Directors' Remuneration Report
Annual Statement by the Remuneration Committee Chair

Jane Kingston
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

Committee member	Appointed	Meetings held	Meetings attended
Jane Kingston (Chair)[1]	26.02.14	6	6
Lee Sander[1]	01.06.11	6	6
Matthew Crummack[1]	06.05.16	6	6

[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
- 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.

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.

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 portion 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.

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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%**

Directors' Remuneration Report continued

Annual Statement by the Remuneration Committee Chair continued

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 predessor 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

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.

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

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

Measure	Threshold	Target	Maximum	Actual
Normalised PBT[1]	£158.9m	£176.6m[1]	£194.3m	£200.0m
Free cash flow[2]	£103.5m	£115.0m[2]	£126.5m	£146.4m

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

Executive Directors	Bonus maximum opportunity as % of salary	Bonus earned as % of salary			Total bonus earned as % of salary[1]	Bonus earned as % of maximum opportunity
		Normalised PBT	Free cash flow	Non-financial measures		
Dean Finch Group Chief Executive	200%	100%	50%	40%	190%	95%
Chris Davies Group Finance Director	150%	75%	37.5%	30%	142.5%[2]	95%
Matt Ashley President and CEO, North America	150%	75%	37.5%	30%	142.5%	95%

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)

Measures	Weighting	Threshold	Target	Maximum	Actual	Vesting as % of maximum
TSR vs. selected Travel & Leisure comparator group	1/2	Median	–	Upper Quintile	Median → Upper Quintile (Rank 7th of 15)	46.7%
EPS	1/2	23.4p	–	28.3p	30.0p[1]	100%
Total vesting						**73.4%**

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

Measures	Weighting	Threshold	Target	Maximum	Actual	Vesting as % of maximum
TSR vs. FTSE 250 Index	1/6	Median	–	Upper Quintile	Median → Upper Quintile (Rank 59th of 221)	85.2%
TSR vs. Bespoke Index	1/6	Equal to Index	–	≥ Index + 10% pa	> Index + 10% pa	100%
EPS	1/3	24.8p	26.3p	28.6p	30.0p[2]	100%
ROCE	1/3	9%	10%	12%	11.9%	97.5%
Total vesting						**96.7%**

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.

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

Directors' Remuneration Report continued
Directors' Remuneration Policy

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

Element	How element supports business strategy	Operation	Maximum potential value	Performance conditions and assessment
Base salary	To provide base salaries which: – 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.	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.	Whilst there is no prescribed formulaic maximum, base salaries will reflect: – the Executive's role; – the job size and responsibility; and – the performance and effectiveness of the individual. 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): – where there has been a material increase in the scope and/or scale of the Executive's responsibility in the role (including internal promotion); – to apply salary progression for a recently appointed Executive who has been appointed on a salary below the market level; and – 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. 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. Where such exceptional changes do occur, they will be fully disclosed and explained.	Not applicable.

Directors' Remuneration Report continued
Directors' Remuneration Policy continued

Element	How element supports business strategy	Operation	Maximum potential value	Performance conditions and assessment
Pension	To provide a competitive pension and funds that enable Executives to save for retirement. Pension benefits are a fixed element of remuneration.	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.	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.	Not applicable.
Benefits	To provide competitive benefits as part of fixed remuneration to enable the Group to recruit and retain highly performing Executives.	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.	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.	Not applicable.

Element	How element supports business strategy	Operation	Maximum potential value	Performance conditions and assessment
Annual bonus	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.	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.	Maximum 200% of base salary for the Group Chief Executive and 150% of base salary for other Executive Directors.	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.

Directors' Remuneration Report continued
Directors' Remuneration Policy continued

Element	How element supports business strategy	Operation	Maximum potential value	Performance conditions and assessment
Long-Term Incentive Plan ('LTIP')	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.	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.	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. 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.

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.

