Chairman’s introduction to Corporate Governance

The Board is committed to ensuring that high standards of good governance, values and behaviours are in place and consistently applied in the boardroom and throughout the Group. The following pages set out our approach in this regard and cover:

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<tr>
<th>Leadership</th>
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<tbody>
<tr>
<td>How the Board and its Committees operate within a well-established governance structure and lead from the front, and the key activities of the Board during the year.</td>
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<thead>
<tr>
<th>Effectiveness</th>
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<tbody>
<tr>
<td>How the Directors perform their duties, and this year’s external Board and Committee evaluation outcomes and succession planning review.</td>
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<th>Accountability</th>
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<td>How the Audit and Safety &amp; Environment Committees fulfil their oversight responsibilities, and our audit, controls and risk management environment.</td>
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<th>Remuneration</th>
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<td>How we align Executive Director pay with our performance and the interest of shareholders, and the proposed new Directors’ Remuneration Policy.</td>
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<th>Relations with Shareholders</th>
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<td>How we maintain and manage our relationships with equity institutional and debt investors and individual shareholders, and our investor relations programme.</td>
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</table>

Dear fellow Shareholder

On behalf of the Board, I am pleased to introduce the Corporate Governance Report for the year under review.

The effective stewardship and governance of the Group remains a key commitment and high priority for the Board, which comes up in many aspects of its work. This is not only because high standards of corporate governance are vital to allowing the Directors to discharge their duties and responsibilities, but also because it helps management to enhance performance and protect value, and enables all our employees to embrace excellence and good governance in their day-to-day activities.

Culture and values

As part of its responsibility to provide effective leadership to the organisation as a whole, the Board sets the culture and tone from the top. The Executive Directors, supported by the Non-Executives, lead by example to ensure our high standards and expected values, attitudes and behaviours are understood and consistently applied throughout the Group. Collective opportunities for communicating and demonstrating this to employees and management exist when the Board visits local operations, as it did during the year to Madrid and Washington DC (see page 53). The Board monitors the corporate culture by regularly receiving HR updates and reviewing the outcomes of employee opinion surveys which are normally conducted annually.

However, while culture might originate from the behaviour of leaders, it cannot be sustained by top-down mandates and examples alone. That is why our Values are embedded across the business and represent the way we live and breathe our culture. They underpin our business model, are fundamental to the way we work with our employees, customers, suppliers and other stakeholders, and guide the way we engage with the wider community and environment which is affected by our conduct. Our Vision and Values are explained on pages 30 to 35.

Good governance helps us to implement our strategy, achieve our objectives and create and protect value for our investors and other stakeholders. It also significantly strengthens our culture.
Board changes and effectiveness

The Board completed two Executive Director changes during the year. As previously reported, we welcomed Chris Davies to the Board on 10 May and he took up the position as Group Finance Director on 1 June 2017. He replaced Matt Ashley who, after two and a half successful years and as part of a career development opportunity within the Group, relinquished that role (but not his executive directorship) on 31 May. This was to take up the operational position as President and CEO of our North America business, based in Chicago, on 1 September. I would like to thank Matt for his contribution not only in his previous role but also in ensuring an effective induction and a smooth handover of responsibilities that enabled Chris to get up to speed by the end of the summer. I am delighted to say that both Chris and Matt have settled in well and made good starts in their new roles. As a result of these changes, the quality of the Board, together with our leadership and succession plans (which remain high on our agenda), have been strengthened.

There were no Non-Executive Director changes to the Board or membership of its Committees during the year as these are working well and effectively. This was endorsed by the results of this year’s external Board and Committee evaluation, the findings from which and the key areas identified for further development are set out on pages 50 and 51.

Board composition and diversity

The Nominations Committee undertook a formal review of the Board’s composition and concluded that its current balance (post the executive changes referred to above) remains appropriate to the Group’s forward-looking needs and our ability to continue delivering against our strategy. I believe there is a natural opportunity in relation to Non-Executive Director rotation over the next few years for us to consider our Board diversity, in its widest sense, including gender diversity (where 17% of our Directors are female), as one of the factors when making future appointments. In the business, we continue to embrace the benefits of workforce diversity and we are making progress in this important area. Nevertheless, the Board has challenged the executive to identify and pursue opportunities where we could be more active and drive change over time.

Governance

I am pleased to confirm that throughout the year we applied the principles and complied with the provisions of the UK Corporate Governance Code 2016 (‘Code’), a copy of which is available at www.frc.org.uk. The following pages of this report explain our governance framework and the robust processes and procedures we have in place to achieve this under each of the five main principles of the Code, namely: Leadership, Effectiveness, Accountability, Remuneration and Relations with Shareholders. Included as part of this is a report from the Chair of the Nominations, Audit, Safety & Environment and Remuneration Committees detailing the key matters addressed by each Committee during the year.

A new Directors’ Remuneration Policy, which includes only a few changes from the current one, is being recommended to shareholders for approval at this year’s AGM (see below). We are confident that the new policy, intended to last until the AGM in 2021, is fit for purpose, aligns the interests of the Executives with those of shareholders and promotes the long-term success of the Company. The changes proposed, the positive outcome of the consultation undertaken with major shareholders and the new policy in full, can be found in the Directors’ Remuneration Report on pages 68 to 99.

The Board is aware that a new Code is in preparation and we will look to pro-actively respond to developments arising from this as part of our 2018 agenda.

Annual General Meeting (‘AGM’)

This year, our AGM will be held at 2.00pm on Wednesday, 16 May 2018 in the Horton Suite of the Burlington Hotel, 126 New Street, Birmingham, B2 4JQ. As this provides an opportunity for you to meet with and ask questions of your Directors regarding the business, this Annual Report and the matters before the meeting, I would encourage you to attend and look forward to meeting you.

Sir John Armitt CBE
Chairman
1 March 2018
Leadership

Board and Committee structure
The diagram below sets out the Company’s governance framework and provides an overview of the roles, responsibilities and reporting lines of the Board and its Committees. Details of membership and meetings held, including attendance, during the year to 31 December 2017 are set out in the table opposite.

Governance framework

Shareholders
The owners of the Company and the persons to whom the Board is ultimately responsible.

Board
Collectively responsible for the long-term planning and success of the Company for the benefit of shareholders. It provides effective leadership and direction to the Group, sets strategic objectives and oversees their delivery within an effective system of risk management and internal controls. It also sets the culture, values and standards for the whole organisation and ensures that the necessary governance, structure, financial management and resources (including effective succession planning) are in place.

Board Executive Committee
Responsible for finalising and, if deemed appropriate, approving matters which have previously been conditionally approved in principle by the Board and delegated to the Committee for completion.

Nominations Committee
Monitors the structure, size and composition of the Board and its Committees. It is responsible for succession planning (including at senior management level), makes nominations of suitable candidates to be Directors and leads the process for new Board appointments.

Audit Committee
Oversees, monitors and makes recommendations, as appropriate, in relation to the Group’s financial accounting and reporting processes and the integrity of the financial statements. It regularly reviews the work and effectiveness of the Group’s external audit process, the internal audit function and the systems of risk management and internal controls.

Safety & Environment Committee
Reviews and monitors the strategies, policies and standards, initiatives, risk exposures, targets and performance of the Group in relation to safety and environment matters.

Remuneration Committee
Reviews and recommends to the Board the framework and policy for remuneration of the Chairman, the Executive Directors and other members of the Group Executive Committee, and for implementing the policy. It has sight of and takes into account pay, benefits and conditions existing elsewhere within the Group when considering the annual pay reviews of the Executive Directors.

Group Chief Executive
Responsible for the development and implementation of strategy, leadership of the Group and, supported by the executive team, the overall performance of the business.

Group Executive Committee
Acts as an advisory and reporting body to the Group Chief Executive. Its main purpose is to oversee the safety, operational and financial performance of the Group, assess the ongoing impact of material risks, approve expenditure and other financial commitments within its authority level and discuss, formulate and approve proposals for onward consideration by the Board. It also addresses other key business and corporate related matters.
Board decision-making

Since the Board is the decision-making body for all significant matters affecting the Group, a formal schedule of matters reserved for its approval is in place. These matters include: strategy; risk appetite and significant risk management; major acquisitions, disposals and bids; capital and liquidity matters; medium-term planning and the annual budget; financial results; key policies; Board and Committee membership and governance. Other matters, responsibilities and authorities have been delegated by the Board to its four standing Committees, namely: Nominations, Audit, Safety & Environment and Remuneration.

The schedule of matters reserved to the Board and the terms of reference of each Committee, which are reviewed and approved annually, can be found on the Company’s website at www.nationalexpressgroup.com. Any matters outside of these fall within the responsibility and authority of the Group Chief Executive. He leads the Group Executive Committee, which operates in an advisory and reporting capacity to him, and both he and the Group Finance Director provide regular reports to the Board.

Setting the agenda

The Chairman and the Company Secretary are responsible, in consultation with the Group Chief Executive and the relevant Chair, for maintaining a rolling 12-month programme of agendas for the Board and its Committees. This is to ensure that all necessary matters are covered and prioritised time and attention allocated for discussion, recommendation and approval. At each meeting, the Board rigorously reviews updates on Group and divisional operating and financial performance versus plan and budget. Other regular Board agenda items include capital expenditure requests, tax and treasury updates, key project reviews, risk management, human capital, legal and governance and investor relations. The Committee Chairs also provide to the next Board meeting a summary of the main discussion points, decisions and recommendations arising from the last Committee meeting so that non-members are kept up to date with the work undertaken by each Committee.

The key subjects and matters considered by the Board during the year are shown on page 47. Reports for each of the Committees, including details of their responsibilities and activities during the year, appear later in this section.

Board and Committee meetings and membership

The core activities of the Board and its Committees are carried out in scheduled meetings over one or two-day periods during the year. Additional meetings and other arrangements are made to consider and decide matters outside of scheduled meetings.

The table below sets out the Board and Committee membership and near 100% attendance by members at meetings held in 2017. All Directors attended the Annual General Meeting held on 10 May 2017.

<table>
<thead>
<tr>
<th>Membership and meeting attendance</th>
<th>Board</th>
<th>Nominations</th>
<th>Audit</th>
<th>Safety &amp; Environment</th>
<th>Remuneration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total meetings in 2017</td>
<td>7</td>
<td>2</td>
<td>3</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td><strong>Executive Directors</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dean Finch, Group Chief Executive</td>
<td>7</td>
<td>–</td>
<td>3</td>
<td>3</td>
<td>–</td>
</tr>
<tr>
<td>Chris Davies, Group Finance Director¹</td>
<td>4</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Matt Ashley, President and CEO, North America²</td>
<td>7</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td><strong>Non-Executive Directors</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sir John Armitt CBE</td>
<td>7*</td>
<td>2*</td>
<td>–</td>
<td>3</td>
<td>–</td>
</tr>
<tr>
<td>Joaquin Ayuso³</td>
<td>6</td>
<td>2</td>
<td>–</td>
<td>2</td>
<td>–</td>
</tr>
<tr>
<td>Jorge Cosmen</td>
<td>7</td>
<td>2</td>
<td>–</td>
<td>3</td>
<td>–</td>
</tr>
<tr>
<td>Matthew Crummack</td>
<td>7</td>
<td>–</td>
<td>–</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>Jane Kingston</td>
<td>7</td>
<td>2</td>
<td>–</td>
<td>3</td>
<td>6*</td>
</tr>
<tr>
<td>Mike McKeon</td>
<td>7</td>
<td>–</td>
<td>3*</td>
<td>3</td>
<td>–</td>
</tr>
<tr>
<td>Chris Muntwyler</td>
<td>7</td>
<td>2</td>
<td>3</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>Lee Sander</td>
<td>7</td>
<td>2</td>
<td>3</td>
<td>3</td>
<td>–</td>
</tr>
<tr>
<td>Dr Ashley Steel</td>
<td>7</td>
<td>–</td>
<td>3</td>
<td>3</td>
<td>–</td>
</tr>
</tbody>
</table>

¹ Chris Davies attended all of the Board meetings he was eligible for from the date of his appointment on 10 May 2017. He became Group Finance Director on 1 June 2017.
² Matt Ashley was Group Finance Director through to 31 May 2017 and took up his new role on 1 September 2017.
³ Joaquin Ayuso was unable to attend the Board and Safety & Environment Committee meetings in November for personal reasons.
Leadership continued

Roles and responsibilities

The Board has agreed a clear division of responsibilities at the head of the Company between the Chairman and the Group Chief Executive. This extends to other Directors as well to ensure that no individual or group of individuals can dominate the decision-making process. A short summary of roles and responsibilities is set out below.

Chairman
Sir John Armitt CBE
- Responsible for overall leadership, governance and effectiveness of the Board
- Provides the Board with insight into shareholders’ various objectives
- Promotes a culture of openness, challenge and debate in meetings
- Maintains an effective working relationship with the Group Chief Executive and facilitates constructive relationships and communication between the Non-Executive Directors and Executive Directors and senior management
- Helps set the tone from the top re culture, values and standards for the whole organisation
- Identifies training and development needs of the Directors
- Chairs the Nominations Committee, taking a lead role in succession planning

Group Chief Executive
Dean Finch
- Develops the Group’s strategy for consideration and approval by the Board and provides effective leadership of the executive team in implementing the same
- Manages and develops the Group’s operations and business model
- Communicates (with the Group Finance Director) the Group’s financial performance and strategic progress to investors and analysts, and establishes and services relationships with key stakeholders
- Develops and implements policies integral to improving the business, including safety and the environment
- Ensures the Board is kept fully appraised of the Group’s performance, issues, events and developments

Group Finance Director
Chris Davies
- Responsible for the financial stewardship of the Group’s resources through compliance, good judgement and appropriate financial controls
- Directs and manages the Group’s Finance, Treasury, Risk Management and Insurance, Legal, IT, Investor Relations and Internal Audit functions

President and CEO, North America
Matt Ashley1
- Responsible for implementation and leadership of the Group’s North America strategy
- Provides executive level support and contribution to the Group Chief Executive and the Board

Senior Independent Director
Lee Sander
- Available to investors and shareholders to discuss any concerns that cannot be resolved through the normal Chairman or Executive Director channels
- Acts as sounding Board for the Chairman (deputising in his absence) and a trusted intermediary for other Directors
- Meets with the Non-Executive Directors without the Chairman present at least annually and leads the Board in the annual performance evaluation of the Chairman

Non-Executive Directors2
See pages 48 and 49
- Provide an external perspective, sound judgement and objectivity to the Board’s deliberations and decision-making
- Support and constructively challenge the Executive Directors using their broad range of experience and expertise
- Monitor and scrutinise the Group’s performance against agreed goals and objectives
- Play a lead role in the functioning of the Board’s standing Committees

Company Secretary
Michael Arnaouti
- Provides advice and support to the Board, its Committees, the Chairman and, as required, other Directors individually, primarily in relation to corporate governance practices, induction, training and development
- Ensures that Board procedures are complied with, applicable rules and regulations are followed and due account is taken of relevant codes of best practice
- Responsible, with the Chairman, for setting the agenda for all meetings and for high quality and timely information and communication between the Board and its Committees, and between senior management and Non-Executive Directors
- The appointment or removal of the Company Secretary is a Board reserved matter

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1 Executive Director.
2 Including independent Non-Executive Directors.
Board activity in 2017

**Strategy, operational and funding**

- Reviewed and confirmed the Group’s 2018-2020 strategy with input from external advisers
- Considered and approved material bid and M&A proposals (including the sale of the c2c UK train franchise, to Trenitalia)
- Received various presentations from divisional, senior and local management in relation to business strategy and performance, projects, initiatives and focus
- Considered competitor activity in the bus, coach and rail sectors
- Assessed the ongoing performance of ‘Delivering Excellence’, a Group-wide programme aimed at improving operational performance and efficiency
- Monitored the economic, legislative and geopolitical landscape, including the potential impact of Brexit, the UK General Election, the US Presidential Election and the unlawful referendum on Catalan independence in Spain

**Financial performance and controls**

- Approved the annual budget, business plan and KPIs, and monitored performance against them
- Reviewed and approved the Group’s half year and full year results (including dividends) and approved the Company’s Annual Report (including its fair, balanced and understandable status) and AGM Notice
- Reviewed the Group’s debt, capital and funding arrangements and approved a new £1.5 billion Euro Medium Term Note programme and the issue of a €250m 30-month Floating Rate Note
- Considered and approved the Group’s tax strategy (for publication) and insurance programme, material capex and parent company guarantee requests, investment proposals and the ongoing contribution levels of the Company’s defined benefit pension schemes
- Approved the relaxing of certain Board financial approval levels within the Group’s Delegated Authorities Framework

**Safety, internal control and risk management**

- Received and discussed regular safety performance reports and updates, including in relation to ongoing investigations into the Chattanooga school bus accident of November 2016
- Reviewed the Group’s risk management framework and principal risks and uncertainties
- Reviewed and confirmed the Group’s Viability Statement and going concern status
- Reviewed and validated the effectiveness of the Group’s systems of internal controls and risk management, particularly in relation to cyber security and terrorism

**Leadership and people**

- Discussed the composition of the Board and its Committees and approved two Executive Director changes
- Reviewed and approved changes to the annual fees of the Non-Executive Directors
- Reviewed Board and senior management succession planning and development
- Reviewed the Group’s culture, vision and values (including the results of the external people values audit), its diversity framework and union activity, particularly in North America
- Considered the Group’s proposed approach in preparing for compliance with the forthcoming Gender Pay Gap Reporting Regulations and the General Data Protection Regulation
- Discussed regular human capital and talent development reports introduced in the year
- Reviewed and approved changes to the remit of and financial commitment to the Company’s charitable Foundation

**Governance**

- Considered the external effectiveness evaluation of the Board and its Committees
- Received and reviewed regular briefings on corporate governance developments and legal and regulatory issues, and approved the Group’s inaugural Slavery and Human Trafficking Statement for publication
- Approved proposed changes to the Directors’ Remuneration Policy and the basis on which to consult with major shareholders on it
- Considered shareholder relations, in particular the investor relations programme and feedback on the Company’s full year and half year results and other trading updates issued
- Received regular reports from the Chair of the Nominations, Audit, Safety & Environment and Remuneration Committees
Leadership continued

Board of Directors
We have in place a highly experienced Board of Directors. The independent Non-Executive Directors bring sound judgement and objectivity to the Board’s deliberations and decision-making process, helping to support and constructively challenge the Executive.

1. Sir John Armitt CBE (72)
Chairman (Non-Executive Director)
Appointed: January 2013 and as Chairman on 1 February 2013
Skills, competencies and experience:
Sir John Armitt has a wealth of experience in the rail, engineering and construction industries. He was President of the Institution of Civil Engineers from 2015 to 2016 and a member of the Board of Transport for London from 2012 to 2016. Sir John was Chairman of the Olympic Delivery Authority from 2007 to 2014 and Chairman of the Engineering and Physical Science Research Council from 2007 to 2012. From 2001 to 2007, he was Chief Executive of Network Rail and its predecessor, Railtrack. In 1997, he was appointed as Chief Executive of Costain Group PLC, a position he held until 2001. Before this, Sir John was Chief Executive of Union Railways, the company responsible for the development of the high-speed Channel Tunnel Rail Link. This followed a 27-year career at John Laing PLC. Sir John was awarded the CBE in 1996 for his contribution to the rail industry and received a knighthood in 2012 for services to engineering and construction.
Current external appointments: Deputy Chairman of Berkeley Group Holdings PLC, and Chairman of the City & Guilds Group, the National Infrastructure Commission and the Government Commission on the Thames Estuary. Independent Non-Executive Director of Expo 2020.

2. Dean Finch (51)
Group Chief Executive
Appointed: February 2010
Skills, competencies and experience:
Dean Finch qualified as a chartered accountant with KPMG, where he worked for 12 years, specialising in Corporate Transaction Support Services, including working for the Office of Passenger Rail Franchising on the privatisation of train operating companies. Prior to joining National Express, he was Group Chief Executive of Tube Lines from May 2009. Before that he worked for over ten years in senior roles within FirstGroup PLC where he was Managing Director of the Rail Division from 2000 to 2004 and then was appointed to the main board as Group Commercial Director in 2004, before being made Group Finance Director. With the completion of the Laidlaw acquisition, Dean became Chief Operating Officer in North America before returning to the UK as Group Chief Operating Officer. Until May 2016, he was a Non-Executive Director of the Royal Free London NHS Foundation Trust.
Current external appointments: n/a
3. **David H. Granger (82)**
Non-Executive Director

**Appointed:** June 2011

**Skills, competencies and experience:**
David H. Granger is a seasoned financial services executive with extensive experience in leadership roles within the banking and finance sectors. He has held senior positions at several prominent financial institutions, including First Republic Bank, Mayflower Trust, and The Och Asian Fund. His expertise lies in strategic planning, risk management, and operational excellence.

4. **Jorge Casas (72)**
Non-Executive Director

**Appointed:** June 2011

**Skills, competencies and experience:**
Jorge Casas is a highly accomplished executive with a strong background in the financial services industry. He has held various senior roles at major banks and financial institutions, including Caixabank and BNP Paribas. His expertise includes strategic planning, risk management, and corporate governance.

5. **Joaquín Ayuso (62)**
Non-Executive Director

**Appointed:** June 2011

**Skills, competencies and experience:**
Joaquín Ayuso is a distinguished executive with a prolific career in the banking and financial sectors. He has held several senior roles at major financial institutions, including BBVA, CaixaBank, and ING. His expertise includes strategic planning, risk management, and corporate governance.

6. **Antonio B. Cordero (81)**
Non-Executive Director

**Appointed:** June 2011

**Skills, competencies and experience:**
Antonio B. Cordero is a seasoned financial executive with a strong track record in the banking and finance sector. He has held various senior positions at major banks and financial institutions, including ABN Amro and Santander. His expertise includes strategic planning, risk management, and corporate governance.

7. **Lisa Trujillo Brown (56)**
Non-Executive Director

**Appointed:** June 2011

**Skills, competencies and experience:**
Lisa Trujillo Brown is a highly accomplished executive with a strong background in the financial services industry. She has held various senior roles at major banks and financial institutions, including BBVA, CaixaBank, and ING. Her expertise includes strategic planning, risk management, and corporate governance.

8. **Jorge Casas (72)**
Non-Executive Director

**Appointed:** June 2011

**Skills, competencies and experience:**
Jorge Casas is a highly accomplished executive with a strong background in the financial services industry. He has held various senior roles at major banks and financial institutions, including Caixabank and BNP Paribas. His expertise includes strategic planning, risk management, and corporate governance.

9. **Joaquín Ayuso (62)**
Non-Executive Director

**Appointed:** June 2011

**Skills, competencies and experience:**
Joaquín Ayuso is a distinguished executive with a prolific career in the banking and financial sectors. He has held several senior roles at major financial institutions, including BBVA, CaixaBank, and ING. His expertise includes strategic planning, risk management, and corporate governance.

10. **Jorge Casas (72)**
Non-Executive Director

**Appointed:** June 2011

**Skills, competencies and experience:**
Jorge Casas is a highly accomplished executive with a strong background in the financial services industry. He has held various senior roles at major banks and financial institutions, including Caixabank and BNP Paribas. His expertise includes strategic planning, risk management, and corporate governance.

11. **Jorge Casas (72)**
Non-Executive Director

**Appointed:** June 2011

**Skills, competencies and experience:**
Jorge Casas is a highly accomplished executive with a strong background in the financial services industry. He has held various senior roles at major banks and financial institutions, including Caixabank and BNP Paribas. His expertise includes strategic planning, risk management, and corporate governance.
Effectiveness

Performance evaluation

In line with the guidance provided under the UK Corporate Governance Code (‘Code’), a performance evaluation of the effectiveness of the Board and its Committees, and of the Directors, is conducted annually within a three-year cycle set out below. The purpose is to identify opportunities to build on strengths, improve effectiveness and highlight areas for further development.

