Directors' Remuneration Report

This Directors' Remuneration Report has been prepared in accordance with Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the 'Regulations') and the provisions of the 2014 UK Corporate Governance Code (the 'Code').

The report consists of the following sections:

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:

Strategic initiatives	Measurement through the incentives
Revenue growth	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').
Cost efficiency and better margins	Targeted through ROCE metric under the Performance Shares and indirectly through relative TSR condition attached to Performance Shares.
Operational excellence – safety, customers, people, community	Measured by non-financial metrics in the annual bonus plan.
Superior cash and returns	Measured by free cash flow metric in the annual bonus plan, and ROCE and TSR conditions attached to the Performance Shares.
Creating new business opportunities	Measured by non-financial metrics in the annual bonus plan.

How we have performed in 2016

Bonus KPIs	Threshold	Target	Maximum	Actual
Normalised PBT (£m)	£146.7m	£163.0m[1]	£179.3m	£175.0m[2]
Free cash flow (£m)	£104.3m	£115.9m[3]	£127.5m	£138.6m

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

£'000	Base salary	Taxable benefits[1]	Performance-related bonus	Value of LTIP vested[2]	Pension-related benefits[3]	2016 Total	2015 Total[4]
Group Chief Executive – Dean Finch	589	29	984	2,050	206	3,858	3,661
Group Finance Director – Matthew Ashley	325	17	431	533	81	1,387	1,390

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.

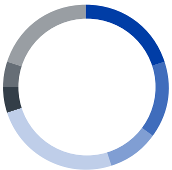
3 In addition, Dean Finch has an entitlement under an unfunded pension arrangement as described on page 111. From 5 June 2016, benefits under this arrangement ceased to accrue.

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 Group remuneration	**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 the other financial and non-financial objectives should still be eligible for bonuses in the light of their personal performance and their leadership in achieving an excellent set of corporate results. Bonuses equal to 167% of salary for the Group Chief Executive and 132.7% for the Group Finance Director were therefore determined by the Committee for the year. In accordance with the Remuneration Policy, a portion of their bonus has been deferred into shares. This reinforces the alignment of their interests with those of shareholders and assists in ensuring a strong link between pay and the value delivered to shareholders. Further details relating to these bonus payments are set out on page 93. No discretion was used by the Committee in determining these bonuses.

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 £615,000. 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 in 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.

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	£78[1]

[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.

	2016						2015					
£'000	Base salary	Taxable benefits[1]	Performance-related bonus	Value of LTIP vested[2]	Pension-related benefits[3]	Total	Base salary[4]	Taxable benefits[1]	Performance-related bonus	Value of LTIP vested[2]	Pension related benefit[3]	Total
Dean Finch	589	29	984	2,050	206	3,858	561	27	1,077	1,800	196	3,661
Matthew Ashley	325	17	431	533	81	1,387	276	126	413	506	69	1,390

[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 125% 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

	Group Chief Executive percentage of base salary	Group Finance Director percentage of base salary	Details
Maximum bonus potential	200%	150%	Proportion of bonus subject to mandatory deferral into Company shares for one year from award
Bonus potential at 90% of budgeted normalised PBT	0%	0%	Awarded on achieving threshold level
On-target bonus potential at 100% of budgeted normalised PBT	50%	37.5%	Awarded on achieving budget
Stretch bonus for 110% of budgeted normalised PBT	100%	75%	Awarded on achieving a stretch target of 110% of normalised PBT
Bonus potential at 90% of budgeted free cash flow	0%	0%	Awarded on achieving threshold level
On-target bonus potential at 100% of budgeted free cash flow	25%	18.75%	Awarded on achieving budget
Stretch bonus potential at 110% of budgeted free cash flow	50%	37.5%	Awarded on achieving a stretch target of 110% of budgeted free cash flow
Non-financial targets (underpinned by achievement of 90% of budgeted normalised PBT)	50%	37.5%	Awarded on meeting key strategic Group objectives tailored to each Executive Director's responsibilities