Measure	Rationale for performance measure
Normalised PBT	– A primary measure of the success of the Group in growing the business – 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
Free cash flow	– Determines how efficiently the Group generates cash to fund its outgoings and to finance investment – Free cash flow is a key driver for generating shareholder value
Non-financial measures	– Non-financial metrics ensure that management are measured on a broader range of safety, strategic, people and operational targets – Safety is of paramount importance to our business and therefore appropriate that management are incentivised to maintain and improve safety processes – 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 – People are the Group's primary asset. Developing them, including today's talent and tomorrow's leaders, is of paramount importance to the business – Other metrics will be used to support business initiatives and these may change through the life of the policy

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.

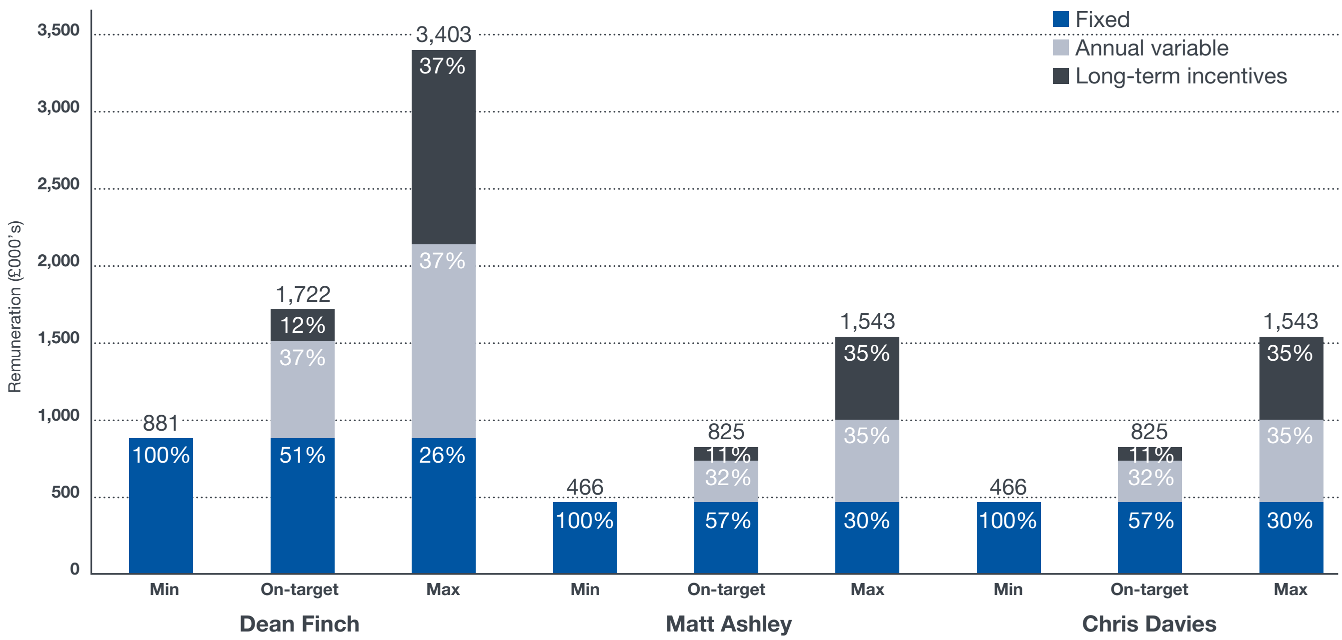
Measure	Rationale for performance measure
EPS	– Important growth measure considered within the Company and a driver of shareholder value – Provides a transparent and accessible method of gauging the financial performance of the Company – Ensures the annual profit performance targeted by the annual bonus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

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.

Directors' Remuneration Report continued
Directors' Remuneration Policy continued

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.

Element	Descriptions
Fixed	– Latest base salary, pension allowance and benefits
Annual variable	– Performance-related annual bonus (including deferred element)
Long-term incentives	– Long-Term Incentive Plan award

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.