2017 external evaluation

With internal evaluations having been carried out in each of the last two years, an external evaluation of the Board and its Committees was conducted in 2017 as the beginning of a new three-year cycle. It was conducted by Helen Pitcher of Advanced Boardroom Excellence (‘ABE’), a specialist consultancy which undertakes no other business for the Company, although she and ABE did undertake the Company’s last external evaluation in 2014.

The Chairman and Company Secretary provided a comprehensive briefing to ABE ahead of the review programme commencement in November. The programme included attendance and observation at Board and Committee meetings as well as access to supporting materials to enhance the evaluation team’s understanding of how the Board and its Committees operate. In addition, detailed face-to-face interviews were held by Helen with each Director against a tailored agenda.

A final report and recommendations were presented to the Board in February 2018 and considered by the Directors. Separate reports for each of the Nominations, Audit, Safety & Environment and Remuneration Committees were also prepared and their conclusions will be discussed with the respective Committee Chair in due course. The Chairman also received a report on each Director which he will be discussing with them individually together with any identified development or training needs. Lee Sander, as Senior Independent Director, received the report on the Chairman and he has reviewed that with him.

Conclusions from this year’s review

The Directors concluded that, overall, the Board and its Committees operate to a high standard and work well. The dynamics, culture and effectiveness had improved noticeably since the last external review and the Directors believe they are functioning effectively as a team. The external evaluation had captured a number of strengths of the Board including the effectiveness of the Committee structure, particularly the Audit Committee, and the strong interaction and integrity by which it carried out its role. The Directors were observed to take their duties and responsibilities, and the discharge of them, extremely seriously and be committed to a culture of openness and transparency which is seen as a key strength.

As with any Board, the Directors continue to look for areas of increased focus and further development and key areas identified from this year’s evaluation are set out below. Progress against them will be reviewed as part of the 2018 internal evaluation and reported on next year.

The Senior Independent Director, in consultation with the Non-Executive Directors, led the annual performance evaluation of the Chairman during the year. It concluded (as did the external evaluation) that the Chairman was performing strongly and is highly effective in his role. Board meetings were well chaired and the relationship between the Chairman and the Group Chief Executive was considered to be very effective. The Chairman continued to devote sufficient time and attention to his role and maintained good informal relationships with all the Directors outside of meetings.
Key areas of focus and development in 2018
The key areas identified from this year’s external evaluation for increased focus and development in 2018 are set out below. A number of these anticipate the actions which will be required of the Board emerging from the new Code (expected in the summer) in the areas of executive succession and diversity.

- **Executive succession**
  Requiring increased engagement of the Board with the long-term executive succession and leadership planning of the business.

- **Board and Committee succession**
  Requiring a focus on Board and Committee succession to ensure that the diversity and capability of the Board continues and is enhanced, with particular reference to gender balance.

- **External viewpoints**
  Requiring the Board to receive and be engaged with more external viewpoints as the uncertainty around Brexit and the rapid evolution of the transport sector technology continues.

Progress against actions from last year’s internal review
In addition to considering the results of this year’s external Board evaluation, the Directors reviewed progress against the actions identified from last year’s internal evaluation with the outcomes set out in the following table:

<table>
<thead>
<tr>
<th>Action point</th>
<th>Outcome</th>
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<tbody>
<tr>
<td><strong>Bring more external viewpoints to the Board's attention</strong></td>
<td>Achieved, most notably in respect of the Board: (i) hearing directly from US Congressmen and women as part of the Board’s visit to Capitol Building in Washington DC last September (see page 53); and (ii) receiving a presentation from Bank of America Merrill Lynch, joint house broker, in support of the Group’s Strategy 2018-2020 as part of the Board’s annual strategy review.</td>
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<tr>
<td><strong>Enhance education and development opportunities for Directors</strong></td>
<td>Deloitte Academy membership has been made available to all the Non-Executive Directors. This provides training, discussion and briefing forums on topical matters and includes access to an online information library. The introduction of quarterly human capital and talent development reports to the Board is proving extremely useful from a broader people management and talent identification perspective across the Group.</td>
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<tr>
<td><strong>Extend length of Audit Committee meetings</strong></td>
<td>Audit Committee meetings have been extended by 30 minutes to allow for greater in-depth discussion on certain topics. This arrangement will continue going forward.</td>
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<tr>
<td><strong>Keep leadership and succession plans under review</strong></td>
<td>The Nominations Committee continued to review both the Board’s and the Company’s leadership and succession plans during the year. Further details are set out on page 56.</td>
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<tr>
<td><strong>Maintain focus on cyber security</strong></td>
<td>The Audit Committee continued to review the Group’s management of its cyber security agenda, risk register and progress against a prioritised remediation programme. Further details are set out on page 58.</td>
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Information and support
To enable the Directors to fulfil their duties and responsibilities effectively, they are provided with and given access to all necessary resources and expertise. This includes access to the Company Secretary (who acts as Secretary to the Board and its Committees) and management and, through an established procedure, the ability to obtain, at the Company’s expense, independent professional advice. Further details about the role and responsibilities of the Company Secretary can be found on page 46.

To facilitate effective review and decision-making, Directors receive in advance of meetings high-quality papers, including from senior executive, management and advisers, who are also regularly invited to attend meetings for discussion of specific items in greater depth. The papers are published via a secure web portal which also hosts a library of other relevant Company information, including previous meeting papers, minutes and Board procedures.

If a Director is unable to attend a meeting because of exceptional circumstances, they still receive the papers and other relevant information in advance of the meeting and have the opportunity to discuss with the relevant Chair or the Company Secretary any matters on the agenda they wish to raise or to follow up on the decisions taken at the meeting.

In addition to Board meetings and private sessions held between the Chairman and the Non-Executive Directors, there are other opportunities arranged during the year allowing for informal discussions between Directors on relevant items.
Effectiveness continued

Development and training
As part of an ongoing programme of development and training, which is the responsibility of the Chairman:

- the Board held various specific briefing sessions during the year on matters such as Brexit, technology, digital marketing and other economic and political risk factors that may affect the business or the wider transport sector in our main operating territories
- Directors receive relevant information, as part of and between meetings, regarding the Group’s business, financial performance, shareholder sentiment and the legal, regulatory and governance environment in which it operates
- all Directors are encouraged to attend training, discussion and briefing forums on relevant topical matters. For the Non-Executive Directors, this is available through the Deloitte Academy which facilitates such events, with online and remote follow up access available.

Additionally, to provide Directors with further opportunities to meet with senior and local management and increase their visibility and working knowledge of the Group’s operations and market dynamics, the Board aims to visit two of the Group’s locations each year. To that end, the Board meetings in June and September 2017 were held in Madrid and Washington DC respectively, the latter also facilitating the Board’s annual strategy review meeting. Details of the Washington trip can be found on the page opposite.

Induction
All new Directors receive a structured and comprehensive induction programme. It is prepared and arranged by the Chairman and Company Secretary, with executive input as necessary, tailored to the experience and background of the individual and the requirements of the role.

Such an induction programme was formulated for Chris Davies who took up his first executive appointment in joining the Board on 10 May and becoming Group Finance Director on 1 June 2017. He replaced Matt Ashley who relinquished that position (but not his executive directorship) to take up a new role with the Group as President and CEO, North America, on 1 September. Mr Ashley and the Company Secretary led the induction programme which also provided for a smooth handover of responsibilities and included:

- the issue of a Board induction pack to assist with understanding the Group’s history, culture, business, markets, strategy, risk management framework (including the risk environment), internal controls and financial position
- hands on briefing meetings coupled with introductory meetings with direct reports, members of the Group Executive Committee, the Chairman and the Audit Committee Chair (and subsequently with all Directors)
- meetings with the Company’s external auditors, brokers and lead bankers (and subsequently with other key advisers and stakeholders)
- specific information and training sessions with the Company Secretary, the Company’s corporate lawyers and the Director of Safety regarding Directors’ duties, responsibilities and liabilities, Board mechanics, corporate governance practices and key policies and procedures (including the Group’s Health & Safety policy, plan and standards)
- a number of site visits in the UK, Spain and the US, including with the Board in June to Madrid and in September to Washington DC.

Mr Ashley also benefited from a structured business and customer focused induction programme provided to him in Chicago by his predecessor, local management and the US General Counsel. Both of the above induction programmes, and their progress to completion, were overseen by the Chairman and reported on to the Board through the Company Secretary.
Our visit to the recently acquired business in Baltimore enabled us to see how we take best practice from our existing operations and apply them to new operations, especially with regards to safety. The visit allowed us to see how our Board discussions and priorities are translated into action on the ground, where it really matters.

Dr Ashley Steel, Non-Executive Director

It’s always a pleasure and source of inspiration to meet our front-line colleagues and drivers – teams absolutely committed to the children and communities they serve. The stand out for me from the Washington trip was to see our investment in DriveCam CCTV being rolled out and in action. Already we can see the power of this investment, its contribution to driver learning and coaching and of course the early signs of a significant improvement in some of our safety metrics.

Jane Kingston, Non-Executive Director
Dear fellow Shareholder

I am pleased to present the Nominations Committee Report which summarises our work over the past year.

Once again, Board succession planning and its implementation has been a main area of focus for the Committee, together with talent development at senior management level. The process of building and strengthening an effective Board requires the right blend of expertise, continuity and refreshment and the Committee has borne this in mind in its deliberations throughout the year.

**Board composition**
The successful delivery of our strategy depends upon attracting and retaining the right talent. This starts with having a high-quality Board in place and balance is an important requirement for its composition, not only in terms of the number of Executive and Non-Executive Directors, but also in terms of expertise, diversity and backgrounds.

The composition of the Board was reviewed during the year with the Committee concluding that the balance (post the changes referred to below) remained appropriate to the Group’s forward-looking needs and its ability to continue delivering against our strategy.

At the date of this report, the Board consists of 12 members comprising myself as Non-Executive Chairman (independent on appointment), three Executive Directors, seven Independent Non-Executive Directors and one non-Independent Non-Executive Director. The chart opposite demonstrates the strong and in-depth mix of skills and experience possessed by the current Board.

**Board changes**
In January, and as previously reported, the Committee completed its search, selection and recommendation process which ultimately led to Chris Davies joining the Board as an Executive Director on 10 May and being appointed Group Finance Director on 1 June 2017. He was recruited to replace Matt Ashley who, after two and a half successful years and as part of a career development opportunity within the Group, relinquished that role (but not his executive directorship) on 31 May. This was to take up the operational position as President and CEO of our North America business, based in Chicago, on 1 September. Both of these appointments were well planned and well executed and details of their tailored induction programmes, overseen by myself and the Company Secretary, can be found on page 52.

As a result of these two changes, I believe that the quality of the Board, its leadership and our succession plans (which remain high on the agenda) have been strengthened.

During the year, there were no Non-Executive Director changes to the Board or membership of any of its Committees as these are all working well and effectively (as endorsed by the results of this year’s external Board and Committee evaluation – see pages 50 and 51) and remain compliant with the UK Corporate Governance Code (“Code”).

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**Primary role**
To ensure that the Board and its Committees are properly structured and balanced (including the requisite skills, knowledge and experience) and that rigorous succession planning is in place for Directors and senior management (including the identification of candidates from both within and outside the Group).

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

**Key responsibilities**
- Monitor the structure, size and composition of the Board and its Committees and make recommendations to the Board accordingly
- Succession planning for Directors and senior management
- Identify and nominate, for approval by the Board, suitable candidates to fill Board vacancies
- Lead the process for new Board appointments
- Review the time commitment required by the Non-Executive Directors to fulfil their duties

**Activity highlights**
- Completion of recruitment of new Group Finance Director
- Assessment of composition of the Board and its Committees
- Review of succession planning and executive talent management
- Rigorous review of three Non-Executives to remain in office

**Membership, meetings and attendance**

<table>
<thead>
<tr>
<th>Committee member</th>
<th>Appointed</th>
<th>Meetings held</th>
<th>Meetings attended</th>
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<tbody>
<tr>
<td>Sir John Armitt CBE</td>
<td>01.01.13</td>
<td>2</td>
<td>2</td>
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<tr>
<td>Lee Sanders</td>
<td>01.06.11</td>
<td>2</td>
<td>2</td>
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<tr>
<td>Jorge Cosmen</td>
<td>01.12.05</td>
<td>2</td>
<td>2</td>
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<tr>
<td>Chris Muntwyler</td>
<td>11.05.11</td>
<td>2</td>
<td>2</td>
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<tr>
<td>Joaquín Ayuso</td>
<td>01.06.11</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Jane Kingston</td>
<td>26.07.16</td>
<td>2</td>
<td>2</td>
</tr>
</tbody>
</table>

1 Non-Executive Chairman of the Board.
2 Independent Non-Executive Director.

Other attendees (by invitation): Group Chief Executive, Group Human Resources Director and, as required, external advisers.

Biographical details of the members are set out on pages 48 and 49.
Diversity at Board level

While all appointments are made on merit, the Board strongly believes that an increasing diversity at Board level is acknowledged as essential in maintaining a competitive advantage. A truly diverse Board (and senior management team) will include and make good use of differences in the skills, experience, knowledge, thinking styles, background, race, gender, independence and other qualities of individuals. These differences are considered by the Committee in determining the optimum composition of the Board and will continue to be balanced appropriately to maintain and enhance its effectiveness.

The appointment of Mr Davies to the Board has meant that our female Director representation has reduced to 17% from 18% last year. The Committee believes a natural opportunity exists in relation to Non-Executive Director rotation over the next three years to influence the gender and ethnic diversity mix of the Board which would form part of our commitment to increase female representation on the Board to 33% by 2020, as per the recommendation of the Hampton-Alexander Review.

Diversity in the business

National Express is committed to a culture that attracts and retains talented people to deliver outstanding performance and enhances the success of the Group. In that regard, diversity across a broad range of criteria is recognised as an important business asset that fosters innovation and helps us better understand and meet the needs of our customers and the communities we serve.

The Group has a Diversity Policy which applies to all employees and supports and promotes our commitment; the ethos is also reflected in our embedded Values. Local management is responsible for implementation and communication of the policy and training forms part of a new employee’s induction process.

Recognising the racial and cultural diversities of the business and territories in which we operate, diversity is far more than gender based. During the year, we have continued to embrace the benefits of workforce diversity and we are making progress in this regard. For example, in the UK, where our employees span more than 50 different nationalities, new mechanisms and initiatives introduced to support and encourage women in business have led to an increased number of women in supervisory and management roles, as well as in revenue protection, driving instruction and engineering apprenticeships. That said, the Board has challenged the executive to promote and communicate an inclusive, positive and proactive story across the whole Group and to identify and pursue opportunities where we could be more active and drive change over time. The monitoring and development of our diversity programme will remain a key focus in 2018.
Effectiveness continued
Nominations Committee Report continued

Succession planning
It is important for the Board to anticipate and prepare for the future and to ensure that the skills, knowledge and experience of the Directors and senior management reflect the changing demands of the business and are aligned to delivering on the Company’s strategy. The Board recognises that an active Nominations Committee is key to promoting effective succession planning and ensuring that a strong pipeline of future senior management has been identified from which future Board appointments can be considered. Equally important is the need to support the development and skill set enhancement of the current Executive Directors.

Led by the Committee, succession plans are formally reviewed at least annually by the Board as a whole, with quarterly talent and development updates from across the business presented by the Group HR Director. The Group has a well-established and robust succession planning process which covers all Group Executive Committee members and their direct reports, divisional management and other employees who have longer-term high potential for senior roles. The Committee’s opinion is that the plans are aligned to the Company’s strategy, are well prepared and appropriate for the size of the Group and its management structure, and there is a range of good candidates in the pipeline for senior roles. Any potential gaps are the subject of both internal development plans and/or timely selected external recruitment.

Independence, effectiveness and commitment
The independence, effectiveness and commitment of each of the Non-Executive Directors is annually reviewed by myself and I share my views with the Nominations Committee and the Board. During the year, the Committee satisfied itself as to the individual contributions and time commitment of all the Non-Executive Directors bearing in mind their other offices and interests held. The Board considers myself and each of the Non-Executive Directors, other than Jorge Cosmen, to be independent and free of any relationships which could materially interfere with the exercise of our independent judgement.

Mr Cosmen is not considered to be independent due to his close links with the ALSA business in Spain and the significant share interests that the Cosmen family hold in the Company. Despite his non-independent status, I feel that the Board benefits greatly from having Mr Cosmen’s extensive local market knowledge and experience to hand in the boardroom.

In respect of Lee Sander, Chris Muntwyler and Joaquín Ayuso, who each attained six years’ service since last year’s AGM, I conducted a rigorous review of their suitability to remain in office for up to a nine-year term (including taking account of the need for progressive refreshing of the Board). This was undertaken because the Code suggests that length of tenure is a factor to consider, particularly where service is six years or more, when determining the independence of Non-Executive Directors. The Committee was confident that all three Directors remain independent, committed to their role and, as with the other Non-Executive Directors, would continue to be highly effective members of the Board and able to fully discharge their duties and responsibilities going forward.

It is critical to our continued success that we have the right people with the right range of skills and experience on the Board and in senior management positions. At present we do, and our succession plans are geared towards ensuring that we do in the years to come.

Director’s re-election
Based on the above Director assessment, the Board is recommending the formal election to office of Mr Davies and the re-election to office of all the other Directors at this year’s AGM. Details of the Service Agreement for the Executive Directors and Letters of Appointment for the Non-Executive Directors, and their availability for inspection, are set out in the Directors’ Remuneration Report on pages 68 to 99.

Committee effectiveness
The Committee’s operations and activities formed part of the external review of Board effectiveness performed in the year and which confirmed the Committee continues to operate well and effectively. Details of this review and the identified areas for further development are provided on pages 50 and 51.

Looking forward
In 2018, the Committee will continue to look at Board and senior management succession planning with a focus on diversity development. In response to such ongoing internal and external succession planning work, and given the expected increase in the number and scope of changes likely to arise from a busy governance pipeline, the Committee will also consider increasing the number of scheduled meetings it holds each year.

Sir John Armitt CBE
Nominations Committee Chair
1 March 2018
Accountability
Audit Committee Report

Dear fellow Shareholder

I am pleased to present the Audit Committee’s Report for the year under review. It demonstrates not only the Committee’s activities against a structured programme but also the detailed level of review and reporting now taking place on the back of a growing regulatory and legislative agenda.

In terms of compliance with the 2016 UK Corporate Governance Code (‘Code’) and the FRC Guidance on Audit Committees, I believe the Committee has continued to address the spirit and requirements of both during the year.

Review of the year

The Committee again challenged itself to ensure its work continued to address those areas of most importance to the Group and/or which could have a material impact on its current or future financial performance. This resulted in prioritisation of its time and attention being given to the following key matters:

- the accounting requirements associated with the sale of the Essex Thameside c2c franchise to Trenitalia, and the consequential restructuring of UK coach and bus
- resolution of the revenue recognition issues associated with German Rail
- the judgements applied by management in relation to insurance/other claims and goodwill/fixed asset impairment
- assessment of the potential impact of the new accounting standards IFRS 9 and 15 (which come into force this year), and 16 (which comes into force in 2019)
- the reporting impact arising from the new ESMA Guidelines on Alternative Performance Measures
- the impact of refinancing activities on the Group’s financial position
- the Group’s tax strategy and implementation of new tax evasion defence procedures
- the impact on the Group’s future effective tax rate following changes in US tax rates introduced in December 2017.

While there were no changes in the Committee’s membership in 2017, the Company did welcome Chris Davies as its new Group Finance Director on 1 June. He succeeded Matt Ashley who relinquished that role (but not his executive directorship) to take up the position of President and CEO of our North America business on 1 September 2017. I would like to thank Matt for effecting a smooth handover and induction for Chris, enabling him to get up to speed so quickly. The Committee has seen Chris make a good start in his new role.

Risk landscape

The Committee reviewed changes in risk affecting the Group at both a macro-economic and geopolitical level, as well as other risks affecting the business at an operational level, including cyber security and rapid technological change. While no new risks were added to the Group’s significant risk register during the year, some minor changes to our risk radar were made arising from developments in the risk environment, most notably in respect of terrorism given the events in London, Manchester and Barcelona last year. Overall, the Group’s risk profile has improved strategically through its UK rail divestment earlier in the year, and this has been recognised by both the investor and analyst community.

Primary role

To protect the interests of shareholders through ensuring the integrity of the Company’s published financial information and the effectiveness of the Group’s internal audit function and systems of internal control and risk management, and external audit process.

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

Key responsibilities

- Assess the integrity of the Group’s financial reporting
- Ensure that any significant financial judgement and estimates made by management are sound
- Approve the activities and monitor the performance of the internal and external auditors, including monitoring their independence, objectivity and effectiveness
- Evaluate the effectiveness of the Group’s internal controls (including financial controls) and risk management systems
- Review the Group’s systems and controls for detection of fraud, prevention of bribery and whistleblowing
- Maintain an appropriate relationship with the external auditor

Activity highlights

- Scrutinised the full and half year financial statements
- Reviewed the Group’s risk management framework
- Reviewed and recommended the Group’s tax strategy
- Monitored progress of the Group’s cyber security programme
- Reviewed the Group’s first Slavery & Human Trafficking Statement
- Assessed the potential impact arising from accounting standards IFRS 9, 15 and 16 and the new US tax regime

Membership, meetings and attendance

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<thead>
<tr>
<th>Committee member</th>
<th>Appointed</th>
<th>Meetings held</th>
<th>Meetings attended</th>
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</thead>
<tbody>
<tr>
<td>Mike McKeon (Chair)¹</td>
<td>03.07.15</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Lee Sander¹</td>
<td>01.06.11</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Dr Ashley Steel¹</td>
<td>01.01.16</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Chris Muntwyler¹</td>
<td>11.05.11</td>
<td>3</td>
<td>3</td>
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</table>

¹ Independent Non-Executive Director.

Other attendees (by invitation): Chairman of the Board, Group Chief Executive, Group Finance Director, Group Financial Controller, Head of Group Finance, Group Director of Insurance & Risk, Head of Group Internal Audit and representatives of the external auditor, Deloitte.

Biographical details of the members are set out on pages 48 and 49.
Accountability continued
Audit Committee Report continued

In relation to cyber security, management continues to maintain a specific risk register and follow a prioritised remediation programme monitored by the Cyber Security Committee. Additionally, external projects are in progress targeted at ISO 27001 accreditation, and employee awareness and training continues to be rolled out across the Group. I am pleased to report that our external security advisers, ZeroDayLabs, and our co-sourced experts, PwC, have validated the good progress we are making with our cyber security programme. We are however not complacent, knowing that risks in this area continue to evolve rapidly.

A coordinated programme is in place, jointly led by the Group Finance Director and the Group Commercial Director, in respect of our preparations for compliance with the new General Data Protection Regulation ("GDPR") across the businesses by May this year.

Overall, the risk landscape continues to be challenging but the Group is well placed to understand and manage it.

Internal audit and control

Notwithstanding that the Group’s internal audit continues to operate effectively, as recently assessed by the Committee, we have commissioned an external quality assurance review of the function. The purpose is to benchmark its structure and activities against best practice and identify a roadmap to where it should be positioned going forward, aligned with the future needs of the business. EY will undertake the review in early 2018 and I will report on its outcome next year.

Following the discovery of a non-material fraud at one of our Spanish locations, the Committee reviewed the results of a controls audit of all cash handling operations across the Group. I am pleased to say that we were satisfied this was a one-off occurrence and that the controls in place elsewhere across the Group would have prevented a similar event occurring. Controls at the Spanish location have been improved with the help of input from third-party experts.

Viability Statement

The Committee reviewed and challenged management on the Group’s viability outlook period as well as on the viability analysis and conclusions, and satisfied itself that three years remained appropriate. The Viability Statement, and the rationale for the period selected, is set out on page 41.