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

Performance condition	Weighting	Threshold performance required	On-target performance required	Maximum Performance required	Actual performance	Bonus value achievable for meeting threshold and maximum performance (percentage of salary)		Actual bonus value achieved (percentage of salary)	
						Dean Finch	Matthew Ashley	Dean Finch	Matthew Ashley
Normalised profit	50%	£146.7m	£163.0m[1]	£179.3m	£175.0m[2]	0%-100%	0%-75%	87%	65.2%
Free cash flow	25%	£104.3m	£115.9m[3]	£127.5m	£138.6m	0%-50%	0%-37.5%	50%	37.5%
Non-financial targets	25%					0%-50%	0%-37.5%	30%	30%
Total awarded								167% of salary	132.7% of salary
								£983,630	£431,438
Of which deferred in shares								56.5% of salary	35.1% of salary
								£332,785	£114,157
Of which paid in cash								110.5% of salary	97.6% of salary
								£650,845	£317,281

1 The original normalised profit target set was £152 million. This was 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 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
Safety • Deliver a year on year improvement in the Fatalities and Weighted Injuries Index ('FWI') for like-for-like operations • Roll out the World Class Driver programme in all divisions • Achieve a successful Arthur D Little audit • Secure a year on year reduction in claim incidents and the cost of claims on like-for-like business	• 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.
Business development • Secure a rail win (UK or overseas) • Secure a new win in the International Division (Middle East or new market) • Deliver high level of concession renewals in existing markets • Roll out a revenue management system in Spain and UK Coach • Deliver projected returns from North American and Spanish acquisitions	• 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 signifcant contributions to operating profit
Customer • Develop digital strategy to achieve a leap in customer service • Deliver initiatives to improve punctuality and customer satisfaction • Improve operational excellence • Successfully launch new start-ups/acquisitions	• 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
Talent development • Enhance management bench strength and improve succession planning • Develop and enhance the Group's graduate and apprenticeship programme • Produce an independent report on our People Values and develop a strategy for improvement • Build employee pride and maintain high engagement scores	• 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

Matthew Ashley

Objective	Performance
Safety • Deliver a year on year improvement in the FWI for like-for-like operations • Achieve a successful Arthur D Little audit	• 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 • The 2016 safety audit, conducted by Arthur D Little, concluded that corporate governance of safety continues to be strong and effective overall Note: despite the significant progress made against safety objectives, no bonus was awarded for the Safety objective in the light of the Chattanooga accident.
Business development • Allocate growth capital to the divisions to achieve bolt-on acquisition opportunities that are value enhancing • Support the bid for the Singapore bus tender, ensuring that our competitive bid demonstrates the operational excellence and innovation that we can deliver	• There were 11 acquisitions made during the period with a ROCE of 15-20% • 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
Operational • 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 • Lead the Group's Cyber Security Committee to identify areas of weakness and implement improvements to close identified gaps • Work with the Chief Digital Officer to develop digital scorecard and facilitate divisional benchmarking • Deliver investor relations plan to promote the business to existing and potential investors	• 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 • 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 • 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 • 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
Talent development • Develop and enhance our graduate and apprenticeship programme • Build employee pride and maintain high engagement scores	• 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 • 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

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)

Performance condition	Weighting	Threshold performance required (30% vesting)	Maximum performance required (100% vesting)	Actual performance	Percentage vesting
TSR[1]	50%	Median of comparator group	Upper quintile of comparator group	Below median	0%
EPS[2]	50%	2016 EPS of 25p	2016 EPS of 28p	29.1p	100%
Total	100%				50%

2014 Performance and Matching Shares

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

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

Grant date	Award type	Basis on which award made	Face value of award[1] £,000	Percentage of award vesting at threshold performance (ROCE:0%)	Performance period end date	Performance conditions
06.04.16	LTIP – Nil cost options	200% of salary	1,178	30%	31.12.18	TSR, EPS and ROCE equally weighted

Matthew Ashley

Grant date	Award type	Basis on which award made	Face value of award[1] £,000	Percentage of award vesting at threshold performance (ROCE:0%)	Performance period end date	Performance conditions
06.04.16	LTIP – Nil cost options	150% of salary	487	30%	31.12.18	TSR, EPS and ROCE equally weighted

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

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

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).

