structure for 2016

<table>
<thead>
<tr>
<th>Performance condition</th>
<th>Weighting</th>
<th>Normalised profit</th>
<th>Free cash flow</th>
<th>Non-financial targets</th>
<th>Group Chief Executive</th>
<th>Group Finance Director</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>£146.7m</td>
<td>£115.9m</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>Maximum bonus potential</td>
<td>50%</td>
<td>£163.0m</td>
<td>£127.5m</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>Bonus potential at 90% of budgeted normalised PBT</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>Awarded on achieving threshold level</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>On-target bonus potential at 100% of budgeted normalised PBT</td>
<td>50%</td>
<td>75%</td>
<td>Awarded on achieving budget</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stretch bonus for 110% of budgeted normalised PBT</td>
<td>100%</td>
<td>75%</td>
<td>Awarded on achieving a stretch target of 110% of normalised PBT</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bonus potential at 90% of budgeted free cash flow</td>
<td>0%</td>
<td>0%</td>
<td>Awarded on achieving threshold level</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>On-target bonus potential at 100% of budgeted free cash flow</td>
<td>25%</td>
<td>18.75%</td>
<td>Awarded on achieving budget</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stretch bonus potential at 110% of budgeted free cash flow</td>
<td>50%</td>
<td>37.5%</td>
<td>Awarded on achieving a stretch target of 110% of budgeted free cash flow</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-financial targets (underpinned by achievement of 90% of budgeted normalised PBT)</td>
<td>50%</td>
<td>37.5%</td>
<td>Awarded on meeting key strategic Group objectives tailored to each Executive Director’s responsibilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

A summary of performance during 2016, the targets set and the extent to which the targets were met is set out in the following tables.

### Summary of bonuses paid

<table>
<thead>
<tr>
<th>Performance condition</th>
<th>Weighting</th>
<th>Threshold performance required</th>
<th>On-target performance required</th>
<th>Maximum performance required</th>
<th>Actual performance</th>
<th>Bonus value achievable for meeting threshold and maximum performance (percentage of salary)</th>
<th>Actual bonus value achieved (percentage of salary)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Dean Finch</td>
<td>Matthew Ashley</td>
<td>Dean Finch</td>
<td>Matthew Ashley</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Normalised profit</td>
<td>50%</td>
<td>£146.7m</td>
<td>£163.0m&lt;sup&gt;1&lt;/sup&gt;</td>
<td>£179.3m&lt;sup&gt;1&lt;/sup&gt;</td>
<td>0%-100%</td>
<td>0%-75%</td>
<td>87%</td>
</tr>
<tr>
<td>Free cash flow</td>
<td>25%</td>
<td>£104.3m</td>
<td>£115.9m&lt;sup&gt;3&lt;/sup&gt;</td>
<td>£127.5m&lt;sup&gt;3&lt;/sup&gt;</td>
<td>0%-50%</td>
<td>0%-37.5%</td>
<td>50%</td>
</tr>
<tr>
<td>Non-financial targets</td>
<td>25%</td>
<td></td>
<td></td>
<td></td>
<td>0%-50%</td>
<td>0%-37.5%</td>
<td>30%</td>
</tr>
<tr>
<td>Total awarded</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>167%</td>
<td>132.7%</td>
<td>£983,630</td>
</tr>
<tr>
<td>Of which deferred in shares</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>56.5%</td>
<td>35.1%</td>
<td>£332,785</td>
</tr>
<tr>
<td>Of which paid in cash</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>110.5%</td>
<td>97.6%</td>
<td>£650,845</td>
</tr>
</tbody>
</table>

<sup>1</sup> The original normalised profit target set was £152 million. This was adjusted upwards to £163 million for exchange rate gains, bond costs and acquisitions.

<sup>2</sup> Includes contribution from UK Rail.

<sup>3</sup> The original free cash flow target was £103.5 million. This was adjusted upwards to £115.9 million for exchange rate gains.
### Summary of non-financial conditions for 2016

**Dean Finch**

**Objective Performance**

<table>
<thead>
<tr>
<th>Safety</th>
<th>Business development</th>
<th>Customer</th>
<th>Talent development</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Deliver a year on year improvement in the Fatalities and Weighted Injuries Index ('FWI') for like-for-like operations</td>
<td>• Secure a rail win (UK or overseas)</td>
<td>• Develop digital strategy to achieve a leap in customer service</td>
<td>• Enhance management bench strength and improve succession planning</td>
</tr>
<tr>
<td>• Roll out the World Class Driver programme in all divisions</td>
<td>• Secure a new win in the International Division (Middle East or new market)</td>
<td>• Deliver initiatives to improve punctuality and customer satisfaction</td>
<td>• Develop and enhance the Group’s graduate and apprenticeship programme</td>
</tr>
<tr>
<td>• Achieve a successful Arthur D Little audit</td>
<td>• Deliver high level of concession renewals in existing markets</td>
<td>• Improve operational excellence</td>
<td>• Produce an independent report on our People Values and develop a strategy for improvement</td>
</tr>
<tr>
<td>• Secure a year on year reduction in claim incidents and the cost of claims on like-for-like business</td>
<td>• Roll out a revenue management system in Spain and UK Coach</td>
<td>• Successfully launch new start-ups/acquisitions</td>
<td>• Build employee pride and maintain high engagement scores</td>
</tr>
</tbody>
</table>

Overall safety (measured by the FWI) worsened to 17.823 in 2016 from 12.242 in 2015. Excluding Chattanooga, the FWI improved by 7.5% to 11.323

All divisions have started to deliver their five-year World Class Driver programme

The 2016 safety audit, conducted by Arthur D Little, concluded that corporate governance of safety continues to be strong and effective overall

Good progress has been made in the reduction of claims and claim costs across all the divisions

Note: despite the significant progress made against safety objectives, no bonus was awarded for the Safety objective in the light of the Chattanooga accident.

In Germany a rail win was secured in the Nuremburg franchise. However, given the legal challenges by the incumbent operator, the decision was taken not to contest

International bid and new business activity has focused on a significant bid in Singapore and the acquisition of AlpyBus, based in Switzerland

In addition to the concession renewals, the Group made 11 significant acquisitions and one disposal which supports its future growth agenda. The disposal of c2c was a strategically important development in reducing future risk and releasing capital

ALSA and UK Coach fully rolled out a revenue management system resulting in improvements in revenue, profits and occupancy

The acquisitions made in Spain and North America during the year made significant contributions to operating profit

Digital initiatives in UK Bus, ALSA and the Bahrain bus business have resulted in improving sales, loyalty and customer satisfaction.

ALSA won the prestigious Best Customer Experience Award (BCX award) in Spain. UK Coach was again rated the best surface based operator by the UK Customer Satisfaction Index

Under the CEO’s leadership, the Group-wide Delivering Excellence initiative was launched to identify and share best practice across the divisions

Acquisitions in ALSA, North America and UK Coach are operating well and contributing to profits. The Bahrain bus operation exceeded all its KPIs during 2016

Detailed succession plans are in place with good progress made on filling strategic openings and providing development opportunities. A new strategy is in place for the development of high potential employees

A thorough review of the graduate programme was undertaken during 2016 with the significant enhancements starting to deliver. Apprenticeship programmes continue to be successfully run in all UK divisions

An independent report concluded that National Express was delivering its ambitious People agenda with data gathered and staff interviewed evidencing a positive picture against the high bar set for People Values