Executive Directors	Date of Service Agreement	Date of appointment	Notice period from Company	Notice period from Director
Dean Finch	16.12.09	15.02.10	12 months	6 months
Matthew Ashley	16.07.15	28.01.15	12 months	6 months
Chris Davies	17.01.17	10.05.17	12 months	6 months

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.

Directors' Remuneration Report continued
Directors' Remuneration Policy continued

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:

Reason for termination	Salary, pension and contractual benefits	Annual bonus	Unvested deferred share bonus awards	Unvested LTIP awards	Other
Good leaver: retirement, disability, redundancy, death, sale of part of Company that employs participant or any other reason that the Remuneration Committee determines.	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.	Bonus awarded (subject to the satisfaction of performance targets for the relevant financial year).	Awards vest on date of termination.	Unvested LTIP awards will vest on the date of termination or on the normal vesting date as determined by the Remuneration Committee. The amount of an award vesting will be subject to satisfaction of the relevant performance conditions measured as at the date the award is deemed to vest. Awards will normally be reduced pro rata to reflect the time elapsed between the date of grant and the date of termination.	Fees for outplacement and legal advice may be paid.
Other reasons	Paid to date of termination, including any accrued but untaken holiday.	No awards made for the year of termination[1].	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.

Directors' Remuneration Report continued
Directors' Remuneration Policy continued

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

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

Non-Executive Director	Date of appointment	Notice period from either party (months)
Sir John Armitt CBE	01.01.13	3
Joaquín Ayuso	01.06.11	1
Jorge Cosmen	01.12.05	0
Chris Muntwyler	11.05.11	1
Lee Sander	01.06.11	1
Jane Kingston	26.02.14	1
Matthew Crummack	06.05.15	1
Mike McKeon	03.07.15	1
Dr Ashley Steel	01.01.16	1

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.

Directors’ Remuneration Report continued
Annual Report on Remuneration continued

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.

	2017							
£’000	Base salary	Taxable benefits[3]	Pension allowance	Annual bonus[4]	LTIPs vested[5]	Sub-total	Relocation benefits	Total
Dean Finch	615	30	215	1,169	2,038	4,067	–	4,067
Chris Davies[1]	233	12	59	333	112	749	–	749
Matt Ashley[2]	350	18	88	499	541	1,496	296[6]	1,792

	2016					
£’000	Base salary	Taxable benefits	Pension allowance	Annual bonus	LTIPs vested[7]	Total[7]
Dean Finch	589	29	206	984	2,079	3,887
Chris Davies	–	–	–	–	–	–
Matt Ashley	325	17	81	431	538	1,392

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). For Messrs. Finch and Ashley, the value also includes, in relation to their 2015 awards only, the dividend equivalent of 27.87p per share earned on the vested shares during the vesting period to be paid to them in cash on vesting. The actual values of vested shares (including the cash equivalent dividends received) will be confirmed in next year’s report.

6 As explained in section 1(b) above, Matt Ashley was given an international relocation package to assist him and his family with their move to Chicago. As Mr Ashley is liable to tax on these deemed relocation benefits, the amount paid to him in the year 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. Additionally, in respect of the relocation benefits paid to him in the US during the year, the total amount shown includes the converted value of such benefits based on an exchange rate of $1.2888:£1, being the average rate for 2017.

7 Since last year’s LTIP values of vested shares 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 the 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
    – 25% non-financial (including 18% safety related)
  - 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
    – 25% non-financial (including 18% safety related)
  - 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.

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

Directors' Remuneration Report continued
Annual Report on Remuneration continued

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.

Measure	Weighting	Threshold	On-target	Maximum	Actual	Bonus value achievable between Threshold and Maximum (% of salary)		Actual bonus value achieved (% of salary and/or £'000)		
Financial targets						Dean Finch	Other Executive Directors	Dean Finch	Matt Ashley	Chris Davies[1]
Normalised PBT[2]	50%	£158.9m	£176.6m	£194.3m	£200.0m	0%-100%	0%-75%	100%	75%	75%
Free cash flow[3]	25%	£103.5m	£115.0m	£126.5m	£146.4m	0%-50%	0%-37.5%	50%	37.5%	37.5%
Non-financial targets[4]	25%					0%-50%	0%-37.5%	40%	30%	30%
Total bonus awarded								190% £1,169	142.5% £499	142.5% £333
To be paid in cash								116.3% £715	102.3% £358	102.3% £239
To be deferred in shares								73.8% £454	40.3% £141	40.3% £94

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.