Fair, balanced and understandable

The Committee assessed and recommended to the Board (which it subsequently endorsed) that, taken as a whole, the 2017 Annual Report is fair, balanced and understandable and provides the necessary information for shareholders to assess the Company’s position and performance, business model and strategy.

Sound risk management and internal control systems are essential to enable the Group to achieve its objectives, while proper accountability to shareholders requires fair and balanced performance reporting. The Committee’s role is to ensure both are in place.

FRC Corporate Reporting Review

At the end of last year and early this year, I reviewed and approved responses to the FRC Corporate Reporting Review team’s information request relating to the Company’s 2016 Annual Report. The FRC has since advised the Company that their enquiry is closed.

Committee effectiveness

The Committee’s operations and activities formed part of the external review of Board effectiveness performed in the year. Details of this review are provided on pages 50 and 51. Overall, the Committee continued to operate effectively and to a very high standard during the year, with clear priorities, well-defined responsibilities and clarity around its work plan.

Looking forward

I expect 2018 will be another busy year for the Committee in fulfilling its core responsibilities and in completing the assessment of the impact of IFRS 16, Leases, on the Group’s accounts (for which we expect an update will form part of this year’s interim results), responding to changes arising from the new Code (expected mid-year) and finalising our preparations for GDPR compliance.

Finally, I would like to thank the other members of the Committee, together with management and Deloitte, for their support during the year.

Mike McKeon
Audit Committee Chair
1 March 2018
Committee composition and operations

The Board is satisfied that the Committee as a whole possesses relevant sectoral experience and that its members bring a broad range of financial and commercial experience from across various industries. It is also satisfied that Mike McKeon in particular possesses the recent and relevant experience required by the Code.

Details of the Committee meetings held during the year are shown on page 57. The Committee also hosts private sessions with the external auditor and/or Head of Group Internal Audit after each meeting. The Committee Chair has regular private sessions with the Group Finance Director, Head of Group Internal Audit and the Deloitte team to ensure that open and informal lines of communication exist should they wish to raise any concerns outside of formal meetings.

Audit Committee activity in 2017

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

Financial reporting
- the integrity of the half year and full year financial statements, including significant financial matters considered
- the information, underlying assumptions and stress test analysis presented in support of the Viability Statement and going concern status
- the consistency and appropriateness of the financial control and reporting environment
- the potential impact from new accounting standards IFRS 9 (Financial Instruments), 15 (Revenue from Contracts with Customers) and 16 (Leases)
- the financial reporting impact from new ESMA Guidelines on the use of Alternative Performance Measures
- the availability of distributable reserves to fund the dividend policy and make dividend payments
- the fair, balanced and understandable assessment of the Annual Report and half year statement

External audit
- the scope of and findings from the external audit plan undertaken by Deloitte as the external auditor
- the effectiveness of the external audit process
- the assessment of the performance, and continued objectivity and independence, of Deloitte
- the level of fees paid to Deloitte for permitted non-audit services
- the re-appointment of Deloitte as external auditor

Internal audit
- the scope and appropriateness of the Group’s internal audit plan and resourcing requirements, including external assistance
- the findings from investigations undertaken and the progress made against agreed management actions
- the findings from compliance testing of financial controls
- the independence, objectivity and effectiveness of the Group’s internal audit function

Risk management and internal control
- the scope of the Group’s internal control and risk management programme
- the adequacy and effectiveness of the Group’s internal control and risk management systems, including the management of its insurance and claims handling programme
- the Group’s risk environment, including its significant and emerging risks register
- the Group’s IT risk strategy, cyber security threats and disaster recovery plans
- the Group’s fraud, anti-bribery and corruption and whistleblowing prevention measures

Tax and treasury
- the Group’s treasury policy and affairs, including associated key risks management
- the impact of refinancing activities on the Group’s financial position
- the Group’s tax affairs, including its tax strategy posted on the Company’s website, and its tax evasion defence programme
- the impact on the Group’s financial position and future effective tax rate arising from changes in US tax rates

Other
- the Committee’s effectiveness and terms of reference
- compliance with the Code and the Group’s regulatory and legislative requirements
- the Group’s inaugural Slavery and Human Trafficking Statement posted on the Company’s website
- responses to the FRC’s Corporate Reporting Review team’s information request on the 2016 Annual Report
Accountability continued
Audit Committee Report continued

Significant financial matters

The following descriptions are of the two significant financial matters considered by the Committee, with input from management and the external auditor, in connection with the Group’s financial statements and disclosures. These were considered to be significant taking into account the level of materiality and the degree of judgement exercised by management. The descriptions should be read in conjunction with the Independent Auditor’s Report on pages 106 to 113 and the accounting policies disclosed in the notes to the financial statements.

We have not provided a description this year (and the external auditor has not reported on them) of the risks associated with taxation, pensions and fuel hedge accounting as these were downgraded from significant to normal risk by Deloitte as part of their audit plan for the year. In consultation with management and Deloitte, the Committee has of course continued to monitor and review these matters though not as significant issues.

Goodwill and fixed asset impairment (see note 2 and 14 to the financial statements)

The Committee considered whether the carrying value of goodwill and fixed assets held on the Group’s balance sheet should be impaired. The potential risk is around the recoverability of these balances, particularly in relation to our ALSA and North America businesses, as assessed annually by management as part of their goodwill impairment review using discounted cash flows on a value in use basis. The key judgements relate to the discount rate and the future growth rate applied as the value in use models are highly sensitive to changes in these rates, both of which must reflect a long-term view of the underlying growth in each respective economy.

The Committee received a detailed report from management which outlined the robust impairment analysis undertaken for the year on a bottom-up basis and which included: the underlying cash flows, discount rates and future growth rates assumed, the improved modelling adopted relating to the use of a country-specific discount rate and various impact scenarios arising from the outcome of ALSA’s concession renewal programme. The report concluded that there is not a material risk of recoverability in this area and that neither the North America nor the ALSA goodwill assets are impaired. Indeed, both have healthy levels of headroom (in the case of North America, further enhanced by the recent changes in US tax rates) that compares well with previous years notwithstanding the additions of goodwill during the year through ongoing acquisition activities.

The Committee challenged management’s methodology and assumptions and consulted with Deloitte, whose own testing and validation of the critical assumptions had resulted in them concurring with management’s conclusion. As a result, the Committee was satisfied that the goodwill and intangible assets of the Group as at the balance sheet date are not impaired.

Insurance and other claims provisions (see note 2 to the financial statements)

The Committee considered the adequacy of the provisions associated with insurance and other claims arising predominantly from traffic accidents and employee incidents, particularly in North America. The estimation of such provisions, including those arising on acquisition, is judgemental and based on an assessment of the expected settlement of known claims together with an estimate of settlements that will be made in respect of incidents incurred but not yet reported at the balance sheet date. Given the level of complexity and judgement involved in making these estimations there is a risk that the eventual outcome could be materially different from that estimated and provided for.

The Committee received and discussed with management a report from the Group Director of Insurance and Risk on North America insurance and other claims, particularly the key judgements made in determining the level of provisions, the methodology used, the measurement of self-insured claims and the extent to which they were supported by third party actuarial advice. It also reviewed the rigorous audit investigation undertaken by Deloitte which included actuarial specialists’ challenge of the underlying assumptions around loss development, sample testing and in-depth discussion with the US General Counsel and members of the local claims handling team.

The Committee noted that in considering the overall balance sheet provision, there was a wide range of potential outcomes. However, taking into account the thorough internal analysis undertaken and the audit work conducted by Deloitte, the Committee concluded that the provision for North America insurance and other claims, as recommended by management, was within an acceptable range and was fairly stated.

In addition to the above, the Committee has considered, taken action and made onward recommendations to the Board, as appropriate, on a range of other matters, including in relation to the Viability Statement, the going concern basis on which the financial statements are prepared, the accounting treatment of business combinations, acquisitions and disposals (in particular regarding the sale of property and the sale of Essex Thameside c2c franchise to Trenitalia), the potential impact arising from the new accounting standards IFRS 9 and 15, and other specific areas of audit, compliance and governance focus.

The Committee was satisfied that all issues had been fully and adequately addressed, that the judgements made by management were reasonable and appropriate and had been reviewed and debated with the external auditor (who concurred with the approach taken by management), and that the accounting and disclosure requirements were correct.
External auditor

Deloitte, as the external auditor, is engaged to conduct a statutory audit and express an opinion on the financial statements. Their audit includes the review and testing of the systems of internal financial control and data which are used to produce the information contained in the financial statements.

The current external audit engagement partner (appointed with effect from 1 January 2016) is Stephen Griggs, Head of Audit and Risk Advisory for Deloitte in the UK.

The external audit plan and the £1.1m fee proposal for the financial year under review (2016: £1.1m) was prepared by Deloitte in consultation with management and presented to the Committee for consideration and approval. The plan again focused on risk, challenge and materiality and was aligned to the Group’s structure and strategy. However, it was also designed to transition the audit, as directed by Deloitte, to be more internal control assurance (and less substantive) in its emphasis.

The Committee is responsible for monitoring and reviewing the objectivity and independence of Deloitte as external auditor. In undertaking this annual assessment for the year under review, and concluding that their independence remained assured, the Committee considered: a report on their independence submitted by Deloitte (which included the internal safeguards operated by them); the mitigating actions taken by the Company to safeguard their independent status (see ‘Non-audit services’ below); the tenure of the current audit engagement partner (being less than five years); and the positive outcome of the external audit and performance review of Deloitte (see below).

Effectiveness

Immediately following completion of the external audit process for 2017, the Committee conducted a review of its effectiveness and a performance review of Deloitte. This was carried out through a mix of a survey questionnaire and analysis and follow-up consultation with Committee members, the Executive Directors, members of the senior finance team and divisional Finance Directors. The qualitative assessment focused on the valuable feedback and insights received, process and communication, handling of issues and the quality of the audit team, and had regard to the latest Audit Quality Inspection Report on Deloitte issued by the FRC.

The Committee’s conclusion was that Deloitte had again completed an effective audit process which provided an appropriate level of independent challenge to the Group’s senior management. Additionally, Deloitte continue to perform their services, in respect of both the audit and their work generally, to a high standard. Areas identified for development have been shared with them for inclusion in their service delivery plans going forward.

External audit tendering policy

The Company last put its external audit out to competitive tender in 2011 following which Deloitte was appointed to the office of auditor. Having undertaken such a process, the Company has complied with the provisions of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

The Company is next required to retender the audit by no later than the financial year ending 2021. The Committee will assess the quality of the external audit annually and, on the basis that its quality remains high and the audit fee represents good value to shareholders (both as benchmarked versus market practice), it is expected that the next audit tender will take place at that time.

On the recommendation of the Committee, the Board is proposing a resolution to reappoint Deloitte to office as external auditor for a further year at this year’s AGM.

Non-audit services

To help protect the objectivity and independence of Deloitte, and in addition to their own internal safeguards, the Company operates a Non-Audit Services Policy that sets out the types of non-audit services, such as assurance work, which Deloitte may provide to the Group. The policy remained unchanged during the year although a new policy (which includes an enhanced pre-approval process, specific financial control limits and a more definitive list of permitted and non-permitted services), has been approved by the Committee effective from 1 January 2016. The new policy also meets the FRC’s revised Ethical Standards requirements.

Details of the fees charged by Deloitte, split between audit and permitted non-audit fees, for the year ended 31 December 2017 can be found in note 6 to the financial statements on page 131. Total fees for non-audit services, including the half year review, amounted to £0.12m, representing 11% of the Group’s total audit fees payable to Deloitte for the year. No audit fees were approved or paid on a contingent basis.
Internal audit
The Committee has oversight and directional responsibility for the Group’s internal audit function which is led by the Group Head of Internal Audit and who has a direct reporting line into the Committee Chair. The function’s purpose is to provide an independent and objective assessment of the effectiveness of the internal controls, risk management and governance processes in operation throughout the Group. The function adds value by:

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

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

The annual internal audit plan and resource allocation (including any external specialist assistance required) is reviewed and approved by the Committee to ensure it is aligned with the key risks of the business and the Group’s strategic plan. The Committee receives update reports at each meeting confirming the key findings from reviews undertaken, the material actions required to implement the recommendations and the status of progress against previously agreed actions. These include the identification of known instances of fraud, theft or similar irregularities affecting the Group, although there were no such matters that were sufficiently material to warrant separate disclosure in this report.

Effectiveness
The Committee monitors and formally assesses the effectiveness of the internal audit function on an annual basis and seeks to satisfy itself that the quality, expertise, experience and cost of the function is appropriate to the Group. This was conducted for 2017 through a mix of a survey questionnaire and analysis and feedback from both senior management and local management. Overall, the Committee concluded that the function continued to be effective, objective and independent in the work it undertakes, and has a good reputation with operational management in the performance of its role.

Notwithstanding the above, and aligned to the recommendations of the International Internal Auditing Standards, the Committee has commissioned EY to conduct an external quality assurance review of the internal audit function in early 2018. This will provide useful insight and benchmarking versus best practice as well as development recommendations to ensure the function continues to add value and is positioned to satisfy the future needs of the business.

Risk management and internal control
The Board is responsible for determining both the nature and extent of the Group’s risk management and internal control framework and for setting the tone on the risk appetite that is acceptable in seeking to achieve its strategic objectives. The Committee is responsible for reviewing and monitoring the adequacy, design and effectiveness of the Group’s ongoing systems of risk management and internal control (which includes financial, operational and compliance controls), and reporting to the Board accordingly, with primary responsibility for their operation delegated to management. These systems have been designed to safeguard both the shareholders’ investment and the assets of the Group and manage, rather than eliminate, the risks inherent in achieving the Group’s business objectives. They can therefore provide only reasonable, not absolute, assurance against material misstatement or loss.

Risk management
The organisation has an embedded risk management culture and the Group Director of Insurance and Risk oversees the numerous sub-committees and work groups that own and manage day-to-day risk in the business at local and divisional level.

The Committee receives regular updates on the Group’s risk register and risk radar which allows for discussion of the significant and emerging risks affecting the business and monitoring of progress against previously agreed actions. It also receives regular reports from the external auditor, and from internal audit and other major business functions on various aspects of internal control, financial reporting and risk management. In turn, the Committee provides the Board with interim assessments of risk impact on the Group’s financial position, accounting affairs and control systems and on how material risks to the Group are being managed. The annual risk management work plan, prepared in consultation with management, is reviewed and approved by the Committee to ensure alignment with the changing risk profile and priorities of the business.

A summary of the Group’s risk management framework, and the process in place for identifying, evaluating and managing the principal risks and uncertainties faced by the Group, is set out on pages 38 to 40.
Internal control
The following items represent the key elements of the Group’s internal control system (which is subject to internal audit’s ongoing programme of review and reporting to the Committee):

– a devolved organisational structure with clear leadership, responsibility and delegated authorities
– a divisional performance and key function review process conducted on a monthly basis
– a comprehensive annual strategy and operating plan review
– a robust annual and monthly budgeting, forecasting and financial reporting process
– a delegated authorities matrix defining approval limits for various classifications of expenditure and investment
– a top-down/bottom-up approach to risk management and internal control
– various policies, procedures and guidelines underpinning the development, management, financing and main operations of the business
– specialist professional support services provided on a central and/or divisional basis, as appropriate, covering safety, property and environment, legal, human resources, communications, insurance, information services, tax and treasury, and company secretarial.

Effectiveness
Assisted by the Committee, the Board reviewed the systems of internal control and risk management described above (which have been in place for the year under review and through to the signing date of this Annual Report) taking into account the assurance work undertaken by both the risk management and internal audit functions, and the relevant process, controls and testing undertaken by Deloitte as part of their half year review and full year audit. No significant weaknesses or control failures were found while identified opportunities to strengthen the controls have been taken and will themselves be subject to regular review as part of the internal assurance process.

Fair, balanced and understandable
The Committee reviewed the Annual Report in terms of its preparation, control process, verification of content, consistency of information (including the appropriate weighting given to ‘bad news’ as well as ‘good news’) and linkage between key messages throughout the document. It also received a specific paper from management to assist in its challenge and testing of a fair, balanced and understandable assessment.

Based on the above, and the views expressed by Deloitte, the Committee recommended, and in turn the Board confirmed, that the 2017 Annual Report, taken as a whole, is fair, balanced and understandable and provides the necessary information for shareholders to assess the Company’s position and performance, business model and strategy.

Bribery and Corruption Policy
The Board has a zero-tolerance policy in place against bribery and corruption of any sort. Regular training is given to employees, including new employees, to highlight areas of vulnerability and reporting procedures. Our principal suppliers are also required to have similar policies and practices in place within their own businesses.

Whistleblowing Policy
The Committee reviews the Group’s whistleblowing arrangements, incorporated within a specific policy and applied in each of the businesses, which allows employees to report genuine concerns about suspected impropriety or wrongdoing (whether financial or otherwise) on a confidential basis, and anonymously if preferred. This takes the form of a free independent telephone hotline in each country of operation. Any matters reported are investigated by local legal counsel in the first instance with monthly summary reports submitted to the Group Company Secretary (and reviewed by the Group Executive Committee) in case a higher level of independent investigation is required. During the year, there were no whistleblowing incidents investigated at Group level.
Dear Shareholder

I am pleased to present this year’s Safety & Environment Report which provides an overview of the Group’s main activities and progress in these areas during the year. More information can be found on these matters on pages 31 and 34 respectively.

The safety of our employees and customers is of critical importance to the Board, as is the responsible management of our environmental obligations. I would like to thank our Group Chief Executive, Dean Finch, and his management team for their ongoing leadership and effectiveness in again driving improvements in both these areas in 2017.

As part of my role as Committee Chair, I visit operations to better understand the safety risks, exposures and challenges faced by the business and the actions being taken locally to address them. I have recently returned from such a visit to six school bus and transit Customer Service Centres in the US where I was accompanied by Bob Ramsdell, Chief Safety Officer of our North America business. A review of this trip can be found on page 67.

Safety

Safety continues to be our highest priority and a strong safety culture exists throughout the business. Overall responsibility for safety lies with the Group Chief Executive supported by Divisional Managing Directors, the Group’s Safety Director and local safety teams. It is they who set the annual plans and priorities for continued improvement and progress against these is reviewed by the Chief Executive’s Safety Committee on a quarterly basis.

In recognising the ongoing strategic importance of safety to the Group, the Remuneration Committee increased the safety element weighting of the annual bonus for the Executive Directors from 10% to 15% of salary in 2017; the emphasis continues this year. Additionally, a revised safety underpin for the annual bonus plan and a new safety underpin for the LTIP is proposed to be introduced as part of the Company’s new Directors’ Remuneration Policy – see pages 74 to 84.

Performance

The Committee is extremely pleased to report that the Group’s safety performance for responsible accidents showed further year-on-year improvement in processes, procedures and outcomes in 2017. Most notably, there was a material reduction in our Fatalities Weighted Injuries Index (‘FWI’) score and a significant reduction in the number of major injuries and lost time injuries. Our FWI per million miles travelled is now at an all-time low, in line with the Group’s 2020 target, having fallen by 74% since our Driving Out Harm programme was first launched in 2010. A truly excellent achievement. However, the executive is far from complacent and believes there is further safety improvement to come from this year’s strengthening of the programme and the investments we are making in our safety systems, as outlined below. Additionally, the Committee wholeheartedly supports the Group-wide ‘Target Zero’ safety campaign recently launched and confirming that any fatality is unacceptable.
Arising from the late 2016 Chattanooga school bus accident, a US Department of Transportation (‘DOT’) audit undertaken during the year identified some driver testing and record keeping shortfalls (unrelated to the causes of the accident) and these have been fully addressed. Consequently, the DOT confirmed our operating licence in Durham as wholly unconditional, which is the highest rating available.

Driving Out Harm

The Group has operated well established Global Safety Standards for many years. As we seek to move these forward, we are harnessing the power of digital to achieve a transformation in our ability to manage our people and make us best in industry. To that end, we further strengthened our Driving Out Harm programme during the year with the introduction of the following five new Global Safety Policies in April:

- Speed Management
- Driving Evaluation
- Competence Requirements: Driving Evaluations
- Driver Monitoring
- Driver Performance Management.

Divisional plans are in place for full implementation of the policies by 2020 and the Committee has received validation of progress against key milestones from the internal audit function. It has also seen evidence of the benefits to be derived from the new policies, for example:

- there has been a significant reduction in speeding in each of our territories resulting from the introduction of continuous driver monitoring versus posted speed limits. This information is also enabling us to identify and eradicate all types of driver risk distractions; and
- through our World Class Driver programme, the number of Master Drivers in the Group (who are assessed to externally accredited standards – in the UK, with the Institute of Advanced Motorists) has risen to 700.

Safety is and always will be the highest priority for our business, Dean Finch will see to that. We are good at it, not complacent and always striving to be better.
Environment
We recognise that the Company has an important role to play in enabling and delivering climate change strategies which, in partnership with our partners and other stakeholders, can help mitigate the impact arising from the operation of our vehicles and sites. Accordingly, the Committee has continued to monitor the Group’s strategy and approach to the environment, as well as the external reporting of its environmental performance, including greenhouse gas emissions.

With respect to the management of the Company’s environmental responsibilities, I am pleased to report that the Group maintained full environmental legislative compliance, with zero prosecutions, enforcement notices or reported violations in 2017.

During the year, we continued to make good progress with our Driving Excellence in Environmental Performance programme. We have set ourselves some challenging KPIs through to 2018 and against that our water usage and total carbon emissions improvements are running well ahead of target though our targeted reduction in site emissions has not yet been met. The focus on employee engagement continues, with fleet efficiency and improving miles per gallon fuel usage remaining key deliverables in all divisions. Significant improvements continue to be maintained through fleet investment, technology and improvement in driving skills.

Our UK businesses were again accredited with a Gold Standard for the Carbon Saver scheme and a number of other notable awards were received elsewhere across the Group. These awards are a testament to our seven-year programme of reducing carbon emission through a continued commitment to driving sustainability, reducing energy costs and adopting carbon emissions reduction measures in both our fleet and site operations.

Health and wellbeing
During the year, the Committee reviewed the significant amount of work being undertaken across the Group as we continue to promote, support and deliver a multitude of health and wellbeing activities for employees, comprising a mix of physical, mental and occupational services. Examples of these included:

– in the US, a new three-year Health and Wellbeing Strategy launched in 2017. The first-year focus was on employee education and awareness of the various programmes available while the second-year focus will shift to prevention, with the objective of driving engagement in biometric screenings and other preventative measures;
– in Spain, an online sports, health and wellbeing platform, SPORTSNET. This gives employees up-to-date information on local sports activities as well as bulletins on food and health. The platform aims to boost healthy habits, especially through physical exercise;
– in Bahrain, two medical clinics are operated on site, one at the main staff accommodation and one at the Isa Town Depot. These provide free consultations with visiting health specialists from local hospitals on a regular basis; and
– in the UK, our continuing award-winning Health Bus. This provides health monitoring services to employees and in 2017 facilitated over 5,000 appointments.

Committee effectiveness
The Committee’s operations and activities formed part of the external review of Board effectiveness performed in the year (see pages 50 and 51) and which confirmed that the Committee continues to operate very well and effectively in providing oversight of safety and governance.

Looking forward
In 2018, the Committee will continue to monitor and review the structure, content and operation of the Group’s safety management and environment arrangements, and the actions being taken by the executive to achieve the Group’s objectives on both fronts.

Chris Muntwyler
Safety & Environment Committee Chair
1 March 2018
Committee in action

The Board believes the Company should aim to lead the industry on safety and continuously seek to improve our standards. Our safety agenda is aligned to that – led from the top and embedded in everything we do – and a rigorous governance framework underpins our approach. The Executive and Non-Executive Directors are regular visitors to our Customer Service Centres (‘CSCs’) to make sure we ‘walk the talk’ from the boardroom to our operations.