Employee pride has been enhanced through the divisional and Group Values Awards, commitment to ensuring all UK divisions secure Living Wage accreditation by the end of 2017 and sponsoring of employees to gain external awards and recognition. Employee survey results indicated an increase in employee engagement in all the main operational businesses
<table>
<thead>
<tr>
<th>Matthew Ashley</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Objective</strong></td>
</tr>
<tr>
<td><strong>Performance</strong></td>
</tr>
<tr>
<td><strong>Safety</strong></td>
</tr>
<tr>
<td>• Deliver a year on year improvement in the FWI for like-for-like operations</td>
</tr>
<tr>
<td>• Achieve a successful Arthur D Little audit</td>
</tr>
<tr>
<td>• Overall safety (measured by the FWI) worsened to 17.823 from 12.242 in 2015. Excluding Chattanooga, the FWI improved by 7.5% to 11.323</td>
</tr>
<tr>
<td>• The 2016 safety audit, conducted by Arthur D Little, concluded that corporate governance of safety continues to be strong and effective overall</td>
</tr>
<tr>
<td>Note: despite the significant progress made against safety objectives, no bonus was awarded for the Safety objective in the light of the Chattanooga accident.</td>
</tr>
<tr>
<td><strong>Business development</strong></td>
</tr>
<tr>
<td>• Allocate growth capital to the divisions to achieve bolt-on acquisition opportunities that are value enhancing</td>
</tr>
<tr>
<td>• Support the bid for the Singapore bus tender, ensuring that our competitive bid demonstrates the operational excellence and innovation that we can deliver</td>
</tr>
<tr>
<td>• There were 11 acquisitions made during the period with a ROCE of 15-20%</td>
</tr>
<tr>
<td>• The CFO was closely involved with the Singapore bid with his knowledge of areas where the Group could add competitive advantage having strengthened the bid</td>
</tr>
<tr>
<td><strong>Operational</strong></td>
</tr>
<tr>
<td>• Successfully execute the refinancing of the £350 million bond expiring in January 2017, achieving significant cost savings and minimising leakage of value through fees and costs of carry</td>
</tr>
<tr>
<td>• Lead the Group’s Cyber Security Committee to identify areas of weakness and implement improvements to close identified gaps</td>
</tr>
<tr>
<td>• Work with the Chief Digital Officer to develop digital scorecard and facilitate divisional benchmarking</td>
</tr>
<tr>
<td>• Deliver investor relations plan to promote the business to existing and potential investors</td>
</tr>
<tr>
<td>• The Group raised over £1 billion in 2016. Following the Brexit vote, with gilt rates at an all-time low and before the US presidential election, a £400 million seven-year sterling bond was raised for a coupon of 2.5% with £3.2 million costs of carry</td>
</tr>
<tr>
<td>• Under the CFO’s leadership, the Group’s Cyber Security Committee developed a strategy to manage the Group’s security risk profile. A detailed road map is in place to deliver this with significant objectives having already been achieved</td>
</tr>
<tr>
<td>• Significant progress has been made digitally through the introduction of digital scorecards, modification of mobile websites and apps to achieve growth in these channels across our coach businesses and the launch of ‘GO Card’ smartcards in our Bahrain bus business</td>
</tr>
<tr>
<td>• The success of the comprehensive investor relations programme in 2016 is demonstrated by the strong performance of the share price, the overwhelming support in favour of our AGM resolutions and the positive reaction to the calls made to key investors concerning the c2c disposal</td>
</tr>
<tr>
<td><strong>Talent development</strong></td>
</tr>
<tr>
<td>• Develop and enhance our graduate and apprenticeship programme</td>
</tr>
<tr>
<td>• Build employee pride and maintain high engagement scores</td>
</tr>
<tr>
<td>• A thorough review of the graduate programme was undertaken during 2016 with the significant enhancements starting to deliver. Apprenticeship programmes continue to be run in all UK divisions</td>
</tr>
<tr>
<td>• Employee pride has been enhanced though the divisional and Group Values Awards, commitment to ensuring all UK divisions secure Living Wage accreditation by the end of 2017 and sponsoring of employees to gain external awards and recognition. Employee survey results indicated an increase in employee engagement in all the main operational businesses</td>
</tr>
</tbody>
</table>

Based on the above assessment against the objectives set, the Committee determined that, for the non-financial elements of their respective bonuses, the performance of Dean Finch warranted 30% payout of a maximum of 50% of salary and Matthew Ashley warranted 30% payout of a maximum of 37.5%. Despite the significant progress made against safety objectives, no bonus was awarded for the overall Safety objective in the light of the Chattanooga accident.
**LTIP awards**

Performance Share Awards and Matching Share Awards granted under the LTIP in 2012 and 2014 are scheduled to vest in 2017. The performance period relating to these Awards ended on 31 December 2016. Details of the performance conditions and the extent to which they have been satisfied are set out below:

### 2012 Performance Shares (Five-year Award for Dean Finch)

<table>
<thead>
<tr>
<th>Performance condition</th>
<th>Weighting</th>
<th>Threshold performance required (30% vesting)</th>
<th>Maximum performance required (100% vesting)</th>
<th>Actual performance</th>
<th>Percentage vesting</th>
</tr>
</thead>
<tbody>
<tr>
<td>TSR(^1)</td>
<td>50%</td>
<td>Median of comparator group</td>
<td>Upper quintile of comparator group</td>
<td>Below median</td>
<td>0%</td>
</tr>
<tr>
<td>EPS(^2)</td>
<td>50%</td>
<td>2016 EPS of 25p</td>
<td>2016 EPS of 28p</td>
<td>29.1p</td>
<td>100%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td></td>
<td></td>
<td></td>
<td>50%</td>
</tr>
</tbody>
</table>

### 2014 Performance and Matching Shares

<table>
<thead>
<tr>
<th>Performance condition</th>
<th>Weighting</th>
<th>Threshold performance required (30% vesting)</th>
<th>Maximum performance required (100% vesting)</th>
<th>Actual performance</th>
<th>Percentage vesting</th>
</tr>
</thead>
<tbody>
<tr>
<td>TSR</td>
<td>25%</td>
<td>Median of FTSE 250 comparator group</td>
<td>Upper quintile of comparator group</td>
<td>Between median and upper quintile</td>
<td>94.8%</td>
</tr>
<tr>
<td>TSR</td>
<td>25%</td>
<td>Median of Bespoke Index comparator group</td>
<td>Equal to or above the Bespoke Index + 10% pa</td>
<td>Greater than the Bespoke Index + 10% pa</td>
<td>100%</td>
</tr>
<tr>
<td>EPS(^2)</td>
<td>50%</td>
<td>2016 EPS of 21.3p</td>
<td>2016 EPS of 23.9p</td>
<td>29.1p</td>
<td>100%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td></td>
<td></td>
<td></td>
<td>98.7%</td>
</tr>
</tbody>
</table>

\(^1\) TSR was measured against a bespoke comparator group of transport companies taken predominantly from the FTSE Industrial Transportation and FTSE Travel & Leisure sectors.

\(^2\) The Committee considered and agreed changes to the performance conditions for outstanding Awards made under the previous 2005 LTIP whereby the growth in EPS for outstanding Awards under this Plan would be based on a consistent accounting basis to exclude actual bid costs incurred. This adjustment serves to ensure that the EPS element of the LTIP continues to incentivise and reward delivery of normalised EPS growth now that bid costs, with effect from 1 January 2015, are treated as a normalised expense which has the impact of reducing normalised EPS in 2015 and subsequent years.

**Vesting of Awards**

In 2012, under a Five-year Award, Dean Finch was awarded 261,407 Performance Shares. As 50% of the performance conditions were met, a total of 130,703 shares are due to vest on 3 August 2017. In 2014, Dean Finch was awarded 204,520 Performance Shares and 245,424 Matching Shares. Therefore, as 98.7% of the performance conditions have been met, a total of 444,094 shares are due to vest on 9 April 2017.

In 2014, Matthew Ashley was awarded 68,793 Performance Shares and 82,548 Matching Shares and therefore, as 98.7% of the performance conditions have been met, a total of 149,372 shares are due to vest on 9 April 2017.

**Pension entitlements and cash allowances**

Under the terms of their service agreements, Executive Directors are not entitled to become members of one of the Group pension schemes.

The Group Chief Executive receives a 35% salary supplement in lieu of pension contributions.

Benefits under the Group Chief Executive’s unfunded pension arrangement ceased to accrue with effect from 5 June 2016.

The Group Finance Director receives a 25% salary supplement in lieu of pension contributions.
**Long-term incentives awarded in 2016**

The tables below set out the details of any long-term incentive award granted in the 2016 financial year where vesting will be determined according to the achievement of performance conditions that will be tested in future reporting periods.

### Dean Finch

<table>
<thead>
<tr>
<th>Grant date</th>
<th>Award type</th>
<th>Basis on which award made</th>
<th>Face value of award</th>
<th>Percentage of award vesting at threshold performance (ROCE:0%)</th>
<th>Performance period end date</th>
<th>Performance conditions</th>
</tr>
</thead>
<tbody>
<tr>
<td>06.04.16</td>
<td>LTIP – Nil cost options</td>
<td>200% of salary</td>
<td>1,178</td>
<td>30%</td>
<td>31.12.18</td>
<td>TSR, EPS and ROCE equally weighted</td>
</tr>
</tbody>
</table>

### Matthew Ashley

<table>
<thead>
<tr>
<th>Grant date</th>
<th>Award type</th>
<th>Basis on which award made</th>
<th>Face value of award</th>
<th>Percentage of award vesting at threshold performance (ROCE:0%)</th>
<th>Performance period end date</th>
<th>Performance conditions</th>
</tr>
</thead>
<tbody>
<tr>
<td>06.04.16</td>
<td>LTIP – Nil cost options</td>
<td>150% of salary</td>
<td>487</td>
<td>30%</td>
<td>31.12.18</td>
<td>TSR, EPS and ROCE equally weighted</td>
</tr>
</tbody>
</table>

1 The face value in the tables above has been calculated by multiplying the maximum number of shares that could vest by the share price used to calculate the number of shares granted. The relevant share price was £343.8p on 5 April 2016, the day preceding the date of grant.