Objective	Performance
Safety (10% of 25%)	
Deliver a year-on-year improvement in the Fatalities and Weighted Injuries Index ('FWI').	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.
Safety systems and processes (8% of 25%)	
– Progress with the implementation of a single system in each business to capture all complaints and comments relating to drivers – Continue the roll-out of DriveCam CCTV and Master Driver – Improve Driver Performance management systems, including the competence of driver managers – Improve the assessment, monitoring and coaching of drivers – Improve the management of speeding – Progress the implementation of world class maintenance.	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.
Business development (7% of 25%)	
– Sell c2c, the UK rail franchise – Continue to develop the M&A strategy – Continue to develop the international diversification strategy, including building the talents of the team – Continue to develop the digital strategy – Promote the development of the Operational Excellence initiative.	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&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.

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% of salary maximum opportunity, and each of Matt Ashley and Chris Davies warranted a 30% pay out of a 37.5% of salary maximum opportunity.

Directors' Remuneration Report continued
Annual Report on Remuneration continued

(d) Long-Term Incentive Plan ('LTIP') vesting and awards

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)[1]

Performance condition	Weighting	Threshold (30% vesting)	Maximum (100% vesting)	Actual	Percentage vesting
TSR vs. selected Travel & Leisure comparator group	1/2	Median	Upper Quintile	Median → Upper Quintile (Rank 7th of 15)	23.4%
EPS	1/2	23.4p	28.3p	30.0p[2]	50.0%
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)
2017 1-year LTIP Recruitment Incentive Award (Chris Davies only)

Performance condition	Weighting	Threshold (30% vesting)	Target (50% vesting)	Maximum (100% vesting)	Actual	Percentage vesting
TSR vs. FTSE 250 Index	1/6	Median	–	Upper Quintile	Median → Upper Quintile (Rank 59th of 221)	14.2%
TSR vs. Bespoke Index[1]	1/6	Equal to Index	–	≥ Index + 10% pa	> Index + 10% pa	16.7%
EPS	1/3	24.8p	26.3p	28.6p	30.0p[2]	33.3%
ROCE	1/3	9%	10%	12%	11.9%	32.5%
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, 30,815 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

Grant date	Number of shares awarded	Award type	Award amount	Face value of award[1] £,000	Percentage vesting at threshold performance	Performance period	Performance conditions
18.04.17	341,476	Nil cost option	200% of salary	1,230	TSR and EPS: 30% ROCE: 0%	01.01.17 – 31.12.19	TSR, EPS and ROCE – see below

Matt Ashley

Grant date	Number of shares awarded	Award type	Award amount	Face value of award[1] £,000	Percentage vesting at threshold performance	Performance period	Performance conditions
18.04.17	145,752	Nil cost option[2]	150% of salary	525	TSR and EPS: 30% ROCE: 0%	01.01.17 – 31.12.19	TSR, EPS and ROCE – see below

Chris Davies

Grant date	Number of shares awarded	Award type	Award amount	Face value of award[1] £,000	Percentage vesting at threshold performance	Performance period	Performance conditions
10.05.17	143,403	Nil cost option[2]	150% of salary	525	TSR and EPS: 30% ROCE: 0%	01.01.17 – 31.12.19	TSR, EPS and ROCE – see below

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

Grant date	Number of shares awarded	Award type	Award amount	Face value of award[3] £,000	Percentage vesting at threshold performance	Performance period	Performance conditions
10.05.17 (1-year)	31,867	Nil cost option	34% of salary	117	TSR and EPS: 30% ROCE: 0%	01.01.15 – 31.12.17	TSR, EPS and ROCE – see[4]
10.05.17 (2-year)	63,735	Nil cost option	66% of salary	233	TSR and EPS: 30% ROCE: 0%	01.01.16 – 31.12.18	TSR, EPS and ROCE – see[5]

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 day preceding 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 the form of nil cost options to the Executive Directors in 2017 which will be measured over the three-year financial period ending 31 December 2019.