	EPS		ROCE		TSR measure 1			TSR measure 2			
Award	Weighting	Vesting	Weighting	Vesting	Details	Weighting	Vesting	Details	Weighting	Vesting	Total (max 100%)
2013 Chief Executive’s Five-Year Award	50%	100%	–	–	Bespoke comparator group	50%	97.6%	n/a	–	–	98.8%
2014 Chief Executive’s Five-Year Award	50%	100%	–	–	FTSE 250	25%	94.8%	Bespoke Index	25%	100.0%	98.7%
2015 – Performance Shares	33.3%	100%	33.3%	98%	FTSE 250	16.7%	100.0%	Bespoke Index	16.7%	100.0%	99.3%
2016 – Performance Shares	33.3%	91.7%	33.3%	98%	FTSE 250	16.7%	88.6%	Bespoke Index	16.7%	100.0%	94.7%

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.

		During year							
		As at 1 January 2016	Granted	Vested	Lapsed	At 31 December 2016	Market price at date of vesting	Date of grant	Date of vesting
Dean Finch	2015	76,643	–	76,643	–	0	330.0p	18.03.15	18.03.16
	2016	–	129,550	–	–	129,550		15.03.16	15.03.17
Matthew Ashley	2015	–	–	–	–	–	–	–	–
	2016	–	40,278	–	–	40,278		15.03.16	15.03.17

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.

	2016 fees £'000	2015 fees £'000	Notes
Sir John Armitt CBE	230	225	
Jorge Cosmen	49	47	
Joaquín Ayuso	49	47	
Matthew Crummack	49	32	Appointed on 6 May 2015
Jane Kingston	59	54	
Mike McKeon	59	28	Appointed on 6 July 2015
Chris Muntwyler	59	59	
Lee Sander	54	52	
Dr Ashley Steel	49	–	Appointed on 1 January 2016

In addition to the above, a travel allowance of £4,000 is payable to each of Joaquín 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: Joaquín 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: Joaquín 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.

	Shares held directly			Other shares held	
Executive Directors	Shareholding requirement (% salary)	Current shareholding as at 31 December 2016 (% salary)[1]	Beneficially owned	EDBP interests not subject to performance conditions	LTIP interests subject to performance conditions
Dean Finch	200%	160%	137,598	129,550	1,872,788
Matthew Ashley	150%	140%	87,891	40,278	436,040

[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:

	At 31 December 2016
Sir John Armitt CBE	6,000
Joaquín Ayuso	0
Jorge Cosmen[1]	69,237,515
Chris Muntwyler	0
Lee Sander	0
Jane Kingston	2,100
Matthew Crummack	0
Mike McKeon	5,000
Dr Ashley Steel	9,528

[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.

Year	2009	2010	2011	2012	2013	2014	2015	2016
Chief Executive	R Bowker[1]	D Finch	D Finch	D Finch	D Finch	D Finch	D Finch	D Finch
Total remuneration (£'000)	465	1,356	1,454	1,701	1,553	1,562	3,661	3,858
Annual bonus payment (percentage maximum opportunity)	0%	100%	100%	100%	95%	93%	96%	83.5%
LTIP vesting level achieved[2] (percentage maximum opportunity)	n/a	n/a	n/a	32.5%	0%	0%	73.4%	80.8%