### Performance conditions for LTIP Awards made in 2016

<table>
<thead>
<tr>
<th>Performance level</th>
<th>Part A – EPS condition (1/3 of the award)</th>
<th>Part B – ROCE condition (1/3 of the award)</th>
<th>Part C – TSR condition vs FTSE 250 comparator Group rank over 3 years to 31 December 2018 (1/6 of the award)</th>
<th>Part D – TSR condition vs Index(^{1}) over 3 years to 31 December 2018 (1/6 of the award)</th>
<th>Vesting percentage of the award</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below threshold</td>
<td>Less than 25.6p</td>
<td>Below 9%</td>
<td>Median</td>
<td>Equal to Index</td>
<td>30% (with exception of ROCE for which threshold is 0%)</td>
</tr>
<tr>
<td>Threshold</td>
<td>25.6p</td>
<td>9%</td>
<td>Median</td>
<td>Equal to Index</td>
<td>50% (for EPS and ROCE only)</td>
</tr>
<tr>
<td>Target</td>
<td>27.1p</td>
<td>10%</td>
<td>Straight line between median and upper quintile</td>
<td>Straight line between Index and Index + 10%</td>
<td>100%</td>
</tr>
<tr>
<td>Maximum</td>
<td>29.5p or above</td>
<td>12% or above</td>
<td>Upper quintile</td>
<td>Equal or above Index + 10% pa</td>
<td></td>
</tr>
</tbody>
</table>

\(^{1}\) Index comprising the total returns of three comparator companies.

Straight-line vesting will occur between intermediate points.
Indicative percentage of LTIP awards vesting based on performance to 31 December 2016

The table below sets out the percentage of each extant award that would have vested if the performance conditions had been tested at 31 December 2016 (without making any allowance for pro rata reduction for any period of time that is less than the length of the performance period).

<table>
<thead>
<tr>
<th>Award</th>
<th>Weighting</th>
<th>Vesting</th>
<th>Weighting</th>
<th>Details</th>
<th>Weighting</th>
<th>Vesting</th>
<th>Weighting</th>
<th>Vesting</th>
<th>Total (max 100%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013 Chief Executive’s Five-Year Award</td>
<td>50%</td>
<td>100%</td>
<td>–</td>
<td>–</td>
<td>Bespoke comparator group</td>
<td>50%</td>
<td>97.6%</td>
<td>n/a</td>
<td>–</td>
</tr>
<tr>
<td>2014 Chief Executive’s Five-Year Award</td>
<td>50%</td>
<td>100%</td>
<td>–</td>
<td>–</td>
<td>FTSE 250</td>
<td>25%</td>
<td>94.8%</td>
<td>Bespoke Index</td>
<td>25%</td>
</tr>
<tr>
<td>2015 – Performance Shares</td>
<td>33.3%</td>
<td>100%</td>
<td>33.3%</td>
<td>98%</td>
<td>FTSE 250</td>
<td>16.7%</td>
<td>100.0%</td>
<td>Bespoke Index</td>
<td>16.7%</td>
</tr>
<tr>
<td>2016 – Performance Shares</td>
<td>33.3%</td>
<td>91.7%</td>
<td>33.3%</td>
<td>98%</td>
<td>FTSE 250</td>
<td>16.7%</td>
<td>88.6%</td>
<td>Bespoke Index</td>
<td>16.7%</td>
</tr>
</tbody>
</table>

The National Express Group Executive Deferred Bonus Plan (EDBP)

Deferred bonuses awarded in 2016 (based on performance to 31 December 2015) will vest on 15 March 2017 as set out in the table below.

<table>
<thead>
<tr>
<th>During year</th>
<th>As at 1 January 2016</th>
<th>Market price at date of vesting</th>
<th>Date of grant</th>
<th>Date of vesting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dean Finch</td>
<td>2015 76,643 – 76,643 – 0 330.0p</td>
<td>18.03.15</td>
<td>18.03.16</td>
<td></td>
</tr>
<tr>
<td>2016 – 129,550 – 129,550 15.03.16</td>
<td>15.03.17</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Matthew Ashley</td>
<td>2015 – – – – – – – –</td>
<td>–</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td>2016 – 40,278 – 40,278 15.03.16</td>
<td>15.03.17</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The market price per share on the date of award was calculated on the basis of the average market price share in the five days preceding the date of the grant.

Deferred shares will be required to be forfeited or repaid should it be necessary to restate materially the Company’s 2015 and 2016 results within a two-year period following the award of the bonus. The proportion of the bonus subject to these provisions would depend on the extent to which the original bonus turned out to be false following the publication of corrected results.
Non-Executive Directors
The table below sets out the single total figure of remuneration and breakdown for each Non-Executive Director serving during 2016. The table includes only those columns in respect of elements of remuneration received by Non-Executive Directors.

<table>
<thead>
<tr>
<th>Name</th>
<th>2016 fees £’000</th>
<th>2015 fees £’000</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sir John Armitt CBE</td>
<td>230</td>
<td>225</td>
<td></td>
</tr>
<tr>
<td>Jorge Cosmen</td>
<td>49</td>
<td>47</td>
<td></td>
</tr>
<tr>
<td>Joaquin Ayuso</td>
<td>49</td>
<td>47</td>
<td></td>
</tr>
<tr>
<td>Matthew Crummack</td>
<td>49</td>
<td>32</td>
<td>Appointed on 6 May 2015</td>
</tr>
<tr>
<td>Jane Kingston</td>
<td>59</td>
<td>54</td>
<td></td>
</tr>
<tr>
<td>Mike McKeon</td>
<td>59</td>
<td>28</td>
<td>Appointed on 6 July 2015</td>
</tr>
<tr>
<td>Chris Muntwyler</td>
<td>59</td>
<td>59</td>
<td></td>
</tr>
<tr>
<td>Lee Sander</td>
<td>54</td>
<td>52</td>
<td></td>
</tr>
<tr>
<td>Dr Ashley Steel</td>
<td>49</td>
<td>–</td>
<td>Appointed on 1 January 2016</td>
</tr>
</tbody>
</table>

In addition to the above, a travel allowance of £4,000 is payable to each of Joaquin Ayuso, Chris Muntwyler and Lee Sander for attendance at each Board meeting held outside the continent in which the Non-Executive Director is resident. For the financial year ended 31 December 2016, the payments were as follows: Joaquin Ayuso: £4,000; Chris Muntwyler: £4,000; and Lee Sander: £28,000. For the financial year ended 31 December 2015, the payments were as follows: Joaquin Ayuso: £4,000; Chris Muntwyler: £4,000; and Lee Sander: £21,000.

With effect from 1 January 2016, it was agreed that the Non-Executive base fee would increase by 4.26% to £49,000 and the Chairman’s fee would increase by 2.2% to £230,000.

With effect from 1 January 2016, it was determined that fees for Non-Executive Directors based overseas should be converted to their home currencies at a fixed rate. The agreed rates are USD1.52851:£1, EUR1.37747:£1 and CHF1.46997:£1.

Payments to past Directors
There were no payments made to past Directors during the year ended 31 December 2016.

Payments for loss of office
There were no loss of office payments made during the year to any person who has served as a Director of the Group.

Statement of Directors’ shareholdings
Directors’ shareholdings – Executive Directors’ interests and share ownership guidelines
In order to align the interests of the Directors more closely with the shareholders, the Remuneration Committee has determined that the Executive Directors are encouraged to build up a shareholding over a five-year period from 2015 as set out in the share ownership guidelines as described on page 108 of the Remuneration Policy. The requirement for the Group Chief Executive is the equivalent of 200% of salary and, for the Group Finance Director, the requirement is the equivalent of 150% of salary.

The beneficial and non-beneficial interests of the Executive Directors in office and their connected persons as at 31 December 2016 and the details of long-term incentive interests are shown below.

<table>
<thead>
<tr>
<th>Shareholding requirement (% salary)</th>
<th>Current shareholding as at 31 December 2016</th>
<th>Beneficially owned</th>
<th>EDBP interests not subject to performance conditions</th>
<th>LTIP interests subject to performance conditions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Directors</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dean Finch</td>
<td>200%</td>
<td>160%</td>
<td>137,598</td>
<td>129,550</td>
</tr>
<tr>
<td>Matthew Ashley</td>
<td>150%</td>
<td>140%</td>
<td>87,891</td>
<td>40,278</td>
</tr>
</tbody>
</table>

1 The share price of 353.7 pence (as at 31 December 2016) has been taken for the purpose of calculating the current shareholding as a percentage of salary.

Please see the appendix on page 105 for more information on outstanding LTIP awards.
Directors’ shareholdings – Non-Executive Director interests
Non-Executive Directors are not subject to a shareholding requirement. Details of their interests in shares and those of their persons closely associated as at 31 December 2016, all of which are held outright with no attaching performance conditions, are shown below:

<table>
<thead>
<tr>
<th>Name</th>
<th>At 31 December 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sir John Armitt CBE</td>
<td>6,000</td>
</tr>
<tr>
<td>Joaquín Ayuso</td>
<td>0</td>
</tr>
<tr>
<td>Jorge Cosmen¹</td>
<td>69,237,515</td>
</tr>
<tr>
<td>Chris Muntwyler</td>
<td>0</td>
</tr>
<tr>
<td>Lee Sander</td>
<td>0</td>
</tr>
<tr>
<td>Jane Kingston</td>
<td>2,100</td>
</tr>
<tr>
<td>Matthew Crummack</td>
<td>0</td>
</tr>
<tr>
<td>Mike McKeon</td>
<td>5,000</td>
</tr>
<tr>
<td>Dr Ashley Steel</td>
<td>9,528</td>
</tr>
</tbody>
</table>

¹ Jorge Cosmen’s holding includes shares held by European Express Enterprises Ltd which are shown on page 116 in the list of major shareholdings in the Company.