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

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

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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).

LTIP award year/type	EPS		ROCE		TSR vs. FTSE 250 Index		TSR vs Bespoke Index[1]		
Performance condition	Weighting	Vesting	Weighting	Vesting	Weighting	Vesting	Weighting	Vesting	Total (max 100%)
2014 5-year LTIP (Dean Finch only)	1/2	100%	–	–	1/4	58.6%	1/4	100%	89.7%
2016 3-year LTIP (including 2-year Recruitment Incentive Award to Chris Davies[2])	1/3	91.7%	1/3	97.5%	1/6	38.5%	1/6	100%	86.2%
2017 3-year LTIP	1/3	0%	1/3	97.5%	1/6	0%	1/6	100%	49.2%

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.

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

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.

Non-Executive Director	**2017 £'000**	2016 £'000
Sir John Armitt CBE (Chairman and Nominations Committee Chair)	**240**	230
Jorge Cosmen (Deputy Chairman)	**52**	49
Joaquín Ayuso[1]	**52**	49
Matthew Crummack	**52**	49
Jane Kingston (Remuneration Committee Chair)	**62**	59
Mike McKeon (Audit Committee Chair)	**62**	59
Chris Muntwyler (Safety & Environment Committee Chair)[1]	**62**	59
Lee Sander (Senior Independent Director)[1]	**59**	54
Dr Ashley Steel	**52**	49

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.

	Shares held directly			Other share interests	
Executive Director	Shareholding target (% salary)	Shareholding value at 31 December 2017 (% salary)[1]	Beneficially owned	Forfeitable shares held under the EDBP	Outstanding LTIP awards subject to performance conditions
Dean Finch	200%	151%	151,798	91,838	512,439
Matthew Ashley	150%	156%	111,785	31,503	438,779
Chris Davies[2]	150%	3%	3,000	–	247,199

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.

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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:

Non-Executive Director	As at 31 December 2017
Sir John Armitt CBE	6,000
Joaquín Ayuso	–
Jorge Cosmen[1]	69,237,515
Matthew Crummack	2,696
Jane Kingston	2,100
Mike McKeon	5,000
Chris Muntwyler	–
Lee Sander	1,000
Dr Ashley Steel	15,416

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.