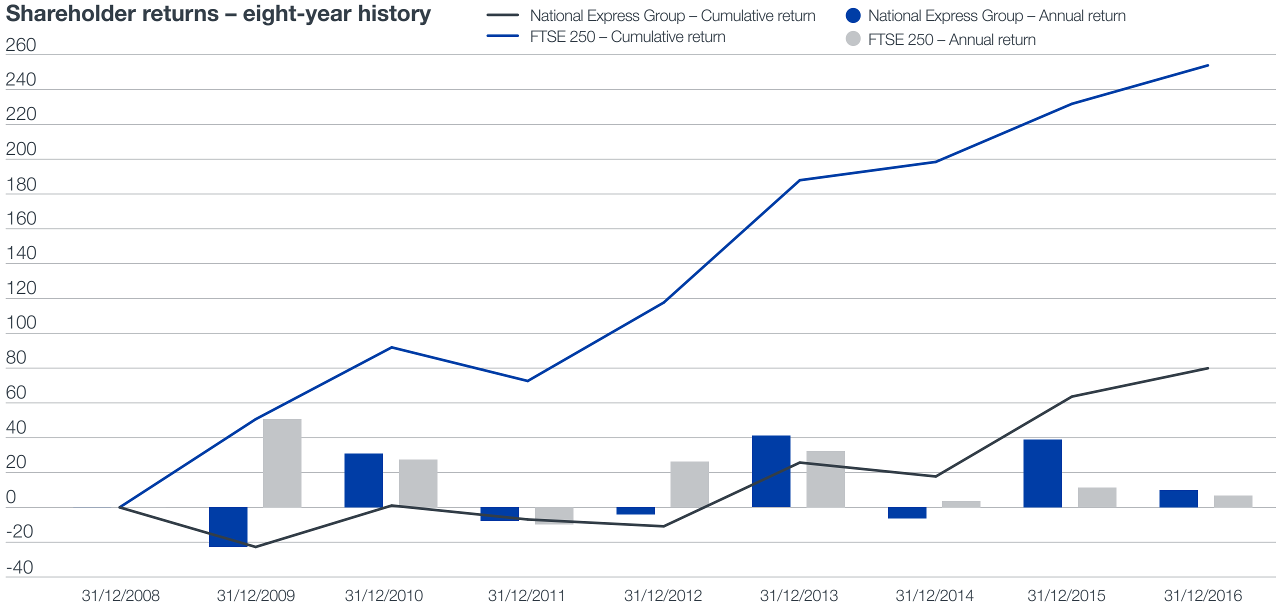
[1] R Bowker resigned as Chief Executive on 10 July 2009.

[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.

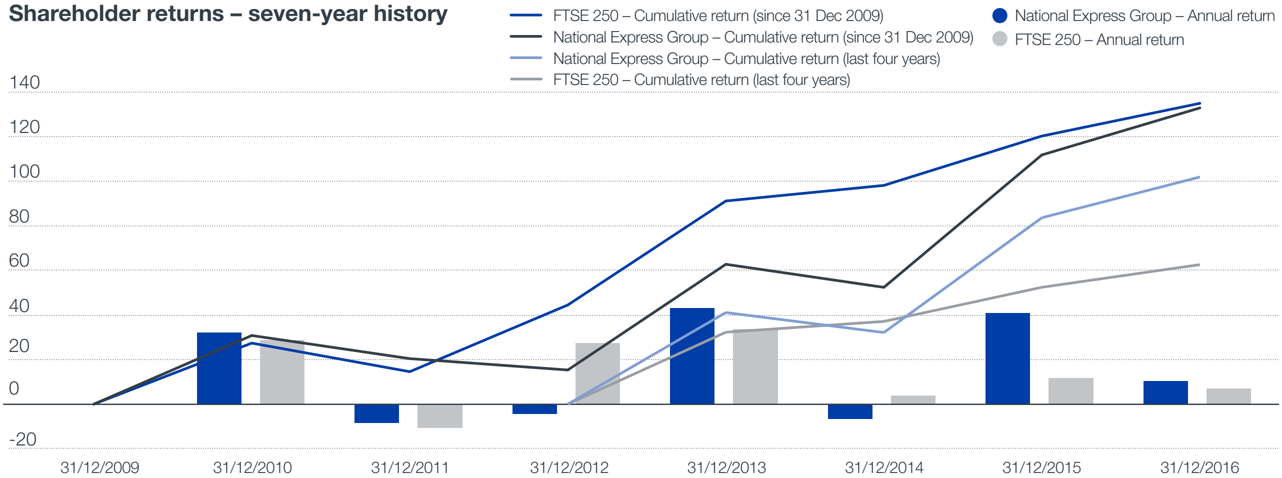
Comparison of overall performance
The first graph below shows a comparison of National Express Group PLC's eight-year total cumulative shareholder return against that achieved by the FTSE 250 Index. This index has been selected because the Company is a constituent of this index and the Committee, therefore, 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.