The Register of Directors’ interests maintained by the Company contains full details of the Directors’ holdings of shares and options over shares in the Company. The closing price of the Company’s ordinary shares at 31 December 2016 was 353.7 pence (2015: 332.8 pence) and the range during the year ended 31 December 2016 was 275.6 pence to 376.5 pence.

Changes since year end
There have been no changes in the shareholdings of the Directors between 31 December 2016 and the date of signing of this Annual Report.

History of CEO’s pay
The table below sets out the total remuneration delivered to the Chief Executive over the last eight years, valued using the methodology applied to the single total figure of remuneration.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Chief Executive</td>
<td>R Bowker¹</td>
<td>D Finch</td>
<td>D Finch</td>
<td>D Finch</td>
<td>D Finch</td>
<td>D Finch</td>
<td>D Finch</td>
<td>D Finch</td>
</tr>
<tr>
<td>Total remuneration (£’000)</td>
<td>465</td>
<td>1,356</td>
<td>1,454</td>
<td>1,701</td>
<td>1,553</td>
<td>1,562</td>
<td>3,661</td>
<td>3,858</td>
</tr>
<tr>
<td>Annual bonus payment (percentage maximum opportunity)</td>
<td>0%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>95%</td>
<td>93%</td>
<td>96%</td>
<td>83.5%</td>
</tr>
<tr>
<td>LTIP vesting level achieved (percentage maximum opportunity)</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>32.5%</td>
<td>0%</td>
<td>0%</td>
<td>73.4%</td>
<td>80.8%</td>
</tr>
</tbody>
</table>

¹ R Bowker resigned as Chief Executive on 10 July 2009.
² The incumbent Chief Executive during each of 2010 and 2011 did not have entitlement to any LTIP awards with attaching performance conditions whose final year of performance ended during that year.
Comparison of overall performance
The first graph below shows a comparison of National Express Group PLC’s eight-year total cumulative shareholder return against that achieved by the FTSE 250 Index. This index has been selected because the Company is a constituent of this index and the Committee, therefore, feels that this is the most appropriate index with which to represent the Company’s relative performance.

The second graph below shows a comparison of National Express Group PLC’s cumulative shareholder return and annual return since the commencement of the turnaround of the business from 31 December 2009 (and subsequent recruitment of the current CEO in February 2010) and also over the last four years against that achieved by the FTSE 250 Index.

The Group achieved a very strong performance in 2016 with revenue, profits and free cash flow up significantly from 2015, beating the budgeted profit before tax by 7.4%. This excellent result, underpinned by a strong and sustainable free cash flow, merited an increase in the full year dividend of 8.4%.

The Group carried a record 921 million passengers (2015: 867 million), with the first full year of German rail operations carrying 20 million passengers. There was strong growth in North America with revenue and operating profit up 14.3% and 11.9% on a constant currency basis. Spain grew revenue by 5.7% and profits by 5.3%. There was a good performance from UK Coach and resilient results from UK Bus in challenging market conditions. The Group completed 11 acquisitions in the year: eight in North America adding 1,100 school buses and 450 transit vehicles; two in ALSA, adding a regional bus business in Ibiza and a private hire business in Switzerland (linking with our existing Eurolines business) and a commuter and tourist coach business in the UK.

Altogether, this industry leading financial performance led to a strong share price performance that outperformed both our peer group and the FTSE 250 for the second year running.
The context of pay in the National Express Group

The following table sets out the change in certain elements of the remuneration paid to the Group Chief Executive from 2015 to 2016 compared with the average percentage change for the UK employee population.

The Group Chief Executive’s remuneration, disclosed in the table below, has been calculated to take into account base salary, taxable benefits and annual bonus (including any amount deferred) on the basis used for determining the single figure. The UK employee remuneration is based on the base salary, taxable benefits and annual bonus of those UK employees who received taxable benefits and bonuses. The Group uses the UK workforce as an appropriate comparator group for the average employee as this avoids complicated exchange rate adjustments that would have to be used if we included employees in the Group’s overseas operations in the calculation.

<table>
<thead>
<tr>
<th></th>
<th>Average percentage increase/ decrease from 2015 to 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Base salary</td>
</tr>
<tr>
<td>Group Chief Executive</td>
<td>4.9%</td>
</tr>
<tr>
<td>UK employee remuneration</td>
<td>2.1%</td>
</tr>
</tbody>
</table>

Relative importance of the spend on pay

The table below sets out the total spend on pay in the 2016 financial year and 2015 financial year compared with distributions to shareholders:

<table>
<thead>
<tr>
<th></th>
<th>2016 (£m)</th>
<th>2015 (£m)</th>
<th>Percentage increase from 2015 to 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall Group spend on pay including Directors</td>
<td>1,020.7</td>
<td>842.51</td>
<td>21.1%</td>
</tr>
<tr>
<td>Profit distributed by way of dividend</td>
<td>58.8</td>
<td>54.4</td>
<td>8.0%</td>
</tr>
</tbody>
</table>

1 Restated to exclude UK Rail as a discontinuing operation.

Statement of voting at the 2015 and 2016 AGMs on remuneration

At the AGM held on 11 May 2016, votes cast by proxy and at the meeting in respect of the Directors’ Remuneration Report were as follows:

<table>
<thead>
<tr>
<th>Resolution text</th>
<th>For</th>
<th>Against</th>
<th>Total votes cast</th>
<th>Percentage of issued share capital voted¹</th>
<th>Votes withheld²</th>
</tr>
</thead>
<tbody>
<tr>
<td>To approve the Annual Report on Remuneration</td>
<td>424,626,401</td>
<td>7,361,131</td>
<td>431,987,532</td>
<td>84.42</td>
<td>151,376</td>
</tr>
</tbody>
</table>

At the AGM held on 6 May 2015, which was the date of approval of the most recent Remuneration Policy, the votes cast by proxy and at the meeting were as follows:

<table>
<thead>
<tr>
<th>Resolution text</th>
<th>For</th>
<th>Against</th>
<th>Total votes cast</th>
<th>Percentage of issued share capital voted²</th>
<th>Votes withheld²</th>
</tr>
</thead>
<tbody>
<tr>
<td>To approve the Directors’ Remuneration Policy report</td>
<td>408,174,050</td>
<td>4,491,155</td>
<td>412,665,205</td>
<td>80.64</td>
<td>16,293,308</td>
</tr>
</tbody>
</table>

¹ The total voting rights in the Company as at the dates of both meetings were 511,738,648 ordinary shares of 5 pence each, each carrying one vote on a poll.
² A vote withheld is not a vote in law and is not counted in the calculation of votes for or against the resolutions.

Statement of implementation of remuneration policy in 2017

Executive Directors’ base salaries

The Committee determined that the salary for the Group Chief Executive would be increased by 4.4% to £515,000 with effect from 1 January 2017. In reaching this conclusion, the Committee recognised the Group Chief Executive’s strong personal performance in his role which had delivered:

• significant shareholder value over the course of 2016;
• a good outlook for the Group for 2017 under the strategy for growth; and
• strong delivery on operational metrics.

In addition, the Committee took into account that, when compared with direct competitors, the Group Chief Executive’s overall remuneration package is more highly geared with outcome driven through stronger annual and long-term incentives which drive...
greater shareholder value. Also, the Committee is mindful that, whilst the Group’s general awarded pay increase in 2016 across the Group was 2%, when allowing for other factors such as progression increases within a grade structure, promotional increases and market adjustments, UK employees had seen a 4% increase in base pay over the previous 12 months.

The Committee determined that the salary for Matthew Ashley would be increased by 7.7% to £350,000 with effect from 1 January 2017. After another excellent year of personal delivery during 2016 and in recognition of his strong performance in the role, the Committee determined that it was appropriate that the second step of Matthew’s salary towards the market rate for this role, (as disclosed in the 2015 Remuneration Report), be implemented. In accordance with the Remuneration Policy, Matthew Ashley will be provided with relocation expenses to cover his secondment as President and CEO of the North America division. The details of Matthew Ashley’s international assignment package will be disclosed in next year’s Remuneration Report.

Chris Davies has been appointed to the role of Group Finance Director and will take up his appointment after the conclusion of the Company’s AGM on 10 May 2017. His base salary was set at £350,000 for 2017.

Pension entitlements and cash allowances
The Group Chief Executive will receive a 35% salary supplement and the other Executive Directors will receive a 25% salary supplement in lieu of pension contributions. Benefits under the Group Chief Executive’s unfunded pension arrangement ceased to accrue from 5 June 2016.

Performance-related bonus
The annual bonus for the 2017 financial year will operate on the same basis as the arrangements in place during 2016.

The structure of the annual bonus for 2017 will be:
- a maximum bonus of 200% of salary for the Group Chief Executive and of 150% of salary for the other Executive Directors;
- the proportion of the bonus linked to non-financial measures will be 25% based on operational excellence, safety standards and other strategic objectives;
- the remaining 75% of the bonus will be based on achievement of financial targets, namely profit before tax and free cash flow; and
- a proportion of bonus earned will be deferred in shares for one year. For 2017, 25% of the bonus earned up to 125% of salary, 50% of the bonus earned from 125% to 150% of salary and, for the Group CEO, 75% of bonus earned above 150% of salary will be deferred.