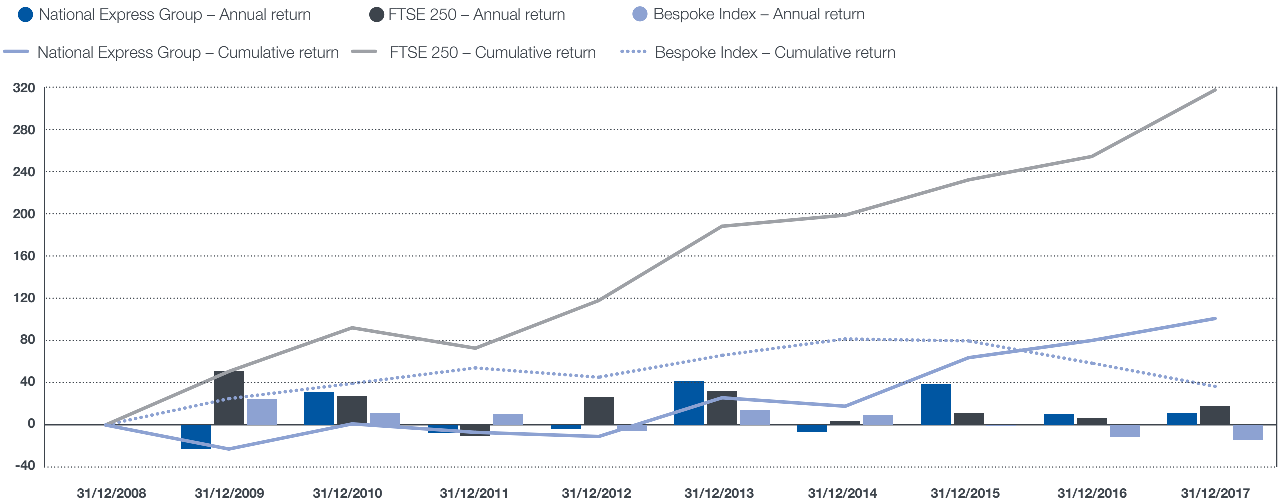
Year	2009	2010	2011	2012	2013	2014	2015	2016	**2017**
Group Chief Executive	R Bowker[1]	D Finch	D Finch	D Finch	D Finch	D Finch	D Finch	D Finch	**D Finch**
Total remuneration (£'000)	465	1,356	1,454	1,701	1,553	1,562	3,661	3,887	**4,067**
Annual bonus payment (as % of maximum opportunity)	0%	100%	100%	100%	95%	93%	96%	83.5%	**95%**
LTIP vesting level achieved[2] (as % of maximum opportunity)	n/a	n/a	n/a	32.5%	0%	0%	73.4%	80.8%	**86.9%**

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.

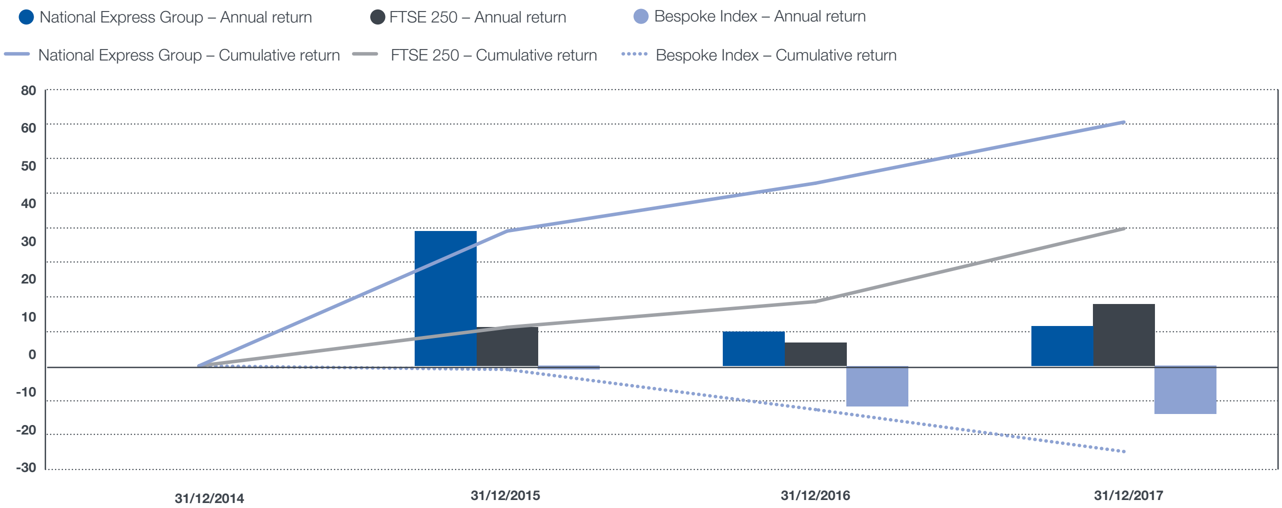
6. Comparison of overall performance

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



Shareholder returns: 3-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.

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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.