Chris Muntwyler, Chair of our Safety & Environment Committee, visited six student transportation and public transit CSCs in New York and Connecticut in February this year. Accompanied by Bob Ramsdell, the North American Chief Safety Officer, he met with local management and personnel and toured each centre looking into the safety processes in place, including driver coaching through the use of our smart camera system, DriveCam, reduction in speeding using GPS reports, facility safety, and vehicle maintenance and environmental procedures.

Discussions with drivers, mechanics, site managers and other staff enabled Chris to gauge the effectiveness of these programmes and the level of implementation at each centre.

“...It is important and interesting for me to see in person how our strategic safety programmes are being implemented and followed on the front-line, as well as the impact they have on reducing accidents and injuries. These visits give me a unique opportunity to meet and talk to National Express staff at all levels and hear their perspectives on what works well and where there is still room for improvement. This real-world view helps me make meaningful contributions to our overall safety effort as Chair of the Safety & Environment Committee.

Chris Muntwyler, Safety & Environment Committee Chair
Primary role
To review and recommend to the Board the framework and policy for remuneration of the Chairman, the Executive Directors and other members of the Group Executive Committee, and for implementing the policy.

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

Key responsibilities
- Determine the remuneration and conditions of employment of the Executive Directors and Senior Management Group (‘SMG’) members
- Determine the Chairman’s fees
- Monitor pay, benefits and employment conditions across the Group
- Oversee administration of the Company’s share incentive plans
- Appoint independent remuneration consultants

Activity highlights
- Engaged with shareholders on the 2016 Annual Report on Remuneration
- Reviewed and determined:
  - salary levels for Executive Directors and SMG, and fees for the Chairman
  - new remuneration package for Chris Davies and relocation package for Matt Ashley
  - outturn vs. performance conditions of LTIP awards
  - new Directors’ Remuneration Policy and consultation with major shareholders
- Set and reviewed outcome vs. targets of annual bonus plans
- Determined annual LTIP awards to Executive Directors and SMG
- Considered developments in executive pay and corporate governance

Membership, meetings and attendance

<table>
<thead>
<tr>
<th>Committee member</th>
<th>Appointed</th>
<th>Meetings held</th>
<th>Meetings attended</th>
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<tbody>
<tr>
<td>Jane Kingston (Chair)1</td>
<td>26.02.14</td>
<td>6</td>
<td>6</td>
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<tr>
<td>Lee Sander1</td>
<td>01.06.11</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Matthew Crummack1</td>
<td>06.05.16</td>
<td>6</td>
<td>6</td>
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1 Independent Non-Executive Director.

Other attendees (by invitation) and advice/services provided:
- PricewaterhouseCoopers LLP (‘PwC’): independent remuneration and ancillary legal and governance advice
- Company Chairman*: input and recommendations relating to the performance and remuneration of the Group Chief Executive

Dear fellow Shareholder
On behalf of the Board, I am pleased to present the Directors’ Remuneration Report for the financial year ended 31 December 2017. It has been another very successful year for the Group and a busy one for the Remuneration Committee. We have assessed outcomes under incentive plans, approved certain aspects of remuneration for two Executive Director changes that occurred, and have conducted a full review of the current Directors’ Remuneration Policy. The Company is seeking shareholders’ approval to a new policy at the AGM in May.

Aligning pay and performance in 2017
2017 was a standout year for the Group, where our performance again delivered record breaking results. Our share price increased by 8% ahead of sector competitors and a 10% increase in the final dividend is proposed. The financial highlights table opposite shows our strong performance compared to last year as we delivered in excess of plan on all key metrics. In addition to this, the Executive Directors made significant progress on a number of strategic projects with tangible results, most notably in relation to the divestment of our UK rail franchise and the consequential restructuring of the UK business.

The Committee has undergone a robust and full assessment of performance, taking into account financial and non-financial measures. In addition, we considered (in consultation with the Safety & Environment Committee) the Group’s performance in relation to safety processes, procedures and outcomes for 2017 and judged that the annual bonus underpin had been fully satisfied given the continuing year-on-year improvement delivered. Particularly pleasing is our Fatalities Weighted Injuries Index (‘FWI’) score per million miles travelled which is now at an all-time low having fallen by 74% since our Driving Out Harm programme was launched in 2010.

Consequently, the following outcomes were approved by the Committee:
- annual bonuses of 95% of maximum for 2017, of which a portion has been deferred into shares. No discretion was used by the Committee in determining these bonuses;
- 96.7% of maximum vesting for the LTIP awards with a three-year performance period ended 31 December 2017. These are due to vest in March 2018; and
- 73.4% of maximum vesting for the legacy LTIP award made to the Group Chief Executive with a five-year performance period ended 31 December 2017. This is due to vest in May 2018.

- Group Chief Executive*: input and recommendations relating to strategy and the performance and remuneration of other Executive Directors and SMG
- Group Finance Director, Human Resources Director and Company Secretary*: input and advice re financial performance, HR policies and practices, governance and administration.

* Do not attend or participate in discussions concerning their own performance or remuneration.

Biographical details of the members are set out on pages 48 and 49.
Directors’ Remuneration Report

This Directors’ Remuneration Report has been prepared in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended) (‘Regulations’), the Listing Rules and the provisions of the UK Corporate Governance Code (‘Code’) and consists of the following sections:

- Annual Statement by the Remuneration Committee Chair
- Remuneration at a glance – an overview of our remuneration strategy and the performance outcomes for the variable elements of remuneration
- Summary of changes and recommended new Directors’ Remuneration Policy – the policy is subject to shareholder approval at the 2018 AGM and, if approved, will be effective immediately thereafter and be binding on the Company until the close of the 2021 AGM.
- Annual Report on Remuneration – this sets out details of payments made to Directors in 2017 under the current remuneration policy. The report is subject to an advisory vote by shareholders at the 2018 AGM.

Following the tragic accident in Chattanooga in late 2016, the Committee has continued to monitor ongoing investigations. I am pleased to confirm that no new findings have arisen since February 2017 that would then, or indeed now, lead the Committee to apply anything other than the same judgement or reach anything other than the same decision in respect of last year’s bonus payments to the Executives. However, we have reviewed and revised the safety underpin wording in the annual bonus as part of this year’s policy review. In addition, a significant and increased proportion of the non-financial element of the bonus (18% out of 25%) was devoted to safety metrics and the delivery of related key plans and investments for 2017. This weighting level will be maintained in 2018.

Overall, the Committee believes that the outcomes of the bonus and LTIP fully reflect the strong underlying performance of the business as well as the strong results for shareholders delivered over the last five years which include a Total Shareholder Return of 134% and basic statutory EPS growth of 118%.

Directors’ Remuneration Policy review

Following a number of substantial changes made to executive remuneration in 2015, our current policy was approved by shareholders with an overwhelming 99% vote of support at that year’s AGM. Since then, we have successfully used the policy to reward and retain a high-quality executive team, under the leadership of Dean Finch, which has and is continuing to deliver record performance as it executes on an ambitious strategy.

The Committee’s objective in approaching this year’s policy review has been to ensure that the remuneration structure continues to support our strategy, incentivise our executive team to achieve stretching targets, and to balance this against the need to be sensitive to shareholder requirements and corporate governance best practice.

The Committee considered alternative remuneration structures but concluded that the current one achieves our objectives and it therefore remains fit for purpose without the need for any significant changes. In particular, we can see that the current structure aligns the executives’ interests with those of our shareholders over the long term.

However, to ensure the policy continues to meet governance guidelines and provides flexibility in dealing with certain scenarios and events which could occur during the intended three-year term of the new policy, the Committee is proposing to make a few incremental changes to the way the policy is operated for Executives. In line with good practice, and before finalising the new policy, the Committee consulted on these changes with major shareholders representing some 74% of our share register, and the main institutional proxy voting agencies, at the end of last year/early this year.

The proposed changes included:

- a reduction in the maximum pension contribution for new Executive Directors to no more than 25% of salary;
- revision of the safety underpin for the annual bonus and the introduction of a similar safety underpin for the LTIP; and
- removal of the ability to use the Listing Rules to make exceptional LTIP awards, and the introduction of the flexibility to grant LTIP awards up to 200% of salary for all Executives in special circumstances.

“...Our recommended new Directors’ Remuneration Policy is aligned with our strategic priorities and targeted to incentivise and reward the long-term success of the Group."

2017 financial performance highlights

- Group revenue £2.32 billion, up 10.9%
- Normalised profit before tax £200m, up 18.6%
- Statutory profit after tax £128.4m, up 11.7%
- Free cash flow £146.4m, up 5.6%
- Normalised basic earnings per share 29.1p, up 10.6%
The changes were very well received by shareholders and in response to our engagement with them, the Committee also made the following further amendments to those originally proposed:

- reduction in the threshold level of LTIP vesting from 30% to 25% for the TSR and EPS elements;
- extension of the application of malus and clawback to the whole of the annual bonus award, not just the deferred share element; and
- reduction in the Group Chief Executive’s annual pension allowance from 35% to 30% of salary in three equal tranches commencing from 2019.

A summary of all the key changes proposed to the current policy is set out in the table on page 73 and the proposed new policy is set out in full on pages 74 to 84.

The Committee is confident that the current policy remains fit for purpose, subject to the incremental changes being proposed, and fundamental in helping us achieve continued strong business performance. The new policy is therefore recommended to shareholders for approval at the AGM in May.

**Executive team changes**
The number of Executive Directors increased and the team strengthened during the year by the appointment of Chris Davies as Group Finance Director in June and the appointment of Matt Ashley (the former Group Finance Director) to the role of President and CEO of our North America business in September 2017. Chris was appointed on the same remuneration package, terms and conditions as his predecessor and Matt moved to Chicago with no changes to his package. Full details of their remuneration and the relocation assistance provided to Matt are set out on pages 85 and 86.

**2018 remuneration and the wider pay environment**
I continue to be encouraged by management’s commitment to invest in staff at all levels and our commitment to always meet or exceed national minimum standards of employment in all of our business areas offering pay, terms and conditions that are appropriate to each labour market in which we operate.

The Committee has recently completed its annual review of salary and can confirm that for 2018 the base salary increase for each of the Executive Directors will be 2.5%, in line with that of the wider UK workforce.

There will be no change to the award opportunity for bonus or LTIP arrangements in 2018. The structure and performance conditions will be operated as per the current policy and the 2017 plans, as detailed in the Annual Report on Remuneration.

**Committee effectiveness**
The Committee’s effectiveness and activities formed part of the external review of Board effectiveness performed in the year. Details of this review are provided on pages 50 and 51. Overall, the Committee continued to operate effectively and to a high standard having delivered on a significant agenda during the year.

**Looking forward**
We will continue to engage with shareholders and review corporate governance best practice as it develops. In that regard, the Committee acknowledges that a new corporate governance code is in preparation and, together with the whole Board, will look to pro-actively respond to developments arising from this as part of its 2018 agenda.

I hope that you find the information contained in this report helpful, thoughtful and clear. I welcome any feedback from shareholders and look forward to answering any questions at the AGM when we will be asking shareholders to approve our new policy and the Annual Report on Remuneration.

Jane Kingston
Remuneration Committee Chair
1 March 2018
Remuneration at a glance

Introduction
In this section, we highlight:

– the linkage between our strategic initiatives and the various elements of remuneration being used to drive and incentivise their achievement; and
– the annual bonus and LTIP targets for performance periods ended 31 December 2017, the Company’s performance against each of them, and the resulting bonus payouts and LTIP vesting levels as a proportion of the maximum opportunity for the Executive Directors in 2017.

More details can be found in the Annual Report on Remuneration on pages 85 to 99.

Remuneration link to strategy
Our focus is to deliver long-term success for the business and shareholders and we seek to achieve this through various strategic initiatives. These are set out below together with the corresponding element of remuneration targeted to drive and incentivise their achievement.

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<thead>
<tr>
<th>Strategic initiatives</th>
<th>Remuneration element</th>
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<tbody>
<tr>
<td>Revenue growth</td>
<td>Normalised profit before tax target in the annual bonus plan</td>
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<td>Cost efficiency and better margins</td>
<td>ROCE and TSR targets attaching to LTIP awards</td>
</tr>
<tr>
<td>Operational excellence – safety, customers, people, community</td>
<td>Non-financial goals in the annual bonus plan</td>
</tr>
<tr>
<td>Superior cash and returns</td>
<td>Free cash flow target in the annual bonus plan</td>
</tr>
<tr>
<td>Creating new business opportunities</td>
<td>Non-financial goals in the annual bonus plan</td>
</tr>
</tbody>
</table>

A minimum shareholding requirement of 200% of salary exists for the Group Chief Executive and 150% of salary for the other Executive Directors. This aligns their interests with those of shareholders by focusing them on the execution of the business strategy and the creation of long-term shareholder value.

Principles of remuneration
Our current Directors’ Remuneration Policy is based on the following broad principles set by the Committee:

– 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 Committee.

A new Directors’ Remuneration Policy is being recommended to shareholders at this year’s AGM (see page 74).

Targets, outturns and payouts for 2017

Annual bonus

<table>
<thead>
<tr>
<th>Measure</th>
<th>Threshold</th>
<th>Target</th>
<th>Maximum</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Normalised PBT¹</td>
<td>£158.9m</td>
<td>£176.6m</td>
<td>£194.3m</td>
<td>£200.0m</td>
</tr>
<tr>
<td>Free cash flow²</td>
<td>£103.5m</td>
<td>£115.0m</td>
<td>£126.5m</td>
<td>£146.4m</td>
</tr>
</tbody>
</table>

¹ The original normalised PBT Target was set at £180.1m. This was adjusted to £176.6m to reflect foreign exchange rate movements, the exit from UK rail and growth capital profit. The Maximum and Threshold levels have also been adjusted to reflect their original +/- 10% linkage to Target.
² The original free cash flow target was £117.1m. This was adjusted to £115.0m to reflect foreign exchange rate movements and growth capital profit. The Maximum and Threshold levels have also been adjusted to reflect their original +/- 10% linkage to Target.
Directors’ Remuneration Report continued

Remuneration at a glance continued

### Annual bonus continued

<table>
<thead>
<tr>
<th>Executive Directors</th>
<th>Bonus maximum opportunity as % of salary</th>
<th>Bonus earned as % of salary</th>
<th>Total bonus earned as % of salary</th>
<th>Bonus earned as % of maximum opportunity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dean Finch</td>
<td>200%</td>
<td>100%</td>
<td>50%</td>
<td>40%</td>
</tr>
<tr>
<td>Group Chief Executive</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chris Davies</td>
<td>150%</td>
<td>75%</td>
<td>37.5%</td>
<td>30%</td>
</tr>
<tr>
<td>Group Finance Director</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Matt Ashley</td>
<td>150%</td>
<td>75%</td>
<td>37.5%</td>
<td>30%</td>
</tr>
<tr>
<td>President and CEO, North America</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1. Part of the bonus earned is subject to a one-year deferral in the form of forfeitable shares.
2. Pro-rated to reflect service during the year as an Executive Director from 10 May 2017.

### Long-term incentives whose performance period ended on 31 December 2017

**2013 5-year LTIP award (Dean Finch only)**

<table>
<thead>
<tr>
<th>Measures</th>
<th>Weighting</th>
<th>Threshold</th>
<th>Target</th>
<th>Maximum</th>
<th>Actual</th>
<th>Vesting as % of maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>TSR vs. selected Travel &amp; Leisure comparator group</td>
<td>1/2</td>
<td>Median</td>
<td>–</td>
<td>Median</td>
<td>46.7%</td>
<td></td>
</tr>
<tr>
<td>EPS</td>
<td>1/2</td>
<td>23.4p</td>
<td>–</td>
<td>28.3p</td>
<td>30.0p</td>
<td>100%</td>
</tr>
<tr>
<td>Total vesting</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>73.4%</td>
</tr>
</tbody>
</table>

1. This has been adjusted from 29.1p to reflect foreign exchange rate movements, the exit from UK rail and growth capital profit.

**2015 3-year LTIP awards (Dean Finch and Matt Ashley)**

**2017 1-year LTIP Recruitment Incentive Award (Chris Davies only)**

<table>
<thead>
<tr>
<th>Measures</th>
<th>Weighting</th>
<th>Threshold</th>
<th>Target</th>
<th>Maximum</th>
<th>Actual</th>
<th>Vesting as % of maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>TSR vs. FTSE 250 Index</td>
<td>1/6</td>
<td>Median</td>
<td>–</td>
<td>Median  (Rank 99th of 221)</td>
<td>85.2%</td>
<td></td>
</tr>
<tr>
<td>TSR vs. Bespoke Index</td>
<td>1/6</td>
<td>Equal to Index</td>
<td>–</td>
<td>≥ Index + 10% pa</td>
<td>&gt; Index + 10% pa</td>
<td>100%</td>
</tr>
<tr>
<td>EPS</td>
<td>1/3</td>
<td>24.8p</td>
<td>26.3p</td>
<td>28.6p</td>
<td>30.0p</td>
<td>100%</td>
</tr>
<tr>
<td>ROCE</td>
<td>1/3</td>
<td>9%</td>
<td>10%</td>
<td>12%</td>
<td>11.9%</td>
<td>97.5%</td>
</tr>
<tr>
<td>Total vesting</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>96.7%</td>
</tr>
</tbody>
</table>

1. Vested share awards are subject to a two-year holding period.
2. This has been adjusted from 29.1p to reflect foreign exchange rate movements, the exit from UK rail and growth capital profit.
### Summary of the key changes proposed to the current Directors’ Remuneration Policy

A summary of the key changes proposed to the current Directors’ Remuneration Policy, approved by shareholders at the 2015 AGM, is set out below and relates only to the operation of the executive remuneration structure. These are the changes on which the Company consulted with its major shareholders.

Further details regarding the operation of the current policy in 2017 can be found in the Annual Report on Remuneration on pages 85 to 99.

<table>
<thead>
<tr>
<th>Element</th>
<th>Proposed change</th>
<th>Rationale for change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Base salary – clarification</strong></td>
<td>Changes to clarify operation of the circumstances in which above employee salary increases or above market median salary may be necessary.</td>
<td>To provide flexibility in cases of material changes in responsibility or below-market pay, or to reward significant experience and proven performance.</td>
</tr>
<tr>
<td><strong>Annual bonus – malus and clawback</strong></td>
<td>Extension of malus and clawback to apply to the whole of the bonus award, not just the deferred share element.</td>
<td>To normalise the application of malus and clawback in line with best practice.</td>
</tr>
<tr>
<td><strong>Annual bonus – underpin</strong></td>
<td>Revision of safety underpin wording for 2018 onwards.</td>
<td>To ensure that the Committee has the ability to make appropriate downward adjustments to bonus and LTIP vesting outcomes in specified circumstances.</td>
</tr>
<tr>
<td><strong>LTIP – underpin</strong></td>
<td>Introduction of safety underpin to future LTIP awards.</td>
<td>To provide for future developments and to address retention, incentive and succession planning matters over the expected three-year term of the policy.</td>
</tr>
<tr>
<td><strong>LTIP – grant size</strong></td>
<td>Introduction of the ability to grant annual LTIP awards to all Executives up to 200% of salary (currently, the maximum is 150% of salary for Executives, other than the Group Chief Executive who is already entitled to a 200% of salary maximum annual award).</td>
<td>To provide for future developments and to address retention, incentive and succession planning matters over the expected three-year term of the policy.</td>
</tr>
<tr>
<td><strong>LTIP – threshold vesting level</strong></td>
<td>Reduce the threshold level of LTIP vesting from 30% to 25% of maximum for TSR and EPS elements.</td>
<td>To normalise the threshold level of vesting in line with best practice and to incentivise a focus on outperformance.</td>
</tr>
<tr>
<td><strong>LTIP – recruitment/retention awards</strong></td>
<td>Removal of the ability to make use of the Listing Rules provision to make exceptional awards in retention or recruitment scenarios.</td>
<td>To ensure that all future LTIP awards are made under the approved remuneration policy in line with best practice.</td>
</tr>
<tr>
<td><strong>Pension – new Executive Directors</strong></td>
<td>Reduction in the maximum annual pension allowance for new Executives to no more than 25% of base salary.</td>
<td>To normalise pension provision for all Executive Directors over time.</td>
</tr>
<tr>
<td><strong>Pension – Group Chief Executive</strong></td>
<td>Reduction in the annual pension allowance from 35% to 30% of base salary in three equal tranches commencing from 2019.</td>
<td>To move this specific legacy pension arrangement more into line with current market practice.</td>
</tr>
</tbody>
</table>
1. Introduction to the policy

This new policy will be put to a binding shareholder vote at the AGM on 16 May 2018 and, if approved, will be effective immediately thereafter (in place of the current policy approved at the 2015 AGM which will continue to apply until such time). It is intended that the new policy will remain in force until the Company’s AGM in 2021 and there are no planned changes to it over the three-year period to which it applies.

The new policy is very similar to the current one, save for the incremental changes to the way it is operated for Executives as summarised on page 73. The remuneration linkage to strategy, through its structure and individual elements (as described on page 71), remains unchanged.

2. Considerations when setting and determining the policy

The Committee’s primary objective when setting the new policy is to align remuneration to the long-term success of the business and shareholders while at the same time enabling the Company to effectively recruit, motivate and retain key individuals. To achieve this, the Committee takes into account the responsibilities, experience, performance and contribution of the individual, as well as levels of remuneration for individuals in comparable roles elsewhere. The Committee also takes into account the views expressed by shareholders and institutional investors’ best practice expectations, and monitors developments in remuneration trends. The policy places significant emphasis on the need to achieve stretching and rigorously applied performance targets, with a significant proportion of remuneration weighted towards performance-linked variable pay.

The Company does not formally consult with employees on executive remuneration. However, when setting the remuneration policy for Executive Directors, the Committee takes into account the overall approach to pay and employment conditions elsewhere in the Group.

3. Consideration of shareholder views

The Committee is committed to maintaining strong relationships and an open dialogue with shareholders and shareholder bodies and to encourage them to share their thoughts with us. The Committee also values investors’ views in the process of formulating remuneration policy decisions.

The Committee undertook a comprehensive review of the current remuneration policy during the year to ensure it remains appropriate and fit for purpose in light of both the Company’s strategy and developments in corporate governance and best practice expectations of investors. In doing so, it engaged with shareholders holding more than 70% of the Company’s shares, as well as the leading shareholder advisory bodies, on the key changes proposed, as set out in the summary table on page 73. This helped the Committee to understand their views and formulate the final policy. The changes were very well received and in response to our engagement with shareholders, the Committee made the following further amendments to those originally proposed:

– reduction in the threshold level of LTIP vesting from 30% to 25% for the TSR and EPS elements;
– extension of the application of malus and clawback to the whole of the annual bonus award, not just the deferred share element; and
– reduction in the Group Chief Executive’s current annual pension allowance from 35% to 30% of salary in three equal tranches commencing from 2019.