Shareholder returns – eight-year history



Shareholder returns – seven-year history



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.

	Average percentage increase/ decrease from 2015 to 2016		
	Base salary	Taxable benefits	Performance-related bonus
Group Chief Executive	4.9%	7.4%	(8.6)%
UK employee remuneration	2.1%	11.7%	11.3%

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:

	2016 (£m)	2015 (£m)	Percentage increase from 2015 to 2016
Overall Group spend on pay including Directors	1,020.7	842.5[1]	21.1%
Profit distributed by way of dividend	58.8	54.4	8.0%

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:

	For		Against				
Resolution text	Number of votes	Percentage of proxy votes cast	Number of votes	Percentage of proxy votes cast	Total votes cast	Percentage of issued share capital voted[1]	Votes withheld[2]
To approve the Annual Report on Remuneration	424,626,401	98.30	7,361,131	1.70	431,987,532	84.42	151,376

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:

	For		Against				
Resolution text	Number of votes	Percentage of proxy votes cast	Number of votes	Percentage of proxy votes cast	Total votes cast	Percentage of issued share capital voted[1]	Votes withheld[2]
To approve the Directors' Remuneration Policy report	408,174,050	98.91	4,491,155	1.09	412,665,205	80.64	16,293,308

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 £615,000 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 exceptionals.

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:

Metric	Weighting	Threshold (EPS, TSR: 30% vesting ROCE: 0% vesting)	Target (50% vesting)	Maximum (100% vesting)
2019 financial year EPS	1/3	29.8 pence	31.6 pence	34.4 pence
Average ROCE financial years 2017-2019	1/3	9%	10%	12%
Relative TSR vs FTSE 250	1/6	Median	–	Upper quintile
Relative TSR vs Bespoke Index*	1/6	Equal to Index	–	Index + 10% pa

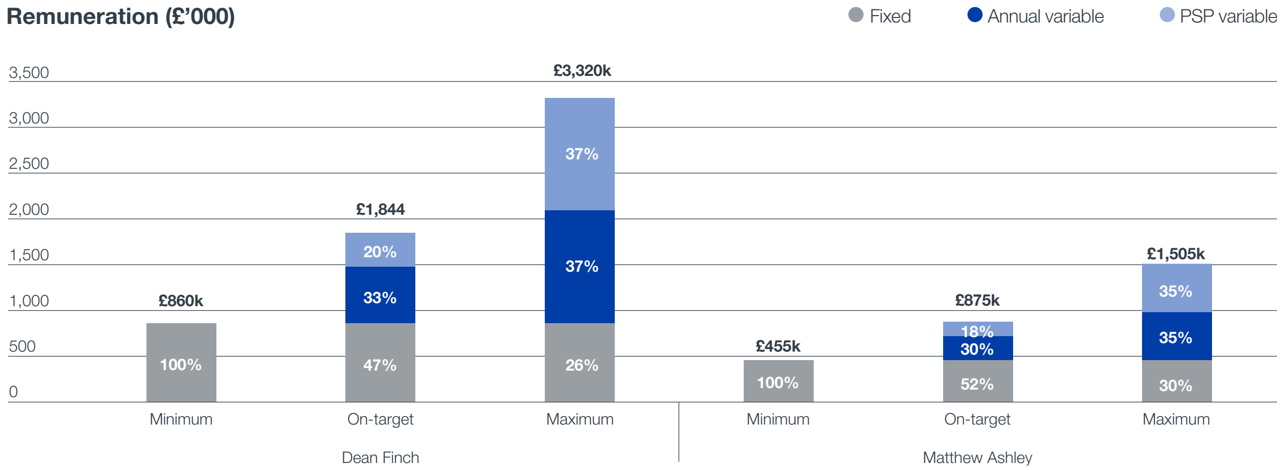
* Notional index comprising Go-Ahead Group, First Group and Stagecoach Group.