Comparator persons or group	Average percentage increase/decrease from 2016 to 2017		
	Base salary	Taxable benefits	Performance-related bonus
Group Chief Executive	4.4%	3.4%	18.8%
UK employee remuneration	1.7%	14.8%	6.6%

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:

Measure	**2017 (£m)**	2016 (£m)	Increase from 2016 to 2017 (%)
Overall Group spend on pay including Directors	**1,161.6**	1,020.7	13.8%
Profit distributed by way of dividend	**64.7**	58.8	10%

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:

Executive Director	Base salary (gross)
Dean Finch, Group Chief Executive	£630,375
Chris Davies, Group Finance Director	£358,750
Matt Ashley, President and CEO, North America	£358,750

(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:

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

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:

Role	Fees (gross)
Chairman	£246,000
Non-Executive Director (base fee)	£52,800
Chair of Board Committee (excluding Nominations)	£11,000
Senior Independent Director	£8,500

In addition, a travel allowance of £4,000 will continue to be payable to Joaquín 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:

Resolution	% of votes For	% of votes Against	Number of votes withheld[1]
To approve the Annual Report on Remuneration for the year ended 31 December 2016 (advisory vote only)	85.07	14.2	87,867

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

Resolution	% of votes For	% of votes Against	Number of votes withheld[1]
To approve the Directors' Remuneration Policy (binding vote)	98.91	1.09	16,293,308

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.

LTIP award year/type	Date of grant	Awards held 01.01.17	During 2017 Granted	Exercised	Lapsed	Awards held 31.12.17	Scheduled vesting/ Exercise date[1]	Lastest exercise date[1]
Dean Finch								
LTIP 3-year	09.04.14	204,520	–	201,862[2]	2,658	–	13.04.17	09.10.17
LTIP 3-year (Matching Shares)	09.04.14	245,424	–	242,233[2]	3,191	–	13.04.17	09.10.17
LTIP 3-year	11.06.15	356,303	–	–	–	356,303	05.03.18	05.03.20
LTIP 3-year (Approved CSOP)[4, 8]	11.06.15	9,526	–	–	–	9,526	05.03.18	05.03.20
LTIP 3-year	06.04.16	342,641	–	–	–	342,641	06.04.19	06.04.21
LTIP 3-year	18.04.17	–	341,476	–	–	341,476	18.04.20	18.04.22
LTIP 5-year	03.08.12	261,407	–	130,703[3]	130,704	–	03.08.17	03.08.18
LTIP 5-year	23.05.13	257,973	–	–	–	257,973	23.05.18	23.05.19
LTIP 5-year	09.04.14	204,520	–	–	–	204,520	09.04.19	09.04.20
		1,882,314	**–**	**574,798**	**136,553**	**1,512,439**		
Matt Ashley								
LTIP 3-year	09.04.14	68,793	–	66,629[2]	2,164		13.04.17	09.10.17
LTIP 3-year (Matching Shares)	09.04.14	82,548	–	80,205[2]	2,343		13.04.17	09.10.17
LTIP 3-year (Approved CSOP)[5, 8]	09.04.14	10,936	–	10,793[2]	143		13.04.17	09.10.17
LTIP 3-year	11.06.15	142,902	–	–	–	142,902	05.03.18	05.03.20
LTIP 3-year	06.04.16	141,797	–	–	–	141,797	06.04.19	06.04.21
LTIP 3-year	18.04.17	–	145,752	–	–	145,752	18.04.20	18.04.22
LTIP 3-year (Approved CSOP)[6, 8]	18.04.17	–	8,328	–	–	8,328	18.04.20	17.04.22
		446,976	**154,080**	**157,627**	**4,650**	**438,779**		
Chris Davies								
LTIP 1-year (Recruitment Incentive)	10.05.17	–	31,867	–	–	31,867	10.05.18	10.05.20
LTIP 2-year (Recruitment Incentive)	10.05.17	–	63,735	–	–	63,735	10.05.19	10.05.21
LTIP 3-year	10.05.17	–	143,403	–	–	143,403	10.05.20	10.05.22
LTIP 3-year (Approved CSOP)[7, 8]	10.05.17	–	8,194	–	–	8,194	18.04.20	18.04.22
			247,199	**–**	**–**	**247,199**		

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