When setting the bonus target for 2017, the Committee has taken into account:
- stock market consensus for 2017 profit;
- the Directors’ continuing commitment to record bid costs as normalised operating expenses;
- the increased pricing pressure from RENFE in Spain;
- the national reduction in regional bus journeys made in the UK and the increased competition from Uber; and
- the national reduction in regional train journeys made in the UK and the consequential increased price competition to UK Coach.

Targets will be set on a basis consistent with accounting measures, ie without reference to exceptional.

The Committee will set calibrated targets for the bonus measures and intends to disclose actual performance against these targets in next year’s Directors’ Remuneration Report. As a matter of commercial sensitivity, the Committee has decided not to disclose performance targets in advance.

Long-term incentives
Long-term incentive awards granted in the 2017 financial year will be granted in accordance with the policy detailed in the Remuneration Policy section of this report. Awards will be made worth 200% of salary for the Group Chief Executive and 150% of salary for the other Executive Directors.

The performance measures, their weightings and targets for the 2017 awards will be as follows:

<table>
<thead>
<tr>
<th>Metric</th>
<th>Threshold (EPS, TSR; ROCE: 30% vesting)</th>
<th>Target (50% vesting)</th>
<th>Maximum (100% vesting)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019 financial year EPS</td>
<td>1/3</td>
<td>29.8 pence</td>
<td>31.6 pence</td>
</tr>
<tr>
<td>Average ROCE financial years 2017-2019</td>
<td>1/3</td>
<td>9%</td>
<td>10%</td>
</tr>
<tr>
<td>Relative TSR vs FTSE 250</td>
<td>1/6</td>
<td>Median</td>
<td>–</td>
</tr>
<tr>
<td>Relative TSR vs Bespoke Index*</td>
<td>1/6</td>
<td>Equal to Index</td>
<td>–</td>
</tr>
</tbody>
</table>

* Notional index comprising Go-Ahead Group, First Group and Stagecoach Group.

For TSR measures, straight-line vesting will occur between threshold and maximum levels of performance. For EPS and ROCE measures, straight-line vesting will occur between threshold and target, and target and maximum levels of performance.

Performance will be measured over a three-year period and awards will be subject to a two-year holding period post vesting.
Illustrations of application of Remuneration Policy for Executive Directors

The chart below illustrates the remuneration that would be paid to each of the Executive Directors under three different performance scenarios: (i) Minimum; (ii) On-target; and (iii) Maximum:

<table>
<thead>
<tr>
<th>Remuneration (£’000)</th>
<th>Fixed</th>
<th>Annual variable</th>
<th>PSP variable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>On-target</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maximum</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Dean Finch

<table>
<thead>
<tr>
<th>Remuneration (£’000)</th>
<th>Fixed</th>
<th>Annual variable</th>
<th>PSP variable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum</td>
<td>£860k</td>
<td></td>
<td></td>
</tr>
<tr>
<td>On-target</td>
<td>£1,844</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maximum</td>
<td>£3,320k</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Matthew Ashley

<table>
<thead>
<tr>
<th>Remuneration (£’000)</th>
<th>Fixed</th>
<th>Annual variable</th>
<th>PSP variable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum</td>
<td>£875k</td>
<td></td>
<td></td>
</tr>
<tr>
<td>On-target</td>
<td>£1,505k</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maximum</td>
<td>£1,905k</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The elements of remuneration have been categorised into three components: (i) Fixed; (ii) Annual variable; and (iii) Multiple reporting period, which are set out in the future policy table below.

Element | Descriptions
--- | ---
Fixed | Total amount of salary, pension and benefits
Annual variable | Performance-related bonus (including deferred element)
Multiple reporting variable | Long-Term Incentive Plan

Assumptions used in determining the level of payout under given scenarios are as follows:

- Salaries are as at 1 January 2017 for both Dean Finch and Matthew Ashley. Illustrations have not been provided for Chris Davies, given that he is expected to join the Board part-way through the year.
- Benefits are those paid to both Dean Finch and Matthew Ashley in 2016.
- Performance Share Awards are granted at the maximum level permitted under the policy.
- Minimum performance scenario assumes fixed pay only and no variable payments.
- On-target performance scenario assumes performance in line with the Company’s expectations, resulting in 30% of maximum vesting in respect of long-term incentive awards and 50% of maximum payout, assuming 50% achievement of personal objectives, in respect of the annual bonus. Whilst the bonus scheme has targets for threshold, on-target and maximum, the LTIP only has targets for threshold and maximum for some metrics. The value shown above in the on-target scenario includes the values for on-target bonus and threshold LTIP performance.
- Maximum performance scenario assumes outstanding level of performance, i.e., maximum bonus and full vesting of long-term incentives.
- Share price appreciation is not allowed for.

Non-Executive Directors’ fees

With effect from 1 January 2017, it was agreed that the Chairman’s fee would be increased by 4.3% to £240,000 in recognition of the significant contribution and unique attributes that Sir John Armitt brings to the Board and to bring his fee to a more competitive level. The Non-Executive base fee would be increased by 5% to £51,500 and the Senior Independent Director’s fee would be increased by 5% to £7,500 in order to ensure that these fees reflect the role and responsibility and the market rate for these positions. The fees for the Chairman and Non-Executive Directors with effect from 1 January 2017 are therefore as follows:

<table>
<thead>
<tr>
<th>Role</th>
<th>Fees (£)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chairman</td>
<td>240,000</td>
</tr>
<tr>
<td>Non-Executive Director</td>
<td>51,500</td>
</tr>
<tr>
<td>Senior Independent Director</td>
<td>7,500</td>
</tr>
<tr>
<td>Chairman of Board Committee</td>
<td>10,000</td>
</tr>
</tbody>
</table>

In addition, a travel allowance £4,000 is payable to Joaquin Ayuso, Chris Muntwyler and Lee Sander for attendance at Board meetings held outside the continent in which the Non-Executive Director is resident.
## Appendix

### LTIP Awards to Executive Directors

<table>
<thead>
<tr>
<th>LTIP Share Awards</th>
<th>At 1 January 2016</th>
<th>Granted</th>
<th>Exercised</th>
<th>Expired</th>
<th>At 31 December 2016</th>
<th>Market price on date of award</th>
<th>Market price at date of exercise</th>
<th>Date of award</th>
<th>Date from which exercisable</th>
<th>Expiry date</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Performance Shares</strong></td>
<td>280,898</td>
<td>–</td>
<td>206,038</td>
<td>74,860</td>
<td>–</td>
<td>199.9p</td>
<td>343.8p</td>
<td>10.04.13</td>
<td>10.04.16</td>
<td>10.10.16</td>
</tr>
<tr>
<td><strong>Matching Shares</strong></td>
<td>337,076</td>
<td>–</td>
<td>247,245</td>
<td>89,831</td>
<td>–</td>
<td>199.9p</td>
<td>343.8p</td>
<td>10.04.13</td>
<td>10.04.16</td>
<td>10.10.16</td>
</tr>
</tbody>
</table>

**Dean Finch**

| Performance Shares | 204,520           | –       | –         | –       | 204,520             | 279.5p                        | –                               | 09.04.14       | 09.04.17                     | 09.10.17   |
| Matching Shares    | 245,424           | –       | –         | –       | 245,424             | 279.5p                        | –                               | 09.04.14       | 09.04.17                     | 09.10.17   |
| Performance Shares | 356,303           | –       | –         | –       | 356,303             | 315.4p                        | –                               | 11.06.15       | 05.03.18                     | 05.03.20   |
| Performance Shares | – 342,641         | –       | –         | –       | 342,641             | 349.3p                        | –                               | 06.04.16       | 06.04.19                     | 06.04.21   |
| Five-Year Award    | 261,407           | –       | –         | –       | 261,407             | 211.7p                        | –                               | 03.08.12       | 03.08.17                     | 03.08.18   |
| Five-Year Award    | 257,973           | –       | –         | –       | 257,973             | 210.0p                        | –                               | 23.05.13       | 23.05.18                     | 23.05.19   |
| Five-Year Award    | 204,520           | –       | –         | –       | 204,520             | 279.5p                        | –                               | 09.04.14       | 09.04.19                     | 09.04.20   |

**Matthew Ashley**

| Performance Shares | 94,484            | –       | 69,304    | 25,180  | –                   | 199.9p                        | 343.8p                          | 10.04.13       | 10.04.16                     | 10.10.16   |
| Matching Shares    | 108,000           | –       | 79,218    | 28,782  | –                   | 199.9p                        | 343.8p                          | 10.04.13       | 10.04.16                     | 10.10.16   |
| Performance Shares | 68,793            | –       | –         | –       | 68,793              | 279.5p                        | –                               | 09.04.14       | 09.04.17                     | 09.10.17   |
| Matching Shares    | 82,548            | –       | –         | –       | 82,548              | 279.5p                        | –                               | 09.04.14       | 09.04.17                     | 09.10.17   |
| Performance Shares | 142,902           | –       | –         | –       | 142,902             | 315.4p                        | –                               | 11.06.15       | 05.03.18                     | 05.03.20   |
| Performance Shares | – 141,797         | –       | –         | –       | 141,797             | 349.3p                        | –                               | 06.04.16       | 06.04.19                     | 06.04.21   |

By order of the Board

![Signature]

**Jane Kingston**

Remuneration Committee Chair

23 February 2017
Directors’ Remuneration Policy

Remuneration structure
The table below sets out the key elements of the Company’s Remuneration Policy for the Executive Directors which was approved at the 2015 AGM and will remain in force for another year until the conclusion of the 2018 AGM. The policy balances the desire to align remuneration to the long-term success of the business and shareholders whilst also enabling the Company to effectively recruit and motivate key individuals.