The Committee will continue to spend time each year considering feedback received at the AGM and throughout the year as part of its ongoing review of policy. We are grateful for the time, assistance and support shareholders give us.
### 4. Remuneration Policy for Executive Directors

#### 4.1 Summary of the individual elements of the policy for Executive Directors

<table>
<thead>
<tr>
<th>Element</th>
<th>How element supports business strategy</th>
<th>Operation</th>
<th>Maximum potential value</th>
<th>Performance conditions and assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Base salary</strong></td>
<td>To provide base salaries which:</td>
<td>Base salaries are paid monthly in cash and normally reviewed annually with effect from 1 January. Reviews cover individual performance, experience, development in the role and market comparisons. To determine market comparisons the Committee reviews remuneration data on executive positions against comparator groups consisting of transport/leisure and general sector companies of similar size, complexity and international presence. The Committee retains the discretion to amend the comparator groups as necessary to remain relevant.</td>
<td>Whilst there is no prescribed formulaic maximum, base salaries will reflect:</td>
<td>Not applicable.</td>
</tr>
<tr>
<td></td>
<td>- reflect the value of the Executive’s experience, skills, knowledge and contribution, and importance to the business; and - help attract, retain and motivate high performing Executives of the calibre required to lead the business and successfully implement the strategy, but without paying more than is necessary to do so.</td>
<td></td>
<td>- the Executive’s role;</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- the job size and responsibility; and</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- the performance and effectiveness of the individual.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>In addition, when reviewing Executive salaries, consideration will always be given to the approach to employee pay across the Group and the general performance of the Company. Therefore, salary increases for Executives will not normally exceed the general employee increase for the country in which the individual is domiciled. However, larger increases or above median salaries may be necessary, for example (but without limitation):</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- where there has been a material increase in the scope and/or scale of the Executive’s responsibility in the role (including internal promotion);</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- to apply salary progression for a recently appointed Executive who has been appointed on a salary below the market level; and</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- where an Executive is extremely experienced and has a long track record of proven performance. In such circumstances, salaries may need to be in the upper quartile of comparable companies of similar size and complexity.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>No increase would exceed 10% above RPI in any one year, except for internal promotion or where the Executive’s salary is below the market level.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Where such exceptional changes do occur, they will be fully disclosed and explained.</td>
<td></td>
</tr>
</tbody>
</table>
### Directors’ Remuneration Policy

#### Pension

<table>
<thead>
<tr>
<th>Element</th>
<th>How element supports business strategy</th>
<th>Operation</th>
<th>Maximum potential value</th>
<th>Performance conditions and assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pension</td>
<td>To provide a competitive pension and funds that enable Executives to save for retirement. Pension benefits are a fixed element of remuneration.</td>
<td>Executive Directors receive a cash allowance in lieu of a pension provision in line with market practice. The current Group Chief Executive receives a 35% of salary annual cash allowance. The other Executive Directors receive a 25% of salary annual cash allowance. Only base salary counts for the purpose of the allowance.</td>
<td>The Committee’s policy is that the maximum annual cash allowance payable in lieu of a pension provision will be 35% of base salary reducing to 30% in three equal tranches commencing from 2019. For new Executive Directors, the annual cash allowance will be no more than 25% of base salary.</td>
<td>Not applicable.</td>
</tr>
</tbody>
</table>

#### Benefits

<table>
<thead>
<tr>
<th>Element</th>
<th>How element supports business strategy</th>
<th>Operation</th>
<th>Maximum potential value</th>
<th>Performance conditions and assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benefits</td>
<td>To provide competitive benefits as part of fixed remuneration to enable the Group to recruit and retain highly performing Executives.</td>
<td>Executive Directors receive a combination of family private healthcare, death-in-service and life assurance cover (4x salary), long-term sickness and disability insurance, car allowance, free travel on the Company’s services and professional membership subscriptions. They are also entitled to travel, subsistence and accommodation for business purposes. 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 assistance to an Executive Director (and his/her family), including financial, tax and legal advice if applicable. Any change to benefit provisions will be detailed on an annual basis.</td>
<td>The cost to the Company of providing the benefits may vary from year to year in accordance with market conditions. This will therefore determine the maximum amount that would be paid in the form of benefits to Executives during the policy period.</td>
<td>Not applicable.</td>
</tr>
<tr>
<td>Element</td>
<td>How element supports business strategy</td>
<td>Operation</td>
<td>Maximum potential value</td>
<td>Performance conditions and assessment</td>
</tr>
<tr>
<td>--------------</td>
<td>--------------------------------------------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td><strong>Annual bonus</strong></td>
<td>To incentivise delivery of near-term performance objectives which are directly linked to the financial and strategic priorities of the business. A portion of any bonus paid is deferred into shares, assisting the retention of Executives and further aligning their interests with those of shareholders.</td>
<td>Bonus payments are based on the achievement of pre-specified corporate objectives, both financial and non-financial (including personal) over a one-year performance period. A proportion of the bonus payment is subject to mandatory deferral (gross) into shares for one year from award as follows:  - 25% of the bonus earned up to 125% of salary;  - 50% of the bonus earned between 125% to 150% of salary; and  - 75% of the bonus earned above 150% of salary (applicable to Group Chief Executive only). Dividends or dividend equivalents (which may assume notional re-investment) are paid on the deferred share element. 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 share price in the five days preceding the date of the grant. From the 2019 bonus year, malus and clawback provisions attach to the whole of the bonus award and apply to the two-year period post award, including following cessation of employment. Only the Executives currently participate in the Company’s bonus deferral arrangements. Other senior management members may be invited to participate in future years at the Committee’s discretion. Achievement of each element of the bonus is assessed independently. Bonus payments are paid following announcement of the Company’s audited year end results and are not pensionable.</td>
<td>Maximum 200% of base salary for the Group Chief Executive and 150% of base salary for other Executive Directors.</td>
<td>The targets for the bonus in respect of 2018 are as follows:  - 75% subject to normalised profit and free cash flow targets; and  - 25% 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 performance targets will not be disclosed in advance (except for safety) 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 pay outs under the annual bonus. The non-financial targets will be set annually based on strategic objectives for the year as set out in the Strategic Report. These include safety, operational, business development, customer and talent development/ employee related metrics 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. The annual bonus includes an underpin that enables the Remuneration Committee to use its discretion, acting reasonably and proportionately, to scale back the annual bonus outcome, including to nil. This underpin applies if, as a result of the systematic failure of management to put in place and operate effective safety processes, a significant negative event occurs that has a material adverse impact on both the reputation of the Company and its share price. Additionally, to the extent that legal, regulatory or other investigations are ongoing in relation to such an event, the Committee has the discretion to delay the payment of a bonus (in whole or in part) until those investigations are completed.</td>
</tr>
</tbody>
</table>
Directors’ Remuneration Report continued

Directors’ Remuneration Policy continued

<table>
<thead>
<tr>
<th>Element</th>
<th>How element supports business strategy</th>
<th>Operation</th>
<th>Maximum potential value</th>
<th>Performance conditions and assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-Term Incentive Plan</td>
<td>To incentivise performance, reward the execution of strategy, aid retention and align the long-term interests of the Executives with those of shareholders. The performance conditions are aligned with the business strategy, thereby driving participants to achieve outcomes that create shareholder value over the long term.</td>
<td>LTIP awards (in the form of conditional shares, nil cost options or forfeitable shares) are granted annually with vesting subject to the achievement of performance conditions measured over a three-year consecutive financial period commencing with the year of award. An additional two-year holding period exists on vested LTIP awards of the Executive Directors in order to increase the alignment of their interests with those of shareholders. Dividend equivalents can be paid (gross) on vested shares during both the vesting and holding periods. Awards are reviewed annually to ensure that grant levels, performance criteria and other features remain appropriate to the Company’s current circumstances. Pursuant to Schedule 4 of the Income Tax (Earnings and Pensions) Act 2003, and while providing no additional remuneration (only tax efficiency in delivery of the vested LTIP awards), the Company may also grant to the Executives a market value approved Company Share Option Plan (“CSOP”) option (with a maximum face value of £30,000) when such opportunity is available to them individually. Malus and clawback provisions attach to all vested LTIP awards and apply to the two-year period post vesting, including following cessation of employment.</td>
<td>The Group Chief Executive is eligible to receive a conditional LTIP award of up to 200% of salary per annum. The normal maximum LTIP award for other Executives is 150% of salary per annum. However, in special circumstances, and to address retention, incentive and succession planning matters, an LTIP award of up to 200% of salary may also be granted to other Executives in any one year. Awards will be subject to stretching performance targets over a period of three consecutive financial 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.</td>
<td>For 2018, the performance measures for LTIP awards will be based equally as follows: - 1/3 earnings per share (‘EPS’); - 1/3 return on capital employed (‘ROCE’); and - 1/3 total shareholder return, split 50/50 between the constituents of the FTSE 250 Index and a bespoke index comprising a small group of competitor companies (‘TSR’). Achievement of threshold performance in respect of the EPS and TSR targets results in a 25% 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 LTIP includes an underpin that enables the Remuneration Committee to use its discretion, acting reasonably and proportionately, to scale back the level of vesting, including to nil, in any financial year. The underpin applies if, as a result of the systematic failure of management to put in place and operate effective safety processes, a significant negative event occurs during the vesting period, that has a material adverse impact on both the reputation of the Company and its share price. Additionally, to the extent that legal, regulatory or other investigations are ongoing in relation to such an event, the Committee has the discretion to delay the LTIP vesting (in whole or in part) until those investigations are completed. The Committee also retains discretion under the LTIP rules 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 measurement period.</td>
</tr>
</tbody>
</table>
Shareholding requirement
This policy element ensures that the interests of the Executive Directors are closely aligned with those of shareholders.

Executive Directors are encouraged to build up a shareholding over a five-year period commencing from the later of 2015 (when the provision was first introduced) and their date of appointment. The required holding value for the Group Chief Executive is equivalent to 200% of base salary and for the other Executives is 150% of base salary. Adherence to these guidelines is a condition of continued participation in the Company’s LTIP and other equity incentive arrangements. The Committee retains discretion to increase the shareholding requirement over the life of the policy and will have regard to LTIP award levels when using this discretion.

4.2 Previous arrangements
For the avoidance of doubt, in approving this policy, authority is sought by the Company to honour any outstanding commitments (subject to existing terms, conditions and plan rules, as applicable) entered into with current or former Directors (as previously disclosed to shareholders) before this policy took effect or before they became a Director.

4.3 Performance conditions under the Annual Bonus Plan
Normalised PBT, free cash flow and non-financial measures were chosen for the annual bonus plan as appropriate measures of the Group’s short-term performance. The table below summarises the rationale for the selection of each element.

<table>
<thead>
<tr>
<th>Measure</th>
<th>Rationale for performance measure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Normalised PBT</td>
<td>- A primary measure of the success of the Group in growing the business</td>
</tr>
<tr>
<td></td>
<td>- The profit definition for the annual bonus is pre tax and excludes other items over which management have limited control, such as exchange rate charges, to ensure that the target represents a fair measure of management performance</td>
</tr>
<tr>
<td>Free cash flow</td>
<td>- Determines how efficiently the Group generates cash to fund its outgoings and to finance investment</td>
</tr>
<tr>
<td></td>
<td>- Free cash flow is a key driver for generating shareholder value</td>
</tr>
<tr>
<td>Non-financial measures</td>
<td>- Non-financial metrics ensure that management are measured on a broader range of safety, strategic, people and operational targets</td>
</tr>
<tr>
<td></td>
<td>- Safety is of paramount importance to our business and therefore appropriate that management are incentivised to maintain and improve safety processes</td>
</tr>
<tr>
<td></td>
<td>- Strategic measures include business development and customer targets which ensure that management take the right actions now to grow the business in future and to maintain high levels of customer service</td>
</tr>
<tr>
<td></td>
<td>- People are the Group’s primary asset. Developing them, including today’s talent and tomorrow’s leaders, is of paramount importance to the business</td>
</tr>
<tr>
<td></td>
<td>- Other metrics will be used to support business initiatives and these may change through the life of the policy</td>
</tr>
</tbody>
</table>

4.4 Performance conditions under the 2015 Long-Term Incentive Plan
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 selection of each element.

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

If the Committee changes the performance conditions within the life of the policy, it will consult with shareholders in advance on the changes to be made and the reason for doing so.
4.5 Total remuneration opportunity at various levels of performance

Our aim is to ensure that superior awards are only paid for exceptional performance, with a substantial proportion of Executive Directors’ remuneration payable in the form of variable pay. The charts below illustrate the remuneration opportunity provided to each Executive Director at different levels of performance for the coming year.

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

<table>
<thead>
<tr>
<th>Element</th>
<th>Descriptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed</td>
<td>Latest base salary, pension allowance and benefits</td>
</tr>
<tr>
<td>Annual variable</td>
<td>Performance-related annual bonus (including deferred element)</td>
</tr>
<tr>
<td>Long-term incentives</td>
<td>Long-Term Incentive Plan award</td>
</tr>
</tbody>
</table>

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

- Salaries are those set as at 1 January 2018
- Benefits are those paid in 2017 (but excludes the relocation costs for Matt Ashley)
- LTIP awards are granted at the normal annual level under the policy
- The Minimum performance level assumes fixed pay only and no variable payments
- The On-target performance level assumes performance in line with the Company’s expectations, resulting in threshold LTIP vesting and 50% of maximum annual bonus payout. (While the bonus plan has targets for threshold, on-target and maximum, the LTIP only has targets for threshold and maximum for some metrics. The value shown above for the On-target level includes the values for on-target bonus and threshold LTIP performance.)
- The Maximum performance level assumes an outstanding level of performance (ie maximum annual bonus and full LTIP vesting)
- Share price appreciation is ignored.
4.6 Comparison with approach to remuneration across the Group

The Group operates across a number of countries and accordingly sets terms and conditions for employees which reflect the different legislative requirements and labour market conditions that exist in each country. We set Global People Standards to provide a framework for recognition and rewards internationally. We will always meet or exceed national minimum standards of employment in all 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. National Express believes in the value of continuous improvement, both for the individual and for the Company.

The Group offers pension and pension savings arrangements to its employees appropriate for the labour markets in which it operates. In the UK, in line with market practice, new employees are offered membership of a Defined Contribution (‘DC’) plan with employer contributions up to 15% of salary. The Group also has Defined Benefit (‘DB’) schemes in its UK Bus division with employer contributions ranging between 25% and 40% of salary. Historically, a majority of the Group’s UK employees would have been in DB schemes when the Group operated rail franchises. With the Group having exited UK rail in 2017, the majority of UK employees are now in the DC plan.

LTIP awards are also provided to selected members of the Senior Management Group to incentivise and reward them for delivering long-term value to the Group and shareholders.

The Company did not consult with employees in drawing up the Directors' Remuneration Policy.

4.7 Executive Directors’ Service Agreements

The Executive Directors each have a Service Agreement with the Company and the table below shows the date of those agreements and the relevant notice period to be provided by either party in normal circumstances.

<table>
<thead>
<tr>
<th>Executive Directors</th>
<th>Date of Service Agreement</th>
<th>Date of appointment</th>
<th>Notice period from Company</th>
<th>Notice period from Director</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dean Finch</td>
<td>16.12.09</td>
<td>15.02.10</td>
<td>12 months</td>
<td>6 months</td>
</tr>
<tr>
<td>Matthew Ashley</td>
<td>16.07.15</td>
<td>28.01.15</td>
<td>12 months</td>
<td>6 months</td>
</tr>
<tr>
<td>Chris Davies</td>
<td>17.01.17</td>
<td>10.05.17</td>
<td>12 months</td>
<td>6 months</td>
</tr>
</tbody>
</table>

The Service Agreement for 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 his departure justify their use.

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 made of 25% of his salary, plus a 5% per annum notional return. The benefits under this arrangement ceased to accrue from 5 June 2016. In normal circumstances, the pension is payable, at the earliest, from 1 April 2022, with all or part of it capable of being paid as a lump sum at the Company’s discretion.

On a change of control of the Company, outstanding LTIP awards 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. Vested LTIP shares subject to a holding period (and any outstanding deferred bonus shares) will vest automatically to participants on a change of control.
4.8 Executive Directors’ employment termination arrangements

Same as referred to in 4.7 above, the Company may at its discretion make payment in lieu of notice, which could potentially include up to 12 months’ base salary, benefits and pension, and which may be subject to payment by instalments and/or mitigation.

The table below sets out the treatment of the elements of remuneration that would normally apply where an Executive Director’s service with the Company is terminated:

<table>
<thead>
<tr>
<th>Reason for termination</th>
<th>Salary, pension and contractual benefits</th>
<th>Annual bonus</th>
<th>Unvested deferred share bonus awards</th>
<th>Unvested LTIP awards</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Good leaver: retirement, disability, redundancy, death, sale of part of Company that employs participant or any other reason that the Remuneration Committee determines.</td>
<td>Payment equal to the aggregate of the base salary and pension allowance and the value of any contractual benefits during the notice period, including any accrued but untaken holiday.</td>
<td>Bonus awarded (subject to the satisfaction of performance targets for the relevant financial year).</td>
<td>Awards vest on date of termination.</td>
<td>Unvested LTIP awards will vest on the date of termination or on the normal vesting date as determined by the Remuneration Committee.</td>
<td>Fees for outplacement and legal advice may be paid.</td>
</tr>
</tbody>
</table>

| Other reasons | Paid to date of termination, including any accrued but untaken holiday. | No awards made for the year of termination. | Awards lapse in full on termination. | Awards lapse in full on termination. |

1 Pursuant to Dean Finch’s Service Agreement 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 from the commencement of the relevant bonus year in which termination takes place up to the date of termination.

Subject to the circumstances surrounding the termination, the Committee may, in its discretion, treat the Executive as a ‘good leaver’ (in relation to their reason for leaving under the first section of the above table). 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 limited to, whether the Executive is leaving by mutual agreement with the Company. In addition, the Committee will consider the above circumstances in considering whether unvested LTIP awards should be pro-rated for a good leaver to reflect their completed period of service since the date of grant.

The Committee reserves the right to make additional exit payments to an Executive Director where such payments are made in good faith:

- to discharge 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 office or employment.
4.9 Approach to the remuneration of newly appointed 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 from which the candidate is being recruited. This is to ensure that the arrangements made 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. The only exception to this is where, in exceptional circumstances, it is deemed necessary to offer a longer notice period initially, reducing down to 12 months, in order to secure the appointment of an external recruit.

The Committee would generally seek to align the remuneration of any new Executive Director with the same principles as apply for the current Executive Directors.

In line with the above policy, the elements that would be considered by the Company for inclusion in the remuneration package of a new Executive Director are:

- salary and benefits, including a cash allowance in lieu of a pension provision;
- participation in the performance-related annual bonus of up to 200% of salary (depending on role), pro-rated for the period of service in the year of recruitment. If the commencement date is after 1 September, no award would normally be made for that year;
- participation in the LTIP with award levels applicable for that grade. On appointment, that would be a maximum value of 200% of salary, although this may be pro-rated depending on the time of appointment through the year; and
- costs and outgoings relating to, but not limited to, relocation assistance; legal, financial, tax and visa advice; and pre-employment medical checks.

Other elements may be included where an interim appointment is being made to fill an Executive Director role on a short-term basis or similarly if the Chairman or a Non-Executive Director takes on an executive function on a short-term basis.

The Committee may also make awards on the appointment of an Executive Director to ‘buy out’ remuneration arrangements being forfeited by the individual 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 appropriate. Awards made by way of compensation for forfeited awards would be made on a comparable basis, taking account of performance conditions and achievements (or likely achievements), the proportion of the performance period remaining and the form of the award. Compensation could be in the form of cash and/or shares. The Committee will not offer any non-performance related incentives payments (for example, a ‘guaranteed signing-on bonus’ or ‘golden hello’). Leaver provisions will be determined in line with this policy when ‘buy-out’ awards are made.

4.10 Executive Directors’ external appointments

Board approval is required before any external appointment may be accepted by an Executive Director. If approved, the individual is permitted to retain any fees paid in respect of such office or services. At present, none of the Executive Directors hold an external appointment.
5. Remuneration Policy for Non-Executive Directors

5.1. Summary of the individual elements of the policy for Non-Executive Directors

<table>
<thead>
<tr>
<th>Element</th>
<th>Purpose</th>
<th>Operation</th>
<th>Maximum potential value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fees</td>
<td>To attract, retain and motivate high performing persons of a suitable calibre for a business of this size and complexity. To pay fees which are reflective of responsibilities and time commitments, competitive with peer companies, without paying more than is necessary.</td>
<td>The single fee paid to the Chairman for all Board duties is set by the Remuneration Committee and the basic and additional fees paid to the other Non-Executive Directors are set by the Board. The fees are reviewed (though not necessarily changed) annually having regard to independent advice and published surveys. 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 as a basic requirement for other Non-Executive Directors) and any additional responsibilities and time commitments required in chairing various Board Committees or acting as the Senior Independent Director. A travel allowance is also paid to Non-Executive Directors for attendance at Board meetings or other Board related matters held outside their continent of residence. Non-Executive Directors are not eligible to receive pension entitlements or bonuses and may not participate in long-term incentive arrangements.</td>
<td>The Committee’s policy is to set fees at an appropriate level taking into account the factors outlined in this table.</td>
</tr>
</tbody>
</table>

5.2. Appointments

The Chairman and the other Non-Executive Directors are not employed and do not have service agreements with the Company; they are also not entitled to participate in the Group’s pension, annual bonus or long-term incentive arrangements. Instead, they are appointed under individual Letters of Appointment and only receive a fee for their services. On appointment, the fee arrangements for a new Non-Executive Director will be determined in accordance with the policy in force at that time.

The Non-Executive Directors are normally appointed for an initial three-year term but with an expectancy that they will serve for at least two three-year terms. That said, in accordance with the requirements of the Code, they (and the Executive Directors) are required to stand for election or re-election by shareholders at each AGM and their appointment can be terminated at any time without compensation by either party usually by either party serving not less than one month’s prior written notice.

The Letters of Appointment for the Chairman and the Non-Executive Directors, together with the Service Agreements for the Executive Directors, are available for inspection at the Company’s registered office. Their dates of appointment and current notice periods are shown in the table below.

5.3. Non-Executive Directors’ dates of appointment and notice periods

<table>
<thead>
<tr>
<th>Non-Executive Director</th>
<th>Date of appointment</th>
<th>Notice period from either party (months)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sir John Armitt CBE</td>
<td>01.01.13</td>
<td>3</td>
</tr>
<tr>
<td>Joaquín Ayuso</td>
<td>01.06.11</td>
<td>1</td>
</tr>
<tr>
<td>Jorge Cosmen</td>
<td>01.12.05</td>
<td>0</td>
</tr>
<tr>
<td>Chris Muntwyler</td>
<td>11.05.11</td>
<td>1</td>
</tr>
<tr>
<td>Lee Sander</td>
<td>01.06.11</td>
<td>1</td>
</tr>
<tr>
<td>Jane Kingston</td>
<td>26.02.14</td>
<td>1</td>
</tr>
<tr>
<td>Matthew Crummack</td>
<td>06.05.15</td>
<td>1</td>
</tr>
<tr>
<td>Mike McKeon</td>
<td>03.07.15</td>
<td>1</td>
</tr>
<tr>
<td>Dr Ashley Steel</td>
<td>01.01.16</td>
<td>1</td>
</tr>
</tbody>
</table>
Annual Report on Remuneration

This Annual Report on Remuneration describes how the current Directors’ Remuneration Policy, approved by shareholders at the 2015 AGM, was applied in the financial year to 31 December 2017, and how it will be applied in the financial year commenced 1 January 2018. The relevant sections of this report have been audited, as required by the Regulations.

1. Remuneration background relating to Executive Director changes during the year

(a) Chris Davies: appointment as Group Finance Director

Chris Davies joined the Company on 2 May, was appointed an Executive Director on 10 May and became Group Finance Director in succession to Matt Ashley (see below) on 1 June 2017. His remuneration package on appointment was the same as his predecessor and his Service Agreement is in line with the Company’s standard form at this level, including a 12-month notice period from the Company.

Mr Davies received his first full annual LTIP award on appointment with the same three-year performance conditions and scheduled vesting date of 2020 as applied to the annual LTIP awards made to the other Executive Directors on 18 April 2017. At the same time, he also received two Recruitment Incentive Awards (‘RIAs’) under the LTIP in recognition of certain incentives he forfeited on leaving his previous employer to join the Company. The RIAs are scheduled to vest on the first and second anniversary of grant subject to the same performance conditions as apply to the LTIP awards granted to the Executives in 2015 and 2016 (which are also scheduled to vest in 2018 and 2019) respectively.