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:



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, ie 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:

Role	Fees (£)
Chairman	240,000
Non-Executive Director	51,500
Senior Independent Director	7,500
Chairman of Board Committee	10,000

In addition, a travel allowance £4,000 is payable to Joaquín 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

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

	LTIP Share Awards	At 1 January 2016	Granted	Exercised	Expired	At 31 December 2016	Market price on date of award	Market price at date of exercise	Date of award	Date from which exercisable	Expiry date
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

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.

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.

Remuneration policy table for Executive Directors

Element	How element supports business strategy	Operation
Base salary	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.	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.
Pension-related benefits	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.	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.
Benefits	To provide competitive benefits as part of fixed remuneration in line with market practice to enable the Group to recruit and retain talent.	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.

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.

Maximum potential value	Performance conditions and assessment
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: • 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).	Not applicable.
The Committee's policy is that the maximum cash allowance payable in lieu of a pension will be 35%.	Not applicable.
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.	Not applicable.

Directors' Remuneration Report continued

Element	How element supports business strategy	Operation
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

Element	How element supports business strategy	Operation
Long-Term Incentive Plan – Matching Shares	To drive performance, aid retention and align the interests of Executive Directors with shareholders. Participants only receive Matching Shares subject to investing into the business and therefore this mechanism adds an element of buy-in to the remuneration. The performance conditions are aligned with the long-term performance of the business, thereby driving participants to achieve outcomes that realise shareholder value.	Executive Directors are eligible to receive Matching Shares that are based on a personal investment in National Express Group PLC shares 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.

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.

Measure	Rationale for performance measure
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).

Maximum potential value	Performance conditions and assessment
The maximum value of investment in any year is 30% of base salary.	Half of any award will be subject to EPS growth. The remaining half will be subject to the relative shareholder return ('TSR') of the Company measured against an appropriate group of companies. Achievement of threshold performance results in 30% vesting for each part of the award. There is no ability to retest either performance condition. 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 EPS or TSR growth over the period.

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 of recruitment to reflect the proportion of 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.

Executive Directors' service contracts and notice periods

Director	Contract date	Notice period from the Company	Notice period from the Director
Dean Finch	16 December 2009	12 months	6 months
Matthew Ashley	16 July 2015	12 months	6 months

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.

Director	Fee	External appointment
Dean Finch	£6,240	Royal Free London NHS Foundation Trust

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:

Reason for termination	Salary and contractual benefits	Performance-related bonus awards	Unvested Deferred Bonus awards	Unvested Long-Term Incentive Plan awards	Other
Retirement, disability, redundancy, death, sale of part of Company that employs participant, or any other reason that the Remuneration Committee decides.	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.	Bonus awarded (subject to satisfaction of performance targets) for the relevant financial year.	Award vests on the date of cessation of employment.	Awards vest on the date of cessation of employment, unless the Remuneration Committee determines it should vest at normal vesting date. 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.	Fees for outplacement and legal advice may be paid.
Other reasons	Paid to date of termination, including any accrued but untaken holiday pay.	No award for year of termination[1].	Award lapses on cessation of employment.	Awards lapse in full on leaving employment.	

[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

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

Remuneration Policy for the Non-Executive Directors

Element	Purpose	Operation	Maximum potential value
Non-Executive fees	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.	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.	The Committee's policy is to set base fees at an appropriate level taking into account the factors outlined in this 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:

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 Execuive Director.

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

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

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

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

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

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

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

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

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

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

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

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

Directors' Report continued

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Share schemes

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

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

Articles of Association

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

Annual General Meeting

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

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

Directors' Report continued

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

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

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

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

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

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

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

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

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

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

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

By order of the Board

Joy Baldry
Company Secretary
23 February 2017

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

Dean Finch
Group Chief Executive
23 February 2017

Matthew Ashley

Matthew Ashley
Group Finance Director
23 February 2017