Remuneration policy table for Executive Directors

<table>
<thead>
<tr>
<th>Element</th>
<th>How element supports business strategy</th>
<th>Operation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base salary</td>
<td>To provide a competitive level of salary as the main component of fixed remuneration. Enables the Group to recruit and retain Executive Directors of the calibre required to fulfill the role and is key to developing and implementing business strategy without paying more than is necessary to do so.</td>
<td>The salary of individual Executive Directors is paid monthly in cash and is normally reviewed annually. In determining base salaries, the Committee considers: • pay levels at companies of a similar size and complexity in the FTSE 250; • external market conditions; • general performance of the Company; • pay and conditions elsewhere in the Group; and • individual performance, skills, experience in post and potential. When considering pay increases the Committee will use comparator groups that will be based on groups of transport/leisure and general sector companies of a similar size. The Committee retains discretion to amend the comparator groups as necessary in order to remain relevant. Any changes to the comparator group will be disclosed in the part of the report setting out the operation of the policy for the future year.</td>
</tr>
<tr>
<td>Pension-related benefits</td>
<td>To provide competitive benefits in line with market practice and provide funds to allow Executives to save for retirement. Pension benefits are a fixed element of remuneration.</td>
<td>Executive Directors are provided a cash allowance in lieu of a pension provision in line with market practice. The Group CEO receives a cash supplement in lieu of pension at 35% of salary. The Group FD receives a pension contribution or a cash supplement in lieu of pension at 25% of salary. Only basic salary counts for the purpose of the allowance.</td>
</tr>
<tr>
<td>Benefits</td>
<td>To provide competitive benefits as part of fixed remuneration in line with market practice to enable the Group to recruit and retain talent.</td>
<td>Executive Directors receive family private healthcare, death in service and life assurance cover (4x base salary), long-term sickness and disability insurance, a cash alternative to a fully expensed car, free travel on the Company’s services and professional membership subscriptions. The Committee has discretion to provide additional benefits or remove benefits in order to remain competitive or to meet the needs of the business, for example to provide relocation expenses, including financial tax and legal advice if applicable. Any change to benefit provision will be detailed on an annual basis.</td>
</tr>
</tbody>
</table>

Shareholder consultation
The Committee is committed to an ongoing dialogue with shareholders and seeks shareholder views when any significant changes are being made to remuneration arrangements. In particular, the Committee consulted with a number of major shareholders in the formulation of the current Remuneration Policy to understand their views and to inform the Committee’s approach. The Committee believes that the feedback received has been crucial in the development of the structure which is in place.

Not applicable.

Not applicable.

Not applicable.
In addition to the components described below, it is the policy of the Company to honour any commitments made to a Director before this policy took effect or before he/she became a Director. Such commitments include the Group Chief Executive’s unfunded pension arrangement, which ceased to accrue from 5 June 2016, and his Five-Year Award, both of which are described in the Annual Report on Remuneration.

<table>
<thead>
<tr>
<th>Element</th>
<th>How element supports business strategy</th>
<th>Performance conditions and assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base salary</td>
<td>To provide a competitive level of salary as the main component of fixed remuneration. Enables the Group to recruit and retain Executive Directors of the calibre required to fulfil the role and is key to developing and implementing business strategy without paying more than is necessary to do so.</td>
<td>Not applicable.</td>
</tr>
<tr>
<td>The salary of individual Executive Directors is paid monthly in cash and is normally reviewed annually. In determining base salaries, the Committee considers:</td>
<td>• pay levels at companies of a similar size and complexity in the FTSE 250; • external market conditions; • general performance of the Company; • pay and conditions elsewhere in the Group; and • individual performance, skills, experience in post and potential. When considering pay increases the Committee will use comparator groups that will be based on groups of transport/leisure and general sector companies of a similar size. The Committee retains discretion to amend the comparator groups as necessary in order to remain relevant. Any changes to the comparator group will be disclosed in the part of the report setting out the operation of the policy for the future year.</td>
<td></td>
</tr>
<tr>
<td>The Committee’s policy is to set base salary at an appropriate level taking into account the factors outlined in this table. The maximum annual salary increase will not normally exceed the average increase which applies across the wider workforce. However, larger increases may be awarded in certain circumstances including but not limited to:</td>
<td>• increase in scope of responsibilities of the role; • to apply salary progression for a newly appointed Director; and • where a Director’s salary has fallen significantly below market position. In these circumstances, subsequent increases may be staged over a number of years until the target positioning (and desired performance) is reached. In such circumstances, the increase will not exceed RPI + 10%. The Company will set out in the section headed ‘Statement of implementation of Remuneration Policy’ in the following financial year the salaries for that year for each of the Executive Directors (see page 102).</td>
<td></td>
</tr>
<tr>
<td>Executive Directors are provided a cash allowance in lieu of a pension provision in line with market practice. The Group CEO receives a cash supplement in lieu of pension at 35% of salary. The Group FD receives a pension contribution or a cash supplement in lieu of pension at 25% of salary. Only basic salary counts for the purpose of the allowance.</td>
<td>The Committee’s policy is that the maximum cash allowance payable in lieu of a pension will be 35%.</td>
<td></td>
</tr>
<tr>
<td>The cost to the Company of providing the benefits may vary from year to year in accordance with market conditions and will, therefore, determine the maximum amount that would be paid in the form of benefits during the policy period.</td>
<td>Not applicable.</td>
<td></td>
</tr>
</tbody>
</table>
## Directors’ Remuneration Report continued

<table>
<thead>
<tr>
<th>Element</th>
<th>How element supports business strategy</th>
<th>Operation</th>
</tr>
</thead>
</table>
| **Performance-related bonus** | To incentivise delivery of performance objectives which are directly linked to the financial and strategic priorities of the business. A portion of bonus is deferred into shares, assisting retention of Executive Directors and aligning their financial interests with those of shareholders. | Bonus payments are based on the achievement of specified corporate (financial and non-financial) objectives over a one-year performance period. A proportion of the bonus payments is subject to mandatory deferral into shares for one year from award as follows:  
- 25% of the bonus earned up to 125% of salary  
- 50% of the bonus earned from 125% to 150% of salary  
- 75% of the bonus earned above 150% of salary (applicable to Group CEO only)  
Dividends or dividend equivalents (which may assume notional re-investment) are paid on these shares.  
The Remuneration Committee retains the discretion to standardise the percentage of the bonus deferred into shares if this is deemed appropriate in the future. Unless the Committee determines otherwise, the market price per share on the date of the award will be calculated on the basis of the average market price share in the five days preceding the date of the grant.  
Bonus payments are paid following year end and are not pensionable. Only the Executive Directors currently participate in the Company’s bonus deferral arrangements. Other employees may be invited to participate in future years at the Committee’s discretion.  
Achievement of each element of the bonus is assessed independently. Provisions exist that require the deferred shares to be forfeited or repaid should it be necessary for the Company to restate materially the financial results upon which the bonus was awarded within a two-year period following the deferred bonus being awarded. The proportion of the bonus that would be subject to this provision would depend on the extent to which the original bonus payment turned out to be false following the publication of corrected results. |
| **Long-Term Incentive Plan – Performance Shares** | To drive performance, aid retention and align the interests of Executive Directors with shareholders. The performance conditions are aligned with the long-term performance of the business, thereby driving participants to achieve outcomes that realise shareholder value. | Performance Share Awards (in the form of conditional awards, nil cost options or forfeitable shares) are granted annually and vesting is dependent on the achievement of performance conditions measured over a three-year period.  
An additional two-year holding period has been introduced to increase alignment with shareholders. Dividend equivalents can be paid on these shares.  
Awards are reviewed annually to ensure that grant levels, performance criteria and other features remain appropriate to the Company’s current circumstances. Malus and clawback provisions are attached to awards made under the LTIP which apply over a two-year period post vesting. |
| **Shareholding requirement** | Executive Directors are encouraged to build up a shareholding over a five-year period which commenced from 2015. The requirement for the Group CEO is equivalent to 200% of salary and for the Group FD the requirement is 150% of base salary. Adherence to these guidelines is a condition of continued participation in the equity incentive arrangements. This policy ensures that the interests of Executive Directors and those of shareholders are closely aligned. | |
Maximum potential value

Performance conditions and assessment

Maximum 200% of base salary.

The targets for the bonus in respect of 2017 are as follows:
- 75% bonus is subject to normalised profit and free cash flow targets
- 25% is subject to non-financial targets

The Committee retains discretion in exceptional circumstances to amend the weightings of the financial and non-financial elements of the bonus from year to year and for each Executive as appropriate.