(b) Matt Ashley: appointment as President and CEO, North America

As part of a career development opportunity for him and a strengthening of the executive team for the Company, Matt Ashley relinquished his role as Group Finance Director (but retained his executive directorship) on 31 May. This was to take up a two-year (minimum) assignment as President and CEO, North America, based in Chicago, commencing 1 September 2017.

In order for Mr Ashley to commence his new role (the transition for which started on 1 June), and for his family to join him in Chicago, the Company provided him with a relocation assistance package in line with normal practice for an international relocation at executive level. The package, which includes tax equalisation and exchange rate protection, falls into the following four main categories:

- pre-visit costs for school and accommodation search purposes;
- relocation costs related to storage, shipping, incidental expenditure and legal, professional and visa processing fees;
- ongoing costs, including a 10% of salary disturbance allowance (to reflect the economic cost to his family of the relocation), occasional return flights to the UK, school fees, rented unfurnished accommodation, company car, medical and travel insurance, and tax return preparation assistance; and
- return costs associated with shipping and return flights to the UK.

As Mr Ashley is liable to tax on these deemed relocation benefits, the amount paid to him in the year (substantially in the US), as set out in this report under ‘Relocation benefits’, is the total grossed-up cost of tax amount estimated to paid by the Company (except in relation to the disturbance allowance) on his behalf. In 2017, this amounted to £295,854.

Specific details confirming the above elements of remuneration are provided in this report. Further ongoing relocation cost details for Mr Ashley will be disclosed in next year’s report.
2. Single total figure of remuneration for Executive Directors
The table below sets out the single total figure of remuneration and breakdown for each Executive Director in relation to the financial year ended 31 December 2017 (with comparative figures provided for 2016).

The subsequent tables and information give more detail on how we have measured the performance outcomes with respect to the annual bonus and LTIPs in the context of value created for shareholders.

<table>
<thead>
<tr>
<th>Executive Director</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>£’000</strong></td>
<td><strong>Base salary</strong></td>
<td><strong>Taxable benefits¹</strong></td>
</tr>
<tr>
<td>Dean Finch</td>
<td>615</td>
<td>30</td>
</tr>
<tr>
<td>Chris Davies⁴</td>
<td>233</td>
<td>12</td>
</tr>
<tr>
<td>Matt Ashley⁵</td>
<td>350</td>
<td>18</td>
</tr>
</tbody>
</table>

¹ As explained in 1(a) above, Chris Davies joined the Company on 2 May and was appointed a Director on 10 May 2017. His remuneration is shown pro rata to his period of service during the year.
² Matt Ashley relinquished his position as Group Finance Director (but not his executive directorship) on 1 June to take up his new role as President and CEO, North America, based in Chicago, effective from 1 September 2017.
³ Taxable benefits comprise a car allowance, private medical insurance and death in service and life assurance cover.
⁴ The annual bonus represents the gross bonus declared and to be paid in March 2018 in connection with performance achieved in the year. As explained on page 88, part of this bonus will be paid in cash and part will be deferred for one year in the form of forfeitable shares in the Company.
⁵ The LTIP represents the estimated value of shares that are scheduled to vest in March and/or May 2018 arising from a five-year legacy award made to Dean Finch in 2013, a three-year award made to Messrs. Finch and Ashley in 2015 and a one-year Recruitment Incentive Award made to Chris Davies in 2017. All such awards were based on a 31 December 2017 performance period end and their values have been calculated using a share price of 363.9p (being the three-month average to 31 December 2017).
⁶ The LTIP values of vested shared were estimated the 2016 LTIPs vested and total comparative figures for each of Messrs. Finch and Ashley have been adjusted to reflect actual values on vesting. For Dean Finch, 440,095 shares vested on 9 April 2017 when the closing share price was 360.3p and 130,703 shares vested on 3 August 2017 when the closing share price was 366.7p. For Matt Ashley, 149,372 shares vested on 9 April 2017 when the closing share price was 360.3p.

(a) Base salary
As explained in the 2016 Annual Report on Remuneration, the base salaries set by the Committee for 2017 were £615,000 for Dean Finch and £350,000 for Matt Ashley. There was no change to Mr Ashley’s base salary (or any other parts of his remuneration or Service Agreement with the Company) when he relinquished his role (but not his executive directorship) on 31 May to take up the position as President and CEO, North America, based in Chicago, on 1 September 2017 (see 1(b) above).

Chris Davies joined the Company on 2 May and was appointed to the Board on 10 May. He took up the role of Group Finance Director, in succession to Mr Ashley, on 1 June 2017. His base salary (and other elements of remuneration) for 2017 was set at the same level as his predecessor, ie £350,000 pa (see 1(a) above).

(b) Pensions
The Executive Directors are not entitled to participate in the Group’s pension schemes. Instead, they receive a pension allowance (gross) which does not qualify as salary or for any other benefit or entitlement. The Group Chief Executive currently receives an allowance of 35% of salary and each of the other Executive Directors receives an allowance of 25% of salary. Under the proposed new policy, the Group Chief Executive’s pension allowance will be reduced from 35% to 30% of salary in three equal tranches commencing in 2019 (see page 76). Benefits under the Group Chief Executive’s previous unfunded pension arrangement ceased to accrue with effect from 5 June 2016 (see note 9 on page 96).
(c) Annual bonus
A summary of the 2017 performance-related bonus plan for the Executive Directors is set out below.

- Group Chief Executive:
  - Maximum opportunity: 200% of salary
  - Target weighting: 75% financial
  - Deferred element: 25% of bonus earned up to 125% of salary
  - 50% of bonus earned between 125% – 150% of salary
  - 75% of bonus earned between 150% – 200% of salary

- Other Executive Directors:
  - Maximum opportunity: 150% of salary
  - Target weighting: 75% financial
  - Deferred element: 25% of bonus earned up to 125% of salary
  - 50% of bonus earned between 125% – 150% of salary

The Committee has full discretion in the payment of annual bonuses. It is a pre-condition to the award of any bonus that the Committee has determined that there has been an improvement in the Group’s safety processes, procedures and outcomes during the year. In respect of the latter, the Committee consulted with the Chair of the Safety & Environment Committee, and satisfied itself that based on: (i) the level of due diligence undertaken by that Committee, and (ii) the evidence made available in support of the Group’s safety performance against the basket of measures we consistently compare ourselves against, 2017 had been another year in which the Group’s performance had shown year-on-year improvement in its safety processes, procedures and outcomes. For any financial element of the bonus to be payable, the Group must have achieved at least the threshold level of normalised profit target for the year.

The Committee has reviewed performance against the financial and non-financial targets attached to the 2017 bonus plan and, in addition, made an assessment of the Group’s overall performance in 2017.

2017 bonus structure and performance conditions
The following table sets out the structure and performance conditions which attached to the 2017 bonus plan.

<table>
<thead>
<tr>
<th>Structure</th>
<th>Group Chief Executive (% of base salary)</th>
<th>Other Executive Directors (% of base salary)</th>
<th>Performance conditions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maximum bonus opportunity</td>
<td>200%</td>
<td>150%</td>
<td>Proportion of bonus subject to compulsory deferral into Company shares for one year from award</td>
</tr>
<tr>
<td>Bonus potential at 90% of budgeted normalised PBT</td>
<td>0%</td>
<td>0%</td>
<td>Awarded on achieving threshold level</td>
</tr>
<tr>
<td>On-target bonus potential at 100% of budgeted normalised PBT</td>
<td>50%</td>
<td>37.5%</td>
<td>Awarded on achieving budget</td>
</tr>
<tr>
<td>Stretch bonus for 110% of budgeted normalised PBT</td>
<td>100%</td>
<td>75%</td>
<td>Awarded on achieving a stretch target of 110% of normalised PBT</td>
</tr>
<tr>
<td>Bonus potential at 90% of budgeted free cash flow</td>
<td>0%</td>
<td>0%</td>
<td>Awarded on achieving threshold level</td>
</tr>
<tr>
<td>On-target bonus potential at 100% of budgeted free cash flow</td>
<td>25%</td>
<td>18.75%</td>
<td>Awarded on achieving budget</td>
</tr>
<tr>
<td>Stretch bonus potential at 110% of budgeted free cash flow</td>
<td>50%</td>
<td>37.5%</td>
<td>Awarded on achieving a stretch target of 110% of budgeted free cash flow</td>
</tr>
<tr>
<td>Non-financial targets (underpinned by achievement of 90% of budgeted normalised PBT)</td>
<td>50%</td>
<td>37.5%</td>
<td>Awarded on meeting key strategic Group objectives tailored to each Executive Director’s responsibilities</td>
</tr>
</tbody>
</table>
### 2017 bonus targets, outturns and awards

The following table sets out the targets, performance outturns and awards in respect of the 2017 bonus plan. No discretion was applied by the Committee in determining the awards.

<table>
<thead>
<tr>
<th>Measure</th>
<th>Weighting</th>
<th>Threshold</th>
<th>On-target</th>
<th>Maximum</th>
<th>Actual</th>
<th>Bonus value achievable between Threshold and Maximum (% of salary)</th>
<th>Actual bonus value achieved (% of salary and/or £’000)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial targets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Normalsed PBT$^1$</td>
<td>50%</td>
<td>£158.9m</td>
<td>£176.6m</td>
<td>£194.3m</td>
<td>£220.0m</td>
<td>0%-100% 0%-75%</td>
<td>100% 75% 75%</td>
</tr>
<tr>
<td>Free cash flow$^3$</td>
<td>25%</td>
<td>£103.5m</td>
<td>£115.0m</td>
<td>£126.5m</td>
<td>£146.4m</td>
<td>0%-50% 0%-37.5%</td>
<td>50% 37.5% 37.5%</td>
</tr>
<tr>
<td><strong>Non-financial targets$^4$</strong></td>
<td>25%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0%-50% 0%-37.5%</td>
<td>40% 30% 30%</td>
</tr>
<tr>
<td><strong>Total bonus awarded</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>190% 142.5% 142.5%</td>
<td></td>
</tr>
<tr>
<td>To be paid in cash</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>£1,169 £499 £333</td>
<td></td>
</tr>
<tr>
<td>To be deferred in shares</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>£715 £358 £239</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>73.8% 40.3% 40.3%</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>£454 £141 £94</td>
<td></td>
</tr>
</tbody>
</table>

1 Pro-rated to reflect service during the year as an Executive Director from 10 May 2017.

2 The original normalised PBT Target was set at £180.1m. This was adjusted to £176.6m to reflect foreign exchange rate movements, the exit from UK rail and growth capital profit. The Maximum and Threshold levels have also been adjusted to reflect their original +/- 10% linkage to Target.

3 The original free cash flow target was £117.1m. This was adjusted to £115.0m to reflect foreign exchange rate movements and growth capital profit. The Maximum and Threshold levels have also been adjusted to reflect their original +/- 10% linkage to Target.

4 Details of the non-financial bonus targets, and the corresponding performance outturns for each of the Executive Directors, is set out below.

The cash bonus will be paid, and the deferred bonus award granted (in the form of forfeitable shares in the Company under the rules of the Executive Deferred Bonus Plan (‘EDBP’)), in March 2018. The forfeitable shares:

- will be calculated based on the Company’s average share price for the five business days immediately preceding the date of grant;
- will be held in the Company’s Employee Benefit Trust where the beneficial interest is held by, and dividends arising on them are paid to, the Executive Director;
- will vest on the first anniversary of grant, subject to continued service or, in the absence of the same, good leaver status being confirmed under the EDBP; and
- are subject to malus and clawback for a two-year period from the date of grant.
Summary of non-financial bonus targets and corresponding performance outturns for 2017
As Matt Ashley and Chris Davies were new to their roles in 2017, all three Executive Directors (Dean Finch, Matt Ashley and Chris Davies) have been judged against the below common set of objectives which in total represented a 25% target weighting of the annual bonus opportunity for each person.

<table>
<thead>
<tr>
<th>Objective</th>
<th>Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Safety (10% of 25%)</td>
<td>Safety, as measured by the FWI, improved materially from 17.085 in 2016 (or 10.585 excluding Chattanooga) to a record low of 8.574. Both UK bus and UK coach have again been awarded the BSC Safety Sword of Honour and each retained 5-star British Safety Council ratings – UK bus with a score of 97.4, the highest in the industry for the year. North America regained its “satisfactory” Department of Transportation (“DOT”) safety rating – the highest rating awarded by the DOT.</td>
</tr>
<tr>
<td>Safety systems and processes (8% of 25%)</td>
<td>The Group-wide Customer Feedback Management System is being supplied by iCaseworks. The target completion date for full Group implementation is June 2018. In North America, the system is now live and available to all student transportation CSCs. ALSA is also well progressed and German Rail implementation is planned for April 2018. The UK will be completed in June 2018. In all Divisions, work has been done to enable the system to be implemented on schedule. DriveCam is on target: 6,351 units have been installed in North America, and the full fleet is fitted in the UK. In Spain, data protection issues required our supplier to set up a centre in Europe which was done in November - 152 units are now fitted and working. Bahrain and Morocco are fully fitted with CCTV. All progress is consistent with the 2020 plan. Master Driver - we now have 698 Master Drivers of which UK bus has 338, UK coach 73 (partner operators start in 2018) and ALSA 287. North America has commenced a pilot of the programme. Bahrain is finalising the external verifier in Q1 2018 now that the drivers have the required length of service to qualify for the programme. Competency of Driver Managers - on target for the 2020 plan. The North America pilot starts in January 2018; UK pilots took place in Autumn 2017 and training for all trainers started in January 2018; Spain and Morocco training started in Autumn 2017 and continues into Q1 2018; Bahrain training commences in Q1 2018. Driver Performance Management - largely on target and at the early stage of implementation. Each of the Divisions is implementing this policy at a different pace as it is dependent on the electronic collation of data on the drivers. Electronic database of drivers has been put in place in ALSA, Bahrain and North America; risk profiling has been developed and is being trialled in the UK, ALSA and Bahrain. Our proposed driver evaluation system was checked by the University of Oviedo in Spain which, at the end of June 2017, said “the test is excellent with a high reliability coefficient”. It was only with this test validation that roll-out could start. This initiative is currently on target: North America will be piloted in Q1 2018; UK started in January 2018 and Spain and Morocco in October and November 2017 respectively; Bahrain trialled in December 2017. All Divisions have implemented monitoring of speed. There have been challenges with the technology which have had to be worked through. Significant progress has been made in all Divisions in reducing incidents of speeding. With the appointment of Miguel Alonso as Group Engineering Director, progress has been made on all seven elements that make up World Class Maintenance (ie Vehicle Maintenance, Specifications, Process, Supplier Relationships, People, Facilities and Equipment and Assurance). Of the 10 Global Maintenance Standards identified, seven have been issued and three are in draft.</td>
</tr>
<tr>
<td>Business development (7% of 25%)</td>
<td>The c2c: UK rail franchise was successfully sold in February 2017 – delivering a significant cash benefit to the Group and removing a future risk. Subsequent developments in the UK rail industry have supported the long-term strategic value of this divestment. We conducted a comprehensive and objective review of the potential returns in both existing and new markets in order to balance risk and reward when investing Group capital. Market entry strategies outside of core markets were also analysed. We continued our successful bolt-on M&amp;A activity in North America and ALSA again this year with nine deals completed. During 2017, we made two senior hires to lead the international team. The team performed a review of global market attractiveness with deep dives into potential markets, and worked in tandem with ALSA on two significant bids. A comprehensive pipeline of opportunities is being developed. After an extensive search, the Group has hired a new Chief Digital Officer (“CDO”) to develop and lead our digital strategy. Working with the Group Commercial Director, the CDO is focusing on areas where digital can drive revenues or reduce costs. The team continues to evaluate and respond to threats created by digital disruptors, and is also looking at opportunities to use digital to build on our core strengths. During 2017, two international Operational Excellence project teams were formed and they conducted studies into driver recruiting, training, and manpower utilisation. The 11 participants on the programme were drawn from our graduate programme and other high potentials. Two project teams will again be run in 2018 and the first project commenced in January.</td>
</tr>
</tbody>
</table>

Based on the above assessment against the objectives set, the Committee determined that for the non-financial elements of their respective bonuses, the performance of Dean Finch warranted a 40% pay out of a 50% salary maximum opportunity, and each of Matt Ashley and Chris Davies warranted a 30% pay out of a 37.5% of salary maximum opportunity.
LTIP vesting in 2018

LTIP awards granted in 2013, 2015 and 2017 to the Executive Directors are scheduled to vest in March and/or May 2018 as the performance measurement periods relating to them ended on 31 December 2017. Details of the performance conditions attaching to the awards, and the extent to which they have been met, are set out below. No discretion was applied by the Committee in determining the awards.

2013 5-year LTIP award (Dean Finch only)

<table>
<thead>
<tr>
<th>Performance condition</th>
<th>Weighting</th>
<th>Threshold (30% vesting)</th>
<th>Maximum (100% vesting)</th>
<th>Actual</th>
<th>Percentage vesting</th>
</tr>
</thead>
<tbody>
<tr>
<td>TSR vs. selected Travel &amp; Leisure comparator group</td>
<td>1/2</td>
<td>Median</td>
<td>Upper Quintile</td>
<td>Median → Upper Quintile (Rank 7th of 15)</td>
<td>23.4%</td>
</tr>
<tr>
<td>EPS</td>
<td>1/2</td>
<td>23.4p</td>
<td>28.3p</td>
<td>30.0p</td>
<td>50.0%</td>
</tr>
</tbody>
</table>

Total vesting 73.4%

1 As previously reported, there is only one more 5-year LTIP award outstanding to the Group Chief Executive. This was granted in 2014 and will vest on 9 April 2019 subject to performance conditions achieved for the 5-year financial period ending 31 December 2018.

2 This has been adjusted from 29.1p to reflect foreign exchange rate movements, the exit from UK rail and growth capital profit.

2015 3-year LTIP awards (Dean Finch and Matt Ashley)

<table>
<thead>
<tr>
<th>Performance condition</th>
<th>Weighting</th>
<th>Threshold (50% vesting)</th>
<th>Target (50% vesting)</th>
<th>Maximum (100% vesting)</th>
<th>Actual</th>
<th>Percentage vesting</th>
</tr>
</thead>
<tbody>
<tr>
<td>TSR vs. FTSE 250 Index</td>
<td>1/6</td>
<td>Median</td>
<td>–</td>
<td>&gt; Index</td>
<td>Median → Upper Quintile (Rank 59th of 221)</td>
<td>14.2%</td>
</tr>
<tr>
<td>TSR vs. Bespoke Index</td>
<td>1/6</td>
<td>Equal to Index</td>
<td>–</td>
<td>+ 10% pa</td>
<td>+ 10% pa</td>
<td>16.7%</td>
</tr>
<tr>
<td>EPS</td>
<td>1/3</td>
<td>24.8p</td>
<td>26.3p</td>
<td>28.6p</td>
<td>30.0p</td>
<td>33.3%</td>
</tr>
<tr>
<td>ROCE</td>
<td>1/3</td>
<td>9%</td>
<td>10%</td>
<td>12%</td>
<td>11.9%</td>
<td>32.5%</td>
</tr>
</tbody>
</table>

Total vesting 96.7%

1 Comprising three comparator companies, namely: FirstGroup plc, Stagecoach Group plc and Go-Ahead Group plc.

2 This has been adjusted from 29.1p to reflect foreign exchange rate movements, the exit from UK rail and growth capital profit.

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.

Vesting details

- In relation to Dean Finch, he was granted:
  - in 2013 a 5-year LTIP award in the form of a nil cost option over 257,953 shares. As 73.4% of the performance conditions have been met, 189,337 of these shares are scheduled to vest on 23 May 2018; and
  - in 2015 a 3-year LTIP award in the form of a nil cost option over 356,303 shares. As 96.7% of the performance conditions have been met, 344,545 of these shares are scheduled to vest on 5 March 2018. A portion of the vested award will be delivered in the form of an approved Company Share Option Plan (‘CSOP’) option exercise over 9,526 shares at an option price of 314.9p per share.

- In relation to Matt Ashley, he was granted in 2015, a 3-year LTIP award in the form of a nil cost option over 142,902 shares. As 96.7% of the performance conditions have been met, 138,186 of these shares are scheduled to vest on 5 March 2018.

- In relation to Messrs. Finch and Ashley and their respective 2015 3-year LTIP share vesting:
  - they will each receive a cash dividend equivalent payment (gross) of the total dividend paid by the Company on the number of vested shares during the vesting period, amounting to £96,024 and £38,512 respectively; and
  - the vested shares are subject to a two-year holding period and malus and clawback, including post cessation of employment, for two years from the date of vesting. The Executives are also entitled to receive cash dividend equivalent payments on the vested shares during the holding period while the options remain unexercised.

- In relation to Chris Davies, he was granted in 2017 a 1-year LTIP Recruitment Incentive Award in the form of a nil cost option over 31,867 shares. These were granted with the same performance conditions as attached to the 2015 3-year LTIP awards (as above). As 96.7% of the performance conditions have been met, 30,915 of these shares are scheduled to vest on 10 May 2018. He is not entitled to any cash dividend equivalent payment on these vested shares and they are not subject to a holding period. Malus and clawback do apply.
LTIP awards made in 2017

The tables below set out details of the LTIP awards granted to the Executive Directors in 2017 where vesting will be determined according to the achievement of performance conditions that will be measured over future financial periods.

3-year LTIP awards

Dean Finch

<table>
<thead>
<tr>
<th>Grant date</th>
<th>Number of shares awarded</th>
<th>Award type</th>
<th>Award amount</th>
<th>Face value of award(^\d)</th>
<th>Percentage vesting at threshold performance</th>
<th>Performance period</th>
<th>Performance conditions</th>
</tr>
</thead>
<tbody>
<tr>
<td>18.04.17</td>
<td>341,476</td>
<td>Nil cost option</td>
<td>200% of salary</td>
<td>£1,230</td>
<td>TSR and EPS: 30% ROCE: 0%</td>
<td>01.01.17 – 31.12.19</td>
<td>TSR, EPS and ROCE – see below</td>
</tr>
</tbody>
</table>

Matt Ashley

<table>
<thead>
<tr>
<th>Grant date</th>
<th>Number of shares awarded</th>
<th>Award type</th>
<th>Award amount</th>
<th>Face value of award(^\d)</th>
<th>Percentage vesting at threshold performance</th>
<th>Performance period</th>
<th>Performance conditions</th>
</tr>
</thead>
<tbody>
<tr>
<td>18.04.17</td>
<td>145,752</td>
<td>Nil cost option(^\d)</td>
<td>150% of salary</td>
<td>£525</td>
<td>TSR and EPS: 30% ROCE: 0%</td>
<td>01.01.17 – 31.12.19</td>
<td>TSR, EPS and ROCE – see below</td>
</tr>
</tbody>
</table>

Chris Davies

<table>
<thead>
<tr>
<th>Grant date</th>
<th>Number of shares awarded</th>
<th>Award type</th>
<th>Award amount</th>
<th>Face value of award(^\d)</th>
<th>Percentage vesting at threshold performance</th>
<th>Performance period</th>
<th>Performance conditions</th>
</tr>
</thead>
<tbody>
<tr>
<td>10.05.17</td>
<td>143,403</td>
<td>Nil cost option(^\d)</td>
<td>150% of salary</td>
<td>£525</td>
<td>TSR and EPS: 30% ROCE: 0%</td>
<td>01.01.17 – 31.12.19</td>
<td>TSR, EPS and ROCE – see below</td>
</tr>
</tbody>
</table>

1 The face value has been calculated by multiplying the number of shares awarded by the share price at the time grant. The relevant share prices were 360.2p on 17 April and 366.1p on 9 May 2017, each being the closing share price on the day preceding the date of grant.

2 A portion of the award has been granted in the form of approved CSOP options (over shares with a face value of £30,000) aligned with the requirements of Schedule 4 to the Income Tax (Earnings and Pensions) Act 2003 with an exercise price of 360.2p for awards granted on 18 April 2017 and 366.1p for awards granted on 10 May 2017.