The targets attached to the financial condition will typically relate to profit and/or cash generation, are set on an annual basis and are intended to be achievable at threshold and stretching at maximum.

The numerical values of the target will not be disclosed in advance as the Committee considers this information commercially sensitive.

Actual targets, performance achieved and awards will be published at the end of the performance period in order that shareholders can fully assess the basis for any payouts under the annual bonus.

The non-financial targets will be set annually based on strategic objectives for the year. The non-financial targets include safety, customer, operational excellence and people objectives and will be determined by the Committee on an annual basis. The proportion of the bonus determined by performance against non-financial targets will only become payable when the Company achieves a threshold level of normalised profit.

It is a pre-condition to the award of any bonus that the Remuneration Committee has determined that there has been an improvement in safety processes, procedures and outcomes during the year in the relevant business unit before any bonus is paid.

For further details on the measures and targets which applied to bonuses in 2016, please see page 93.

The annual bonus contains malus and clawback provisions.

The Group CEO is eligible to receive a conditional award of Performance Shares up to an equivalent of 200% of salary per annum.

The Group FD is eligible to receive a conditional award of Performance Shares up to an equivalent of 150% of base salary per annum.

Awards will be subject to stretching performance targets over a period of three years.

The Committee may change the balance of the measures, or use different measures for subsequent awards, as appropriate.

No material change will be made to the type of performance conditions without prior shareholder consultation.

For 2017, the awards will be based equally as follows:
- 1/3 earnings per share (‘EPS’)
- 1/3 return on capital employed (‘ROCE’)
- 1/3 total shareholder return (split between 50% FTSE 250 comparator group and 50% competitors (TSR)).

Achievement of threshold performance in respect of the EPS and TSR targets results in 30% vesting for each part of the Award.

Achievement of threshold performance in respect of the ROCE target results in 0% vesting.

There is no ability to retest any of the performance conditions.

The Committee retains discretion under the rules of the LTIP to amend existing performance conditions to take account of any events that may arise which would mean in its opinion, if such adjustments were not made, the performance condition would not constitute a fair measure of the Company’s performance over the period.
Elements of remuneration applying under the previous policy applicable for 2016

<table>
<thead>
<tr>
<th>Element</th>
<th>How element supports business strategy</th>
<th>Operation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-Term Incentive Plan – Matching Shares</td>
<td>To drive performance, aid retention and align the interests of Executive Directors with shareholders.</td>
<td>Executive Directors are eligible to receive Matching Shares that are funded either through using an annual bonus award to purchase shares or through the pledging of shares held not already allocated to the LTIP. Matching awards are made on the basis of up to four Matching Shares being awarded (based on the value of the investment) for each National Express share pledged or purchased. Reviewed annually to ensure that grant levels, performance criteria and other features remain appropriate to the Company’s current circumstances, and to ensure that there are no features of the plans that could inadvertently motivate irresponsible behaviour.</td>
</tr>
</tbody>
</table>

LTIP – performance conditions for the National Express Group PLC 2015 Long-Term Incentive Plan (‘2015 LTIP’)

EPS, TSR and ROCE were chosen for the 2015 LTIP as appropriate measures of the Group’s long term performance.

The table below summarises the rationale for the inclusion of these measures in the 2015 LTIP.

<table>
<thead>
<tr>
<th>Measure</th>
<th>Rationale for performance measure</th>
</tr>
</thead>
</table>
| EPS     | • Important growth measure considered within the Company and a driver of shareholder value  
         • Provides a transparent and accessible method of gauging the financial performance of the Company  
         • Ensures the annual profit performance targeted by the annual bonus plan flows through to long-term sustainable EPS growth  
         • The Company calculates performance against this measure by reference to the earnings per share figures reported in the Company’s audited accounts |
| TSR     | • Improves Shareholder alignment  
         • Consistent with the Company’s objective of providing superior long-term returns to shareholders |
| ROCE    | • Added to the 2015 LTIP  
         • Demonstrates how efficiently the Company is operating with the resources available |

If the Committee changes the performance conditions within the life of the Remuneration Policy, it will inform shareholders of the changes made and the reason for making any change.

On a change of control, Performance Shares will vest, except to the extent they are exchanged for awards over shares in the acquiring company. Vesting will be subject to any performance conditions and will normally be reduced to reflect early vesting, unless the Remuneration Committee determines that a reduction in the number of vested shares is considered inappropriate. The number or class of shares under award may be adjusted on a rights issue, variation of capital, demerger or similar transaction.

Comparison with approach to remuneration across the Group

National Express Group operates internationally and accordingly, the remuneration policy for employees generally reflects the legislative and labour market requirements in each separate jurisdiction. The Group will always meet or exceed national minimum standards for terms and conditions of employment in each of our business areas, offering pay, terms and conditions that are appropriate to each labour market in which we operate. Base pay is set at a level that allows us to recruit and retain staff in each relevant labour market and performance-related pay arrangements are based on the achievement of business unit and individual goals, objectively assessed. Other than for a small number of senior Executives in each business unit, long-term incentive plans are only applicable at Executive Director level.

Approach to recruitment remuneration of Executive Directors

In the event that the Company recruits a new Executive Director (either from within the organisation or externally), when determining appropriate remuneration arrangements, the Committee will take into consideration all relevant factors (including but not limited to quantum, the type of remuneration being offered and the jurisdiction the candidate was recruited from) to ensure that arrangements are in the best interests of both the Company and its shareholders without paying more than is necessary to recruit an Executive of the required calibre.

The Committee’s policy is for all Executive Directors to have rolling service contracts with a notice period of 12 months, unless on an exceptional basis to complete an external recruitment successfully, when a longer initial period reducing to 12 months may be used.

The Committee would generally seek to align the remuneration of any new Executive Director following the same principles as for the current Executive Directors (set out in the table above).
The elements that would be considered by the Company for inclusion in the remuneration package for a new Director are:

- salary and benefits including defined contribution pension participation or a salary supplement in lieu of pension provision;
- participation in the performance-related bonus pro-rated for the year for which the new recruit was in post (maximum of 200% of salary). If the commencement date is after 1 September in the year, no award would normally be made for that year;
- participation in the LTIP. The Performance Shares granted will be in line with the grant levels for that grade. In the case of the appointment of a new Group Chief Executive, this grant would be a maximum of 200% and for any other position a grant of 150% would be made. The grant may be pro-rated depending on the time of appointment through the year; and
- costs relating to but not limited to relocation; London allowance; legal, financial, tax and visa advice; and pre-employment medical checks.

The Committee may make awards on appointing an Executive Director to ‘buy out’ remuneration arrangements forfeited on leaving a previous employer. The Committee would take into account both market practice and any relevant commercial factors in considering whether any enhanced and/or one-off annual incentive or long-term incentive award was necessary. Awards made by way of compensation for forfeited awards would be made on a comparable basis, taking account of performance achieved (or likely to be achieved), the proportion of the performance period remaining and the form of the award. Compensation could be in cash or shares.

In the event of recruitment or retention (other than buy-out awards as described above), the Committee may also grant awards to a new or existing Executive Director under Listing Rule 9.4.2 up to an equivalent of 200% of salary per annum. The Remuneration Committee does not currently intend to exercise this discretion to grant total awards in excess of 200% of salary and is committed to fully disclose the nature and reasons for any such discretion used in future.

**Executive Directors**
The contract dates and notice periods for the Executive Directors are shown in the table below.

<table>
<thead>
<tr>
<th>Executive Directors’ service contracts and notice periods</th>
<th>Contract date</th>
<th>Notice period from the Company</th>
<th>Notice period from the Director</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dean Finch</td>
<td>16 December 2009</td>
<td>12 months</td>
<td>6 months</td>
</tr>
<tr>
<td>Matthew Ashley</td>
<td>16 July 2015</td>
<td>12 months</td>
<td>6 months</td>
</tr>
</tbody>
</table>

The service contract of Dean Finch, which is a rolling contract, contains a provision, exercisable at the option of the Company, to pay an amount on termination of employment equal to one year’s salary, salary supplement in lieu of pension and car allowance. The Director will not be obliged to mitigate his loss in relation to any payment in lieu of notice. The Company will use the payment in lieu of notice provisions when the speed, certainty and protection of restrictive covenants afforded by such clauses are thought to be in the best interests of the Company and the circumstances surrounding the departure of the Director justify their use.

The service contracts for the current Executive Directors are available to view on request from the Company Secretary.

The Committee continuously reviews its policies on Executive remuneration and severance in the best interests of shareholders. Guidance on best practice expectations is taken into account prior to agreeing Directors’ contractual provisions.

The Group Chief Executive is entitled, under an unfunded pension arrangement, to a pension based on the value of notional contributions of 25% of his salary, plus a 5% per annum notional return. The benefits under the unfunded pension arrangement ceased to accrue with effect from 5 June 2016. The pension normally becomes payable, at the earliest, on 1 April 2022. All or part of it may be paid as a lump sum.