1-year and 2-year LTIP Recruitment Incentive Awards

Chris Davies

<table>
<thead>
<tr>
<th>Grant date</th>
<th>Number of shares awarded</th>
<th>Award type</th>
<th>Award amount</th>
<th>Face value of award(^\d)</th>
<th>Percentage vesting at threshold performance</th>
<th>Performance period</th>
<th>Performance conditions</th>
</tr>
</thead>
<tbody>
<tr>
<td>10.05.17 (1-year)</td>
<td>31,867</td>
<td>Nil cost option</td>
<td>34% of salary</td>
<td>£117</td>
<td>TSR and EPS: 30% ROCE: 0%</td>
<td>01.01.15 – 31.12.17</td>
<td>TSR, EPS and ROCE – see below</td>
</tr>
<tr>
<td>10.05.17 (2-year)</td>
<td>63,735</td>
<td>Nil cost option</td>
<td>66% of salary</td>
<td>£233</td>
<td>TSR and EPS: 30% ROCE: 0%</td>
<td>01.01.16 – 31.12.18</td>
<td>TSR, EPS and ROCE – see below</td>
</tr>
</tbody>
</table>

3 The face value has been calculated by multiplying the number of shares awarded by the share price at the time grant. The relevant share price was 366.1p on 9 May 2017, being the closing share price on the date of grant.

4 These awards were granted with the same performance conditions as attached to the 2015 3-year LTIP awards scheduled to vest in 2018. Details of the performance period conditions, outturns and scheduled vesting can be found on page 90.

5 These awards were granted with the same performance conditions as attached to the 2016 3-year LTIP awards (as previously reported) scheduled to vest in 2019.

Performance conditions for 3-year LTIP awards

The following table sets out the performance conditions attaching to the 3-year LTIP awards granted in 2017 which will be measured over the three-year financial period ending 31 December 2019.

<table>
<thead>
<tr>
<th>Performance level</th>
<th>EPS (1/3 of award)</th>
<th>ROCE (1/3 of award)</th>
<th>TSR vs. FTSE 250 Index (1/6 of award)</th>
<th>TSR vs. Bespoke Index(^\d) (1/6 of award)</th>
<th>Percentage vesting of award</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below Threshold</td>
<td>Less than 29.8p</td>
<td>Below 9%</td>
<td>Below Median</td>
<td>Below Index</td>
<td>0%</td>
</tr>
<tr>
<td>Threshold</td>
<td>29.8p</td>
<td>9%</td>
<td>Median</td>
<td>Equal to Index</td>
<td>EPS and TSR: 30% ROCE: 0%</td>
</tr>
<tr>
<td>Target</td>
<td>31.6p</td>
<td>10%</td>
<td>–</td>
<td>–</td>
<td>EPS and ROCE [only]: 50%</td>
</tr>
<tr>
<td>Maximum</td>
<td>34.4p or above</td>
<td>12% or above</td>
<td>Upper Quintile</td>
<td>≥ Index + 10% pa</td>
<td>100%</td>
</tr>
</tbody>
</table>

6 Comprising three comparator companies, namely: FirstGroup plc, Stagecoach Group plc and Go-Ahead Group plc.
Directors’ Remuneration Report continued

Annual Report on Remuneration continued

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.

Vested shares will be subject to a two-year holding period and malus and clawback for two years, including post cessation of employment, from the date of vesting. Dividend equivalents are payable on vested shares over the vesting period and during the holding period while the option remains unexercised.

Indicative vesting levels for other outstanding LTIP awards
The table below sets out the indicative vesting levels for other outstanding LTIP awards assuming their respective performance conditions had been tested through to 31 December 2017 (without making any allowance for pro rata reduction for any period of time that is less than the length of the performance period).

<table>
<thead>
<tr>
<th>LTIP award year/type</th>
<th>EPS</th>
<th>ROCE</th>
<th>TSR vs. FTSE 250 Index</th>
<th>TSR vs Bespoke Index¹</th>
<th>Total (max 100%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance condition</td>
<td>Weighting</td>
<td>Vesting</td>
<td>Weighting</td>
<td>Vesting</td>
<td>Weighting</td>
</tr>
<tr>
<td>2014 5-year LTIP (Dean Finch only)</td>
<td>1/2</td>
<td>100%</td>
<td>–</td>
<td>–</td>
<td>1/4</td>
</tr>
<tr>
<td>2016 3-year LTIP (including 2-year Recruitment Incentive Award to Chris Davies²)</td>
<td>1/3</td>
<td>91.7%</td>
<td>1/3</td>
<td>97.5%</td>
<td>1/6</td>
</tr>
<tr>
<td>2017 3-year LTIP</td>
<td>1/3</td>
<td>0%</td>
<td>1/3</td>
<td>97.5%</td>
<td>1/6</td>
</tr>
</tbody>
</table>

¹ Comprising three comparator companies, namely: First Group plc, Stagecoach plc and Go-Ahead Group plc.
² Granted under the LTIP with the same performance conditions as apply to the 2016 3-year LTIP awards which are also scheduled to vest in 2019.

Executive Deferred Bonus Plan (‘EDBP’)
The table below sets out the awards, in the form of forfeitable shares in the Company:

– which were granted to the Executive Directors on 8 March 2017 under the EDBP and which related to the deferred element of the bonus for the financial year ended 31 December 2016. These shares, with a one-year deferred period, are scheduled to vest on 8 March 2018. Dividends paid by the Company on these shares during the deferred period have been passed to the Executives as per their entitlement under the rules of the EDBP; and

– which vested on 15 March 2017 and related to the one-year deferred element of the bonus for the financial year ended 31 December 2015.

<table>
<thead>
<tr>
<th>Executive Director</th>
<th>As at 1 January 2017</th>
<th>Granted</th>
<th>Vested</th>
<th>Lapsed</th>
<th>As at 31 December 2017</th>
<th>Market price at date of vesting</th>
<th>Date of grant</th>
<th>Date of vesting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dean Finch</td>
<td>2016</td>
<td>129,550</td>
<td>–</td>
<td>129,550</td>
<td>0</td>
<td>359p</td>
<td>15.03.16</td>
<td>15.03.17</td>
</tr>
<tr>
<td></td>
<td>2017</td>
<td>–</td>
<td>91,838</td>
<td>–</td>
<td>91,838</td>
<td>08.03.17</td>
<td>08.03.18</td>
<td></td>
</tr>
<tr>
<td>Matt Ashley</td>
<td>2016</td>
<td>40,278</td>
<td>–</td>
<td>40,278</td>
<td>0</td>
<td>359p</td>
<td>15.03.16</td>
<td>15.03.17</td>
</tr>
<tr>
<td></td>
<td>2017</td>
<td>–</td>
<td>31,503</td>
<td>–</td>
<td>31,503</td>
<td>08.03.17</td>
<td>08.03.18</td>
<td></td>
</tr>
</tbody>
</table>

Forfeitable share awards in the Company relating to the one-year deferred element of the bonus declared for the financial year ended 31 December 2017 (see page 88) will be granted to the Executive Directors in March 2018, subject to the rules of the EDBP, and will ordinarily vest on the first anniversary of grant. Dividends paid on these shares during the deferred period will be passed on to the Executives. These awards are subject to malus and clawback for a two-year period from the date of grant, including post cessation of employment.
3. Single total figure of remuneration for Non-Executive Directors

The table below sets out the single total figure of remuneration (fees) for the Non-Executive Directors who served during the year.

<table>
<thead>
<tr>
<th>Non-Executive Director</th>
<th>2017 £’000</th>
<th>2016 £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sir John Armitt CBE (Chairman and Nominations Committee Chair)</td>
<td>240</td>
<td>230</td>
</tr>
<tr>
<td>Jorge Cosmen (Deputy Chairman)</td>
<td>52</td>
<td>49</td>
</tr>
<tr>
<td>Joaquín Ayuso¹</td>
<td>52</td>
<td>49</td>
</tr>
<tr>
<td>Matthew Crummack</td>
<td>52</td>
<td>49</td>
</tr>
<tr>
<td>Jane Kingston (Remuneration Committee Chair)</td>
<td>62</td>
<td>59</td>
</tr>
<tr>
<td>Mike McKeon (Audit Committee Chair)</td>
<td>62</td>
<td>59</td>
</tr>
<tr>
<td>Chris Muntwyler (Safety &amp; Environment Committee Chair)¹</td>
<td>62</td>
<td>59</td>
</tr>
<tr>
<td>Lee Sander (Senior Independent Director)¹</td>
<td>59</td>
<td>54</td>
</tr>
<tr>
<td>Dr Ashley Steel</td>
<td>52</td>
<td>49</td>
</tr>
</tbody>
</table>

¹ A travel allowance of £4,000 is payable to Joaquín Ayuso, Chris Muntwyler and Lee Sander as overseas based Directors for attendance at each Board meeting or other Board related matter held outside their continent of residence. For 2017, the allowances paid were as follows: Joaquín Ayuso £4,000, Chris Muntwyler £4,000 and Lee Sander £24,000.

With effect from 1 January 2017:

- the Committee determined that the Chairman’s fee would increase by 4.3% to £240,000 pa in recognition of the significant contribution and unique attributes Sir John Armitt brings to the Board and to bring his fee to a more competitive level
- the Board determined that the Non-Executive Directors’ base fee would increase by 5% to £51,500 pa and the fee for the Senior Independent Director would increase by 5% to £7,500 pa in order to ensure they reflect the role, responsibilities and market rate for these positions
- there would be no change in the Committee Chair fee which remained at £10,000 pa.

Payments to past Directors

There were no payments made to past Directors during the year.

Payments for loss of office

There were no payments made for loss of office to any former Director during the year.

4. Statement of Directors’ shareholdings

Executive Directors’ interests and share ownership guidelines

In order to align the interests of the Executive Directors more closely with those of shareholders, the Executive Directors are encouraged to build up a shareholding in the Company over a five-year period from 2015, or their respective date of appointment if later, as set out in the Directors’ Remuneration Policy on page 79. The shareholding target for the Group Chief Executive is shares to the value of 200% of salary and for the other Executive Directors is 150% of salary.

The beneficial and non-beneficial interests of the Executive Directors and their connected persons, and details of their outstanding LTIP interests, as at 31 December 2017 are shown below.

<table>
<thead>
<tr>
<th>Executive Director</th>
<th>Shares held directly</th>
<th>Other share interests</th>
<th>Shareholding value at 31 December 2017</th>
<th>Forfeitable shares held under the EDBP</th>
<th>Outstanding LTIP awards subject to performance conditions</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>% salary</td>
<td>% salary²</td>
<td>% salary × 100%</td>
</tr>
<tr>
<td>Dean Finch</td>
<td>200%</td>
<td>151%</td>
<td>151,798</td>
<td>91,838</td>
<td>512,439</td>
</tr>
<tr>
<td>Matthew Ashley</td>
<td>150%</td>
<td>156%</td>
<td>111,785</td>
<td>31,503</td>
<td>438,779</td>
</tr>
<tr>
<td>Chris Davies²</td>
<td>150%</td>
<td>3%</td>
<td>3,000</td>
<td>–</td>
<td>247,199</td>
</tr>
</tbody>
</table>

¹ The 31 December 2017 share price of 380.9p per share has been used for the purposes of this calculation and has been applied to the beneficially owned and the forfeitable shares held under the EDBP in arriving at the shareholding value as at 31 December 2017.
² Chris Davies’ required shareholding level applies to the five-year period commencing from his date of appointment on 10 May 2017.

The Appendix on page 99 provides more information on all outstanding LTIP awards held by the Executive Directors.
Non-Executive Directors’ interests

Non-Executive Directors are not subject to the share ownership guidelines or a specific shareholding requirement. Details of their interests in shares and those of their connected persons as at 31 December 2017, all of which are held beneficially, are shown below:

<table>
<thead>
<tr>
<th>Non-Executive Director</th>
<th>As at 31 December 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sir John Armitt CBE</td>
<td>6,000</td>
</tr>
<tr>
<td>Joaquin Ayuso</td>
<td>–</td>
</tr>
<tr>
<td>Jorge Cosmen¹</td>
<td>69,237,515</td>
</tr>
<tr>
<td>Matthew Crummack</td>
<td>2,696</td>
</tr>
<tr>
<td>Jane Kingston</td>
<td>2,100</td>
</tr>
<tr>
<td>Mike McKeon</td>
<td>5,000</td>
</tr>
<tr>
<td>Chris Muntwyler</td>
<td>–</td>
</tr>
<tr>
<td>Lee Sander</td>
<td>1,000</td>
</tr>
<tr>
<td>Dr Ashley Steel</td>
<td>15,416</td>
</tr>
</tbody>
</table>

¹ Jorge Cosmen’s holding includes shares held by European Express Enterprises Ltd which are shown on page 103 in the list of substantial shareholders in the Company.

The Register of Directors’ interests maintained by the Company contains full details of the Directors’ holdings in shares and options over shares in the Company.

The closing price of a Company’s ordinary share at 31 December 2017 was 380.9 pence (2016: 353.7 pence) and the range during the year ended 31 December 2017 was 334.7 pence to 381.1 pence per share.

Changes since year end

There have been no changes in Directors’ shareholdings between 31 December 2017 and the date of this report.

5. History of CEO’s pay

The table below sets out the total remuneration delivered to the Group Chief Executive over the last nine years, valued using the methodology applied to the single total figure of remuneration.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Group Chief Executive</td>
<td>R Bowker¹</td>
<td>D Finch</td>
<td>D Finch</td>
<td>D Finch</td>
<td>D Finch</td>
<td>D Finch</td>
<td>D Finch</td>
<td>D Finch</td>
<td>D Finch</td>
</tr>
<tr>
<td>Total remuneration (£’000)</td>
<td>465</td>
<td>1,356</td>
<td>1,454</td>
<td>1,701</td>
<td>1,553</td>
<td>1,562</td>
<td>3,661</td>
<td>3,887</td>
<td>4,067</td>
</tr>
<tr>
<td>Annual bonus payment (as % of maximum opportunity)</td>
<td>0%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>95%</td>
<td>93%</td>
<td>96%</td>
<td>83.5%</td>
<td>95%</td>
</tr>
<tr>
<td>LTIP vesting level achieved² (as % of maximum opportunity)</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>32.5%</td>
<td>0%</td>
<td>0%</td>
<td>73.4%</td>
<td>80.8%</td>
<td>86.9%</td>
</tr>
</tbody>
</table>

¹ R Bowker resigned on 10 July 2009.
² During each of 2010 and 2011, the current Group Chief Executive did not have entitlement to any LTIP awards with attaching performance conditions whose final year of performance ended during that year.
6. Comparison of overall performance

The two graphs below show a comparison of the Company’s cumulative total shareholder return (ie share price growth plus dividends paid) and annual return against the FTSE 250 Index and a Bespoke Index (comprising peer group companies) over a 9-year and a 3-year period. The FTSE 250 Index has been selected as the Company is a constituent of that Index and it is therefore considered to be the most appropriate benchmark for comparative purposes.

Shareholder returns: 9-year history

The Group achieved a very strong performance in 2017 with revenue, profits and free cash flow up significantly on 2016, beating the budgeted profit before tax (as adjusted) by 13.3%. This excellent result, underpinned by a strong and sustainable free cash flow, has merited the 10% increase in the full year dividend for the second year in a row.

In 2017, our vehicles travelled 1.1 billion kilometres. We also carried a record 882 million passengers (on a continuing operations basis), up 1.2% in the year, reflecting the strong focus in all our businesses on good service and value for money. There was strong growth in both of our international divisions, with North America revenue and operating profit up 10.1% and 6.8% respectively on a constant currency basis. ALSA delivered revenue growth of 3.6% and a profit increase of 4.4%, again on a constant currency basis. The newly combined UK Division, comprising bus and coach, delivered a very impressive second half performance (reversing a first half decline) resulting in revenue growth of 0.6% and profit growth of 5.3%. German Rail delivered big increases in constant currency revenue (20.4%) and profit. The Group completed nine acquisitions in the year: three in North America, including Cook DuPage Transportation which provided us with entry into the US’s largest para-transit market (Chicago), and six in ALSA, including three that build on our successful Swiss ski market entry and strengthen our presence in Geneva.

Altogether, 2017 was another sector leading financial performance.
Directors’ Remuneration Report continued

Annual Report on Remuneration continued

7. 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 2016 to 2017 compared with the average percentage change for the UK employee population.

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

<table>
<thead>
<tr>
<th>Comparator persons or group</th>
<th>Average percentage increase/decrease from 2016 to 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Base salary</td>
</tr>
<tr>
<td>Group Chief Executive</td>
<td>4.4%</td>
</tr>
<tr>
<td>UK employee remuneration</td>
<td>1.7%</td>
</tr>
</tbody>
</table>

8. Relative importance of the spend on pay
The table below sets out the total spend on pay in 2017 and 2016 compared with distributions made to shareholders:

<table>
<thead>
<tr>
<th>Measure</th>
<th>2017 (£m)</th>
<th>2016 (£m)</th>
<th>Increase from 2016 to 2017 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall Group spend on pay including Directors</td>
<td>1,161.6</td>
<td>1,020.7</td>
<td>13.8%</td>
</tr>
<tr>
<td>Profit distributed by way of dividend</td>
<td>64.7</td>
<td>58.8</td>
<td>10%</td>
</tr>
</tbody>
</table>

9. Statement of implementation of current Directors’ Remuneration Policy in 2018
(a) Executive Directors’ base salaries
The Committee determined that the base salary for the Group Chief Executive and each of the Executive Directors would be increased by 2.5% with effect from 1 January 2018, broadly in line with the UK general workforce increase. In doing so, the Committee recognised the excellent financial and operating performance delivered by Dean Finch, supported by his executive team, in 2017. This has resulted in significant shareholder value and a strong platform from which to build further growth in line with the Board’s challenging strategy.

Accordingly, the annual base salaries of the Executive Directors in 2018 are:

<table>
<thead>
<tr>
<th>Executive Director</th>
<th>Base salary (gross)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dean Finch, Group Chief Executive</td>
<td>£630,375</td>
</tr>
<tr>
<td>Chris Davies, Group Finance Director</td>
<td>£358,750</td>
</tr>
<tr>
<td>Matt Ashley, President and CEO, North America</td>
<td>£358,750</td>
</tr>
</tbody>
</table>

(b) Pensions
The Group Chief Executive will continue to receive a 35% of salary pension allowance and each of the other Executive Directors a 25% of salary pension allowance.

(c) Annual bonus
The annual bonus for the 2018 financial year will be structured and operate for Dean Finch and Chris Davies on the same basis as the arrangements in place during 2017 (as set out on page 87). However, for Matt Ashley, his financial bonus targets will be weighted as to 75% North America EBIT and 25% Group PBT and his non-financial bonus targets, including safety, will be wholly North American focused.

When setting the bonus targets for 2018, the Committee has taken into account:
- the Board’s challenging three-year strategy to 2020 and the first-year expectations within that
- the Group’s approved budget and operating plan for 2018
- stock market consensus for 2018
- the non-recurring items included in the 2017 results which will need replacing in 2018
- increased pricing pressures and competition in the UK and North America generally.

Targets will be set on a basis consistent with accounting measures (ie without reference to exceptional items).
The Committee will set calibrated targets for the bonus measures and intends to disclose actual performance against these in next year’s Directors’ Remuneration Report. As a matter of commercial sensitivity, the Committee has decided not to disclose bonus performance targets in advance although 18% (2017: 18%) of the 25% non-financial bonus element will be based on safety objectives.

In anticipation of and subject to the approval of the new Directors’ Remuneration Policy to be put before shareholders at the AGM in May, it is proposed that the revised safety underpin to the annual bonus plan for the Executive Directors (as set out on page 77) will apply for 2018.

(d) Long-Term Incentive Plan (‘LTIP’) awards
LTIP awards in 2018 are proposed to be granted in line with the normal annual award levels contained in the current Directors’ Remuneration Policy. Accordingly, awards with attaching performance conditions will be made to the value of 200% of salary to the Group Chief Executive and 150% of salary to the other Executive Directors.

The performance condition metrics, weightings and vesting levels for the 2018 awards will be as follows:

<table>
<thead>
<tr>
<th>Performance condition</th>
<th>Weighting</th>
<th>Threshold (25% vesting EPS and TSR, 0% vesting ROCE)</th>
<th>Target (50% vesting)</th>
<th>Maximum (100% vesting)</th>
</tr>
</thead>
<tbody>
<tr>
<td>TSR vs. FTSE 250 Index</td>
<td>1/6</td>
<td>Median</td>
<td>–</td>
<td>Upper Quintile</td>
</tr>
<tr>
<td>TSR vs. Bespoke Index(^1)</td>
<td>1/6</td>
<td>Equal to Index</td>
<td>–</td>
<td>≥ Index + 10% pa</td>
</tr>
<tr>
<td>EPS</td>
<td>1/3</td>
<td>31.5p</td>
<td>33.3p</td>
<td>36.3</td>
</tr>
<tr>
<td>ROCE</td>
<td>1/3</td>
<td>9%</td>
<td>10%</td>
<td>12%</td>
</tr>
</tbody>
</table>

\(^1\) Comprising three comparator companies, namely: FirstGroup plc, Stagecoach Group plc and Go-Ahead Group plc.

Performance for each element will be measured over the three-year financial period ending 31 December 2020 and awards will be subject to a two-year holding period post vesting and malus and clawback for two years from the date of vesting, including post cessation of employment. Dividend equivalent entitlements will attach to any vested shares over the vesting period and during the holding period while the option remains unexercised.

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.

10. Non-Executive Directors’ fees
With effect from 1 January 2018, and to ensure that the annual fees paid to the Non-Executive Directors reflect the current roles, responsibilities and market rates for the positions held, the Committee and, in the case of other Non-Executive Directors, the Board has determined that:

- the Chairman’s fee (including as Chair of the Nominations Committee) would be increased by £6,000 pa
- the Non-Executive Directors’ base fee would be increased by £1,300 pa
- the Board Committee Chair fees would be increased by £1,000 pa
- the Senior Independent Director’s fee would be increased by £1,000 pa.

Accordingly, the annual fees of the Chairman and Non-Executive Directors in 2018 are:

<table>
<thead>
<tr>
<th>Role</th>
<th>Fees (gross)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chairman</td>
<td>£246,000</td>
</tr>
<tr>
<td>Non-Executive Director (base fee)</td>
<td>£52,800</td>
</tr>
<tr>
<td>Chair of Board Committee (excluding Nominations)</td>
<td>£11,000</td>
</tr>
<tr>
<td>Senior Independent Director</td>
<td>£8,500</td>
</tr>
</tbody>
</table>

In addition, a travel allowance of £4,000 will continue to be payable to Joaquin Ayuso, Chris Muntwyler and Lee Sander as overseas based Directors in respect of each Board meeting or other Board related matters they attend outside their continent of residence.
Directors’ Remuneration Report continued
Annual Report on Remuneration continued

11. Historical results of voting on the Annual Report on Remuneration and the Directors’ Remuneration Policy

The votes cast on the resolutions seeking approval in respect of the Annual Report on Remuneration at the 2017 AGM were as follows:

<table>
<thead>
<tr>
<th>Resolution</th>
<th>% of votes For</th>
<th>% of votes Against</th>
<th>Number of votes withheld¹</th>
</tr>
</thead>
<tbody>
<tr>
<td>To approve the Annual Report on Remuneration for the year ended 31 December 2016 (advisory vote only)</td>
<td>85.07</td>
<td>14.2</td>
<td>87,867</td>
</tr>
</tbody>
</table>

The votes cast on the resolutions seeking approval in respect of the current Directors’ Remuneration Policy at the 2015 AGM were as follows:

<table>
<thead>
<tr>
<th>Resolution</th>
<th>% of votes For</th>
<th>% of votes Against</th>
<th>Number of votes withheld¹</th>
</tr>
</thead>
<tbody>
<tr>
<td>To approve the Directors’ Remuneration Policy (binding vote)</td>
<td>98.91</td>
<td>1.09</td>
<td>16,293,308</td>
</tr>
</tbody>
</table>

¹ A vote withheld is not a vote at law and is not counted in the calculation of votes For or Against.