Executive Directors are also provided with Directors’ and Officers’ insurance and are indemnified by the Company against certain liabilities incurred in the course of their duties, including the costs of defending actions against them.
Executive Directors' external appointments
Under the terms of their service agreements, Board approval is required before any external appointment may be accepted by an Executive Director. The Executive Director is permitted to retain any fees paid for such services.

Details of the fee received by the Group Chief Executive in 2016 are shown below. Dean Finch resigned from this Non-executive directorship with effect from 31 May 2016.

<table>
<thead>
<tr>
<th>Director</th>
<th>Fee</th>
<th>External appointment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dean Finch</td>
<td>£6,240</td>
<td>Royal Free London NHS Foundation Trust</td>
</tr>
</tbody>
</table>

Executive Directors’ termination payments
The Company may at its discretion pay in lieu of notice. Payment in lieu of notice could potentially include up to 12 months’ base salary, benefits and pension (which may be payable in instalments and subject to mitigation).

The table below sets out the treatment of other elements of remuneration that would normally apply for Executive Directors whose service with National Express terminates:

<table>
<thead>
<tr>
<th>Reason for termination</th>
<th>Salary and contractual benefits</th>
<th>Performance-related bonus awards</th>
<th>Unvested Deferred Bonus awards</th>
<th>Unvested Long-Term Incentive Plan awards</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retirement, disability, redundancy, death, sale of part of Company that employs participant, or any other reason that the Remuneration Committee decides.</td>
<td>Payment equal to the aggregate of the basic salary and the value of any contractual benefits for the notice period including any accrued but untaken holiday.</td>
<td>Bonus awarded (subject to satisfaction of performance targets) for the relevant financial year.</td>
<td>Award vests on the date of cessation of employment.</td>
<td></td>
<td>Fees for outplacement and legal advice may be paid. The amount of award vesting will be subject to the satisfaction of performance conditions as at the date the award is deemed to vest. Awards will normally be reduced time pro rata to reflect time elapsed between grant and cessation of employment.</td>
</tr>
<tr>
<td>Other reasons</td>
<td>Paid to date of termination, including any accrued but untaken holiday pay.</td>
<td>No award for year of termination.</td>
<td>Award lapses on cessation of employment.</td>
<td></td>
<td>Awards lapse in full on leaving employment.</td>
</tr>
</tbody>
</table>

1 Pursuant to Dean Finch's service contract dated 16 December 2009, if his contract is terminated for reasons other than for an event of default by the Executive (such as gross misconduct), he is entitled, subject to the applicable performance conditions, to a pro rata bonus calculated up to the termination date from the commencement of the relevant bonus year in which termination takes place.

Subject to the circumstances surrounding the termination, the Committee in its discretion may treat the individual as an approved leaver (ie under the first section in the table above). The Committee will consider factors such as personal performance and conduct, overall Company performance and the specific circumstances of the Executive’s departure, including but not restricted to whether the Executive is leaving by mutual agreement with the Company.

In addition, the Committee will consider the above circumstances in considering whether awards in respect of approved leavers should be pro-rated to reflect the service completed.

The Committee reserves the right to make additional exit payments where such payments are made in good faith:
- in discharge of an existing legal obligation (or by way of damages for breach of such an obligation); or
- by way of settlement or compromise of any claim arising in connection with the termination of a Director’s office or employment.
**Remuneration policy for Non-Executive Directors**

### Non-Executive Directors’ appointments

The Non-Executive Directors do not have service contracts with the Company and do not participate in the Group’s pension scheme, annual bonus scheme or long-term incentive schemes. Non-Executive Directors have letters of appointment and are appointed for an initial three-year term. Non-Executive Directors are typically expected to serve for two three-year terms, although their appointment can be terminated either by them or the Company on one month’s written notice. It is open to the Company to invite a Non-Executive Director to serve for a further period after the expiry of two three-year terms. The letters of appointment for the current Non-Executive Directors can be found on the Company’s website, www.nationalexpressgroup.com.

Non-Executive Directors are also provided with Directors’ and Officers’ insurance and are indemnified by the Company against certain liabilities incurred in the course of their duties, including the costs of defending actions against them.

In accordance with the requirements of the Code, all Directors are required to stand for election or re-election by shareholders each year. The original appointment dates of the Chairman and Non-Executive Directors are shown in the table below. The remuneration of any new Non-Executive Director will be determined following the same principles as for the current Non-Executive Directors.

### Non-Executive Directors’ appointment dates

<table>
<thead>
<tr>
<th>Director</th>
<th>Date of appointment</th>
<th>Notice period by either Company or Director</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sir John Armitt CBE</td>
<td>1 January 2013</td>
<td>3 months</td>
</tr>
<tr>
<td>Joaquin Ayuso</td>
<td>1 June 2011</td>
<td>1 month</td>
</tr>
<tr>
<td>Jorge Cosmen</td>
<td>1 December 2005</td>
<td>0 months</td>
</tr>
<tr>
<td>Chris Muntwyler</td>
<td>11 May 2011</td>
<td>1 month</td>
</tr>
<tr>
<td>Lee Sander</td>
<td>1 June 2011</td>
<td>1 month</td>
</tr>
<tr>
<td>Jane Kingston</td>
<td>26 February 2014</td>
<td>1 month</td>
</tr>
<tr>
<td>Matthew Crummack</td>
<td>6 May 2015</td>
<td>1 month</td>
</tr>
<tr>
<td>Mike McKeon</td>
<td>3 July 2015</td>
<td>1 month</td>
</tr>
<tr>
<td>Dr Ashley Steel</td>
<td>1 January 2016</td>
<td>1 month</td>
</tr>
</tbody>
</table>

### Remuneration Policy for the Non-Executive Directors

<table>
<thead>
<tr>
<th>Element</th>
<th>Purpose</th>
<th>Operation</th>
<th>Maximum potential value</th>
<th>The Committee’s policy is to set base fees at an appropriate level taking into account the factors outlined in this table.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-Executive fees</td>
<td>To attract and retain persons of a suitable calibre for a group of this size and to pay fees which are reflective of responsibilities, competitive with peer companies without paying more than is necessary.</td>
<td>The fees of the Non-Executive Directors are set by the Board as a whole and those of the Chairman are set by the Remuneration Committee. The fees are reviewed at appropriate intervals (normally once every year). The review takes account of fees paid for similar positions in the market, the time commitment required from the Director (estimated to be 60 days per year for the Chairman and 20 days per year for the other Non-Executive Directors) and any additional responsibilities undertaken, such as acting as Chairman to one of the Board Committees or fulfilling the role of Senior Independent Director. Non-Executive Directors are not eligible to receive pension entitlements or bonuses and may not participate in long-term incentive arrangements. A travel allowance may be paid to Non-Executive Directors for attendance at Board meetings held outside the continent in which the Non-Executive Director is resident.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Statement of conditions elsewhere in the Group

The Group operates across a number of countries and accordingly sets terms and conditions for employees which reflect the different legislative and labour market conditions that operate in each of our jurisdictions. We set Global People Standards to provide a framework for recognition and rewards internationally. We will always meet or exceed national minimum standards for terms and conditions of employment in each of our business areas. Pay arrangements in our businesses also reflect local performance with personal increases based on achievement, individually assessed. National Express believes in the value of continuous improvement, both for the individual and for the Company. The Company did not consult with employees in drawing up the Directors’ Remuneration Policy.

When determining the remuneration of Executive Directors, the Remuneration Committee takes into account business unit performance, including both financial performance and safety improvements in the year. Because of the wide variety in labour market conditions and in exchange rate movements, pay rates locally are not normally considered when considering Executive Director base pay reviews.

The Remuneration Committee reviews and notes the salaries of the Senior Management Group. LTIP awards are cascaded down below Executive Director level to the Senior Management Group, aligning the senior team to deliver value for the Group.
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:

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

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.
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.

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:

<table>
<thead>
<tr>
<th>Ordinary shares</th>
<th>Percentage of share capital*</th>
<th>Nature of holding</th>
</tr>
</thead>
<tbody>
<tr>
<td>European Express Enterprises Ltd</td>
<td>66,481,891</td>
<td>12.9</td>
</tr>
<tr>
<td>Newton Investment Management Ltd</td>
<td>51,180,109</td>
<td>10.0</td>
</tr>
<tr>
<td>Prudential PLC</td>
<td>50,987,079</td>
<td>9.9</td>
</tr>
<tr>
<td>Standard Life Investments (Holdings) Ltd</td>
<td>26,616,766</td>
<td>5.0</td>
</tr>
</tbody>
</table>

* 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.
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.

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
Directors’ Responsibilities Statement

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare such Financial Statements for each financial year. Under that law the Directors are required to prepare the Group Financial Statements in accordance with International Financial Reporting Standards (‘IFRSs’) as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the parent Company Financial Statements in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework. Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the parent Company Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether Financial Reporting Standard 101 Reduced Disclosure Framework has been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group Financial Statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity’s financial position and financial performance; and
- make an assessment of the Company’s ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company’s transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Financial Statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company’s website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

We confirm that to the best of our knowledge:

- the Financial Statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company’s position, performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 23 February 2017.

By order of the Board

Dean Finch
Group Chief Executive
23 February 2017

Matthew Ashley
Group Finance Director
23 February 2017