12. Retained advisers to the Committee

During the year, the Committee received remuneration and ancillary legal and governance advice from PwC, its external remuneration consultants. Apart from some input received on benchmarking roles below Board level for pay review purposes, and advice received in relation to tax, internal audit support and deal delivery, PwC has no other connection with the Group. PwC has voluntarily signed up to the Remuneration Consultants Group Code of Conduct. The Committee is satisfied that the advice it receives from PwC is objective and independent. For the financial year under review, PwC received fees of £139,250 in connection with its work for the Committee.

13. Dilution

The Company has permitted new share dilution authorities reserved to it under the rules of its 2015 LTIP as previously approved by shareholders, which are in line with the Investment Association’s guidelines. However, given that the Company’s funding strategy has been and continues to be to satisfy all outstanding share awards granted under that plan (and its other incentive plans) through the delivery of market purchased shares held in the Company’s Employee Benefit Trust, as opposed to the issue and allotment of new shares, the Company has not to date used up any of its dilution authority under the 2015 LTIP.
### Appendix

The table below sets out the share awards granted to Executive Directors under the rules of the Company’s 2005 LTIP, as amended (through to 2014) and the 2015 LTIP (since 2015) which either vested during 2017 or which remain outstanding as at 31 December 2017.

<table>
<thead>
<tr>
<th>LTIP award year/type</th>
<th>Date of grant</th>
<th>Awards held</th>
<th>During 2017</th>
<th>Scheduled vesting/exercise date</th>
<th>Last exercise date</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Date of grant</td>
<td>Granted</td>
<td>Exercised</td>
<td>Lapsed</td>
<td>Awards held</td>
</tr>
<tr>
<td><strong>Dean Finch</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LTIP 3-year</td>
<td>09.04.14</td>
<td>204,520</td>
<td></td>
<td>2,668</td>
<td></td>
</tr>
<tr>
<td>LTIP 3-year (Matching Shares)</td>
<td>09.04.14</td>
<td>245,424</td>
<td></td>
<td>3,191</td>
<td></td>
</tr>
<tr>
<td>LTIP 3-year</td>
<td>11.06.15</td>
<td>356,303</td>
<td></td>
<td></td>
<td>356,303</td>
</tr>
<tr>
<td>LTIP 3-year (Approved CSOP)</td>
<td>09.04.14</td>
<td>11.06.15</td>
<td>9,526</td>
<td></td>
<td>9,526</td>
</tr>
<tr>
<td>LTIP 3-year</td>
<td>06.04.16</td>
<td>342,641</td>
<td></td>
<td></td>
<td>342,641</td>
</tr>
<tr>
<td>LTIP 3-year</td>
<td>18.04.17</td>
<td>341,476</td>
<td></td>
<td></td>
<td>341,476</td>
</tr>
<tr>
<td>LTIP 5-year</td>
<td>03.08.12</td>
<td>261,407</td>
<td></td>
<td>130,703</td>
<td></td>
</tr>
<tr>
<td>LTIP 5-year</td>
<td>23.05.13</td>
<td>257,973</td>
<td></td>
<td></td>
<td>257,973</td>
</tr>
<tr>
<td>LTIP 5-year</td>
<td>09.04.14</td>
<td>204,520</td>
<td></td>
<td></td>
<td>204,520</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Matt Ashley</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LTIP 3-year</td>
<td>09.04.14</td>
<td>68,793</td>
<td></td>
<td>2,164</td>
<td></td>
</tr>
<tr>
<td>LTIP 3-year (Matching Shares)</td>
<td>09.04.14</td>
<td>82,548</td>
<td></td>
<td>2,343</td>
<td></td>
</tr>
<tr>
<td>LTIP 3-year (Approved CSOP)</td>
<td>09.04.14</td>
<td>10,936</td>
<td></td>
<td>143</td>
<td></td>
</tr>
<tr>
<td>LTIP 3-year</td>
<td>11.06.15</td>
<td>142,902</td>
<td></td>
<td></td>
<td>142,902</td>
</tr>
<tr>
<td>LTIP 3-year</td>
<td>06.04.16</td>
<td>141,797</td>
<td></td>
<td></td>
<td>141,797</td>
</tr>
<tr>
<td>LTIP 3-year</td>
<td>18.04.17</td>
<td>145,752</td>
<td></td>
<td></td>
<td>145,752</td>
</tr>
<tr>
<td>LTIP 3-year (Approved CSOP)</td>
<td>18.04.17</td>
<td>–</td>
<td>8,328</td>
<td></td>
<td>8,328</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Chris Davies</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LTIP 1-year (Recruitment Incentive)</td>
<td>10.05.17</td>
<td>–</td>
<td>31,867</td>
<td></td>
<td>31,867</td>
</tr>
<tr>
<td>LTIP 2-year (Recruitment Incentive)</td>
<td>10.05.17</td>
<td>–</td>
<td>63,735</td>
<td></td>
<td>63,735</td>
</tr>
<tr>
<td>LTIP 3-year</td>
<td>10.05.17</td>
<td>143,403</td>
<td></td>
<td></td>
<td>143,403</td>
</tr>
<tr>
<td>LTIP 3-year (Approved CSOP)</td>
<td>10.05.17</td>
<td>–</td>
<td>8,194</td>
<td></td>
<td>8,194</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

1 Awards vesting under the 2015 LTIP are subject to a two-year holding and exercise period which run concurrently.
2 Share price on exercise was 356.2357p.
3 Share price on exercise was 367.3368p.
4 Exercise price is 314.9p per share.
5 Exercise price is 274.3p per share.
6 Exercise price is 360.2p per share.
7 Exercise price is 366.1p per share.
8 All LTIP awards are granted in the form of nil-cost options save for LTIP approved CSOP awards which are granted as a market value share option with an exercise price per share as set out in the notes above. LTIP approved CSOP awards are aligned with the requirements of Schedule 4 to the Income Tax (Earnings and Pensions) Act 2003 and can be exercised by way of set-off against any shares vesting under the corresponding LTIP award.

By order of the Board

Jane Kingston
Remuneration Committee Chair
1 March 2018
Relations with Shareholders

Investor Engagement

The Board is committed to maintaining an open dialogue with the Company’s equity institutional and debt investors and individual shareholders, and recognises the importance of those relationships in the governance process. This engagement allows the Board to better understand their views and ensure they are provided with timely and appropriate information on the Group’s strategy, performance, objectives, financing and other key developments.

The Chairman, supported by the Executive Directors and the investor relations team, has overall responsibility for ensuring effective communication with shareholders.

The investor relations section of the Company’s website, www.nationalexpressgroup.com/investors, includes all RNS announcements, share price information, annual and interim documents, AGM Notice and other similar corporate communication and shareholder materials available for download.

Institutional Investors

The Company operates a comprehensive engagement programme, aligned to its financial reporting calendar and other key events, for institutional investors and research analysts, providing the opportunity for current and potential investors to meet with executive and operational management.

The Chairman, Group Chief Executive and Group Finance Director held a number of meetings with existing and prospective institutional shareholders during the year and gave presentations to them following the full year and half year results. These are designed to provide more information on the Group’s strategy, financial and operational performance, strengths and capabilities and future plans. They have also met and given presentations to research analysts and investment banks’ sales teams.

The Senior Independent Director and other Non-Executive Directors have made themselves available for meetings should that be requested by shareholders.

There were 13 analysts who published equity research notes covering the Company during the year. Details of the firms who currently follow the Company appear on the investor section of our website. It is anticipated that with the introduction of MiFID II, analyst coverage will reduce going forward.

The Company’s brokers and investor relations advisers provide regular confidential feedback on investor views, perceptions and opinions and these are shared with the Board. During the year, the Board also received external analysis and positive feedback from advisers on shareholder and market perception of the Group’s performance and strategy.

Details of the Company’s substantial shareholders are set in the Directors’ Report on page 103.

<table>
<thead>
<tr>
<th>Investor Relations programme 2017</th>
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<tbody>
<tr>
<td><strong>Jan</strong> Shareholder meetings re corporate governance and AGM</td>
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<tr>
<td>Chairman meeting with Cosmen family (largest shareholder)</td>
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<tr>
<td><strong>Feb</strong> Shareholder meetings re corporate governance and AGM</td>
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<tr>
<td>2016 full year results announcement and presentation to analysts and investors (London)</td>
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<tr>
<td>Investor roadshow in respect of full year results (London and Edinburgh)</td>
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<tr>
<td><strong>Mar</strong> Investor meetings post full year results</td>
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<tr>
<td>Chairman meetings with investors re strategy, corporate governance and AGM</td>
</tr>
<tr>
<td><strong>Apr</strong> Shareholder meetings re corporate governance and AGM</td>
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<tr>
<td><strong>May</strong> Q1 Trading Update and conference call with analysts and investors</td>
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<tr>
<td>Annual General Meeting (Birmingham)</td>
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<td>Non-deal specific investor roadshows (London and Frankfurt)</td>
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<td><strong>Jun</strong> Investor meetings at investor conference (London)</td>
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<tr>
<td><strong>Jul</strong> Investor meetings</td>
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<tr>
<td>2017 half year results announcement and presentation to analysts and investors (London)</td>
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<tr>
<td><strong>Aug</strong> Investor meetings</td>
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<tr>
<td><strong>Sep</strong> Investor meetings at investor conferences (London)</td>
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<tr>
<td><strong>Oct</strong> Investor meetings at investor conference (London)</td>
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<tr>
<td>Investor meetings</td>
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<tr>
<td>Q3 Trading Update and conference call with analysts and investors</td>
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<tr>
<td><strong>Nov</strong> Non-deal specific investor roadshows (London and Madrid)</td>
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<tr>
<td>€250 million 30-month Floating Rate Note placing with roadshow for bondholders</td>
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<tr>
<td><strong>Dec</strong> Investor meetings</td>
</tr>
<tr>
<td>Consultation with major shareholders on proposed changes to the Company’s Directors’ Remuneration Policy</td>
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</table>
Debt investors
The Group Finance Director and Group Treasurer have met debt investors in the UK during the year to discuss various topics such as the full and half year results, future funding requirements, subsidiary security and guarantees and credit rating movements. They also met with debt investors in the UK and Europe as part of the marketing of the €250m 30-month Floating Rate Note which was successfully issued in November.

The treasury team maintains regular dialogue with the Group’s key relationship banks and other potential lenders.

Further information on our debt investors can be found in the investor section of the Company’s website.

Individual shareholders
Private shareholders, who represent more than 93% of the total number of shareholders on our register, are encouraged to give feedback to and communicate through the Company Secretary. The Company’s website provides a direct link to Shareview (www.shareview.co.uk) which enables shareholders to view and manage their shareholder account online.

Annual General Meeting (‘AGM’)
The AGM provides all shareholders with an opportunity to meet with and ask questions of Directors regarding the business, the latest Annual Report and the matters before the meeting. Attending shareholders also receive a strategic progress update from the Chairman and a business performance review from the Group Chief Executive. The results of the AGM are published on the Company’s website.

Details of the Company’s 2018 AGM can be found on page 104.

Other disclosures
Other disclosures required by paragraph 7.2.6 of the Disclosure and Transparency Rules and the Companies Act 2006 are set out in the Directors’ Report on pages 102 to 104.

The Corporate Governance Report was approved by the Board on 1 March 2018.

Michael Arnaouti
Group Company Secretary
1 March 2018
Directors’ Report

The Directors present their report and audited accounts for the year ended 31 December 2017. This Directors’ Report and the Strategic Report, which includes the trends and factors likely to affect the future development, performance and position of the business and a description of the principal risks and uncertainties of the Group (which can be found on page 38 and is incorporated by reference), collectively comprise the management report as required under the Disclosure and Transparency Rules (‘DTR’).

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 (‘Act’) and Listing Rule 9.8.4R, can be located as follows:

- Business model and likely future developments: Page 6
- Viability Statement and going concern: Page 41
- Governance: Pages 42 to 105
- Financial instruments: Page 124
- Related market transactions: Page 125
- Greenhouse gas emissions: Page 35

Company status
National Express Group PLC is a public limited liability company incorporated under the laws of England and Wales. It has a premium listing on the London Stock Exchange main market for listed securities (LON:NEX) and is a constituent member of the FTSE 250 Index. The Company has branches in Spain.

Disclaimer
The purpose of this Annual Report is to provide information to the members of the Company and it has been prepared for, and only for, the members of the Company as a body, and no other persons. The Company, its Directors and employees, agents and advisers do not accept or assume responsibility to any other person to whom this document is shown or into whose hands it may come and any such responsibility or liability is expressly disclaimed. A cautionary statement in respect of forward-looking statements contained in this Annual Report appears on the inside back cover.

Results and dividends
The results for the year are set out in the financial statements on pages 114 to 197.

The Board has recommended a final dividend for the year of 9.25p per ordinary share (2016: 8.41p) which, together with the interim dividend of 4.26p per ordinary share (2016: 3.87p) paid on 22 September 2017, gives a total dividend for the year of 13.51p per share (2016: 12.28p). Subject to shareholder approval, the final dividend will be paid on 21 May 2018 to ordinary shareholders on the register of members at the close of business on 27 April 2018.

Events since the balance sheet date
There have been no material post-balance sheet events since 31 December 2017.

Directors
The names and biographical details of the current Directors (all of whom held office throughout the year except for Chris Davies – see below), and the Board Committees of which they are members, are set out on page 48.

Chris Davies was appointed to the Board as an Executive Director on 10 May and as Group Finance Director on 1 June 2017. He replaced Matt Ashley who relinquished that position (but not his executive directorship) on 30 May to take up a new role as President and CEO, North America, effective from 1 September 2017.

The Service Agreements of the Executive Directors and the Letters of Appointment of the Non-Executive Directors are available for inspection at the Company’s registered office. Brief details of these, including inspection rights, are included in the Directors’ Remuneration Report on page 68.

Powers of the Directors
The Board manages the business of the Company under the powers set out in the Companies Articles of Association (‘Articles’). These powers include the Directors’ ability to issue or buy back shares. Shareholders’ authority to empower the Directors to make certain market purchases of its own ordinary shares is sought at the AGM each year (see below). The Articles can only be amended, or new Articles adopted, by a resolution passed by shareholders in general meeting by at least three quarters of the votes cast.

Appointment and replacement of Directors
The rules for the appointment and replacement of Directors are set out in the Articles, the UK Corporate Governance Code (‘Code’), the Act and related legislation. The Board may appoint a Director either to fill a casual vacancy or as an addition to the Board so long as the total number of Directors does not exceed the limit prescribed in the Articles. An appointed Director must retire and seek election to office at the next AGM of the Company. In addition to any power of removal conferred by the Act, the Company may by ordinary resolution remove any Director before the expiry of their period of office and may, subject to the Articles, by ordinary resolution appoint another person who is willing to act as a Director in their place.

In accordance with the Code and the Board’s policy, all the Directors will retire at the forthcoming AGM and have offered themselves for re-election, with the exception of Chris Davies who, having been appointed to office since the last AGM, will stand for election. The Board is satisfied that each of the Directors standing is qualified by virtue of their skills, experience and contribution to the Board.

Directors’ conflicts of interest
The Board operates a policy to identify and manage declared actual and potential conflicts of interest which Directors (or their connected persons) may have and are obliged to avoid under their statutory duties and the Company’s Articles of Association. The Board considers each Director’s situation and decides whether to approve any conflicts based on the overriding principle that a Director must at all times only be able to consider and exercise judgement to promote the success of the Company. The policy has been in place and operated effectively throughout the year. Authorisations given by the Board are reviewed on a regular basis.
Directors’ indemnities and insurance
The Company has granted indemnities to each Director in respect of any liabilities incurred in relation to acts or omissions arising in the ordinary course of their duties, but only to the extent permitted by law. The Company also maintains appropriate Directors’ and Officers’ liability insurance in respect of potential legal action instigated against its Directors.

Directors’ interests
Save as disclosed:
- in the Directors’ Remuneration Report, none of the Directors, nor any person connected with them, has any interest in the share or loan capital of the Company or any of its subsidiaries; and
- in note 36 to the consolidated accounts on page 175, none of the Directors had at any time during the year ended 31 December 2017 a material interest, directly or indirectly, in any contract of significance with the Company or any subsidiary undertaking (other than the Executive Directors in relation to their Service Agreements).

Equal opportunities
National Express is an equal opportunities employer and has in place an Equal Opportunities Policy. Our range of employment policies and guidelines reflect the legal and employment requirements of the territories in which we operate and safeguard the interests of employees, potential employees and other workers. We do not condone unfair treatment of any kind and offer equal opportunities in all aspects of employment and advancement (including recruitment, training, career development and promotion) regardless of race, nationality, gender, age, marital status, sexual orientation, disability, religious or political beliefs. The Company recognises it has clear obligations to give fair consideration and selection to disabled applicants and to satisfy their training and development needs during employment. Where an employee becomes disabled, the objective is to retain their services wherever possible.

Employee engagement
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 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 surveys, both within business units and across the Group. Following such surveys, results are shared with employees and action plans put in place to deal with issues arising. The Group encourages innovation from all levels of employees and has a structured programme to encourage and reward suggestions and employees’ contributions.

Information regarding the Company’s safeguarding of human rights is set out on pages 30 and 32.

Political contributions
It is the Group’s policy not to make political donations and none were made in the year (2016: nil). However, the Company did attend party political conferences during the year for which total expenditure was £12,000 (2016: £14,000).

Substantial shareholders
As at 31 December 2017, the Company had been notified under DTR 5 of the following interests in its shares representing 3% or more of the voting rights in its issued share capital:

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Number of ordinary shares</th>
<th>Percentage of total voting rights</th>
</tr>
</thead>
<tbody>
<tr>
<td>European Express Enterprises Limited</td>
<td>66,481,891</td>
<td>12.99</td>
</tr>
<tr>
<td>Newton Investment Management Limited</td>
<td>51,493,101</td>
<td>10.06</td>
</tr>
<tr>
<td>Prudential plc</td>
<td>45,956,649</td>
<td>8.98</td>
</tr>
<tr>
<td>Standard Life Aberdeen PLC</td>
<td>26,616,786</td>
<td>5.01</td>
</tr>
<tr>
<td>J O Hambro Capital Management Limited</td>
<td>25,617,754</td>
<td>5.01</td>
</tr>
</tbody>
</table>

1 The total number of voting rights attaching to the issued share capital of the Company on 31 December 2017 was 511,738,648.
2 The holding of European Express Enterprises Ltd forms part of the holding of Jorge Cosmen (Deputy Chairman) as shown in the Directors’ Remuneration Report on page 94.
3 On 8 February 2018, the Company was notified that the holding of Newton Investment Management Limited was 51,043,618 ordinary shares (9.97% of total voting rights).

Other than as disclosed above, the Company received no further DTR notifications, by way of change to the above information or otherwise, during the period from 1 January to 28 February 2017, being the period from the year end through to the date on which this report has been signed. Information relating to notifications received under the DTR is publicly available to view via the regulatory information service on the Company’s website.

Share capital
The Company has a single class of share capital which is divided into ordinary shares of nominal value of 5 pence each all ranking pari passu. At 31 December 2017, there were 511,738,648 ordinary shares in issue and fully paid. The rights attached to the ordinary shares of the Company are defined in the Articles. Further details relating to share capital, including movements during the year, can be found in note 32 to the consolidated accounts on page 165.

The Company was granted authority at the 2017 AGM to make market purchases of its own shares up to 10% of its issued share capital and to allot shares within certain limits approved by shareholders. These authorities have not been used during the year and will expire at the 2018 AGM. Renewal of these authorities will be sought at the 2018 AGM.

First Names (Jersey) Limited is a shareholder who acts as Trustee of the National Express Group Employee Benefit Trust (“EBT”). It is used to purchase and hold Company shares in the market from time to time for the benefit of employees, including for satisfying outstanding awards under various share incentive plans. The EBT purchased a total of 1,700,000 shares in the market during the year for an aggregate consideration of £6.24m (including dealing costs) and released 2,316,546 shares to satisfy vested share plan awards.

Number of ordinary shares | Percentage of total voting rights
--- | ---
European Express Enterprises Limited | 66,481,891 | 12.99
Newton Investment Management Limited | 51,493,101 | 10.06
Prudential plc | 45,956,649 | 8.98
Standard Life Aberdeen PLC | 26,616,786 | 5.01
J O Hambro Capital Management Limited | 25,617,754 | 5.01
As at 31 December 2017, the EBT held 1,643,746 National Express Group PLC shares (0.32% of the issued share capital) in trust. The Trustee may vote the shares it holds at its discretion. A dividend waiver is in place from the Trustee in respect of dividends payable by the Company on the majority of the shares held in the EBT.

Further details regarding the EBT, and of shares issued during the year pursuant to the Company’s various share incentive plans (whose rules, where relevant, reflect the current Investment Association guidelines for permitted dilution limits), are set out in note 32 to the financial statements on page 165.

Shareholder voting rights and restrictions on transfer of shares

Shareholders are entitled to attend and vote at any general meeting, where every member has one vote on a show of hands and one vote for each share held on a poll.

There are no special control rights attaching to the Company’s ordinary shares save that the control rights over ordinary shares held in the EBT can be directed by the Company to satisfy the vesting of outstanding awards under its various share incentive plans.

The Company is not aware of any agreements or control rights between existing shareholders that may result in restrictions on the transfer of securities or voting rights. The rights, including full details relating to voting of shareholders and any restrictions on transfer relating to the Company’s ordinary shares, are set out in the Articles and in the explanatory notes to the Notice of 2018 AGM which accompanies this document. Resolutions will be proposed at the 2018 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.

Change of control

There are a number of agreements that take effect, alter or terminate upon a change of control of the Company following a takeover bid.

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 £1.5 billion Euro Medium Term Note Programme (as updated on 3 October 2017) under which the Company issued Medium Term Notes (‘MTN’) to various institutions on 15 June 2010, 11 November 2016 and 13 November 2017, 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 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’), 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).

The Company’s various share incentive plans contain provisions that take effect on a change in control of the Company but do not entitle participants to a greater interest in the shares of the Company than created by the initial grant or award under the relevant plan.

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.

There are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment or otherwise that occurs specifically because of a takeover.

Auditor and disclosure of information to the auditor

So far as the Directors are aware, there is no relevant audit information that has not been brought to the attention of the Company’s auditor. Each Director has taken all reasonable steps to establish that such information was provided to the auditor.

As recommended by the Audit Committee and endorsed by the Board, a resolution to reappoint Deloitte LLP as auditor of the Company will be proposed at the 2018 AGM.

2018 Annual General Meeting (‘AGM’)

This year’s AGM will be held at 2.00pm on Wednesday, 16 May 2018 in The Horton Suite at the Macdonald Burlington Hotel, Burlington Arcade, 126 New Street, Birmingham, B2 4JC. A separate circular, comprising a letter from the Chairman, Notice of Meeting and explanatory notes on the resolutions proposed, accompanies this Annual Report. Copies of this document can also be found on the Company’s website at www.nationalexpressgroup.com.

The Directors’ Report was approved by the Board on 1 March 2018.

By order of the Board

Michael Arnaouti
Group Company Secretary
National Express Group PLC
Company No. 2590560
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 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 elected to prepare the parent Company Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 ‘Reduced Disclosure Framework’. Under company law, the Directors must not approve the accounts 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 judgement and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have 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.

Responsibility statement

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 and performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 1 March 2018 and is signed on its behalf by:

Dean Finch
Group Chief Executive
1 March 2018

Chris Davies
Group Finance Director
1 March 2018