Dear fellow Shareholder

I am pleased to present the Corporate Governance report for the year under review.

The existence of strong governance, both inside and outside the boardroom, and strong culture throughout the organisation, remain a key commitment and high priority of the Board. At the same time, we encourage the Executive Directors and management to take a long-term view and invest in the future of the business. I believe we are making good progress along this balanced path as can be seen from this report and the Group’s excellent results for the year which clearly demonstrate that our business continues to grow. The recent recognition of National Express as Britain’s Most Admired Transport Company in the 2018 Management Today Awards – as voted on by our peers, analysts and commentators – is testament to the reputation we have established and the progress we have made under the leadership of Dean Finch, and the hard work of all our employees.

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

**Leadership**
How the Board and its Committees operate within a well established governance structure and lead from the front, and the key activities of the Board during the year.

**Effectiveness**
How the governance framework operates and the Directors perform their duties, and the outcome from this year’s internal Board and Committee evaluation.

**Accountability**
How the Board maintains effective systems of internal control and risk management and manages safety and environment matters, and the outcome from our succession planning review.

**Remuneration**
How we align Executive Directors’ pay with our performance, the interests of shareholders and the long-term success of the Company, and the implementation of our Directors’ Remuneration Policy.

**Relations with Shareholders**
How we maintain and manage our relationships with equity institutional and debt investors and individual shareholders, and our investor relations programme.

**Board**
There were no changes in Board membership in 2018. However, the two Executive changes we made last year have bedded in well with both Chris Davies (Group Finance Director) and Matt Ashley (President and CEO, North America) making solid contributions in the first full year of their new roles.

Collectively, the Board and its Committees remain well-structured and balanced and continue to operate effectively, as confirmed in the results from this year’s internal evaluation of their performance. Nevertheless, recognising the benefits that a regular refresh can bring and the fact that three of our Non-Executive Directors are approaching their nine-year tenure on the Board, we have reflected on our succession plans, including skill set requirements and timings, in relation to certain Non-Executive changes. I expect these will be carried out over the next two to three years.

Details of this year’s internal Board and Committee evaluation can be found in the Effectiveness section on pages 52 – 55.
The existence of strong governance, both inside and outside the boardroom, and strong culture throughout the organisation, remain a key commitment and high priority of the Board.

Culture
A strong culture is crucially important to the performance and long-term success of any business. While the tone of our culture is set from the top down, its strength lies from the bottom up in the heart of our business. During the year, I have spent time with our employees from across the Group, which included visits to various UK locations on my own and to Boston in September with my Board colleagues. These visits provide the Directors with a valuable opportunity to engage with staff and gauge an insight into their views on the business, our leadership, our strategy and its implementation.

Our impression is that staff are proud to work for National Express in their locations, believe in our values and what they stand for, have respect for our leaders, understand the strategy and are committed to achieving it. This openness fosters a willingness to work hard, share ideas and best practice across the Group and engage in operational changes aimed at improving efficiency and effectiveness. Staff are enthusiastic about the changing technological and digital landscape and excited about the opportunities it presents to enhance our service to customers. As a Board, this tells us that if we want to continue growing, we must continue to encourage this openness and engagement amongst the workforce and ensure that our culture has customers at the forefront of our business, an area which is of increasing focus for the Executive.

Diversity
We take the issue of diversity in the boardroom and senior management very seriously as it improves effectiveness, encourages constructive debate, delivers strong performance and enhances the success of the business. Accordingly, we remain committed to the objective of increasing the Board’s female representation from its current 17% status to 33% by 2020, in line with the Hampton-Alexander recommendations, and we believe the phased Non-Executive Director rotation identified above represents a natural opportunity to consider and influence our Board diversity, in its widest sense, including gender and ethnicity. In the Group Executive Committee (‘GEC’) membership and their direct reports, the female representation has much improved over the past few years as they both now stand at 29%.

In the business, we continue to make good progress in embracing the benefits of an inclusive and diverse culture and during the year, under the increased impetus of the executive team, a wealth of new activities were undertaken and initiatives launched in all divisions as we seek to drive lasting change over time in this important area.

Further details on Board diversity and what is happening in the business can be found in the Nominations Committee Report on pages 58 – 61.

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

A new Directors’ Remuneration Policy (‘Policy’), which we consulted on in draft form with many shareholders and advisory bodies, was overwhelmingly approved at last year’s AGM and the Remuneration Committee has applied and operated within it since then. A summary of the Policy can be found in the Directors’ Remuneration Report on pages 80 and 81 and it appears in full on the Company’s website at www.nationalexpressgroup.com/about-us/corporate-governance/remuneration.

The Board is aware of the continued focus by the Government and regulators on the need to strengthen corporate governance and requiring companies to demonstrate higher standards of corporate behaviour, and to fully recognise their obligations to all stakeholders. As per my introduction, good governance is an integral part of our corporate culture and our business principles, commitments and long-term decisions are based on a responsibility to treat the views and interests of our colleagues, customers, suppliers and communities, as stakeholders in our business, with respect. This is a key factor in seeking to protect and deliver sustainable value for our shareholders. With that in mind, the Board welcomes the new Code, issued by the Financial Reporting Council (‘FRC’) in July last year, which applies to the Company from 2019.

Over the past few months, the Board and its Committees have been reviewing activities and working with management to assess our approach to the changes and increased emphasis introduced under the new Code, in particular on how best to formalise and strengthen the taking into account of stakeholder views more generally in our decision-making process and address the workforce voice and engagement requirements. Our review has highlighted that we are already compliant with a number of the new Code principles and provisions; for example, our Policy has a strong link to Group strategy and long-term success and the Directors actively engage with local management and employees when the Board visit operations each year. Additionally, we have already taken some steps to meet compliance; for example, we have established an emerging risk register (to supplement the significant risk one) at both Group and divisional level.

We will continue our assessment work during 2019, for what will undoubtedly be a journey of transition over the coming years, and report on progress and our compliance against the new Code in next year’s Corporate Governance report.

Annual General Meeting
At this year’s AGM, to be held at 2.00pm on Thursday, 9 May 2019 in the Horton Suite of the Burlington Hotel, 126 New Street, Birmingham, B2 4JQ, all Directors will be seeking re-election to office. As the AGM provides an opportunity for you to meet with and ask questions of your Directors regarding the business, this Annual Report and the matters before the meeting, I would encourage you to attend and look forward to meeting you.

Sir John Armit CBE
Chairman
28 February 2019
National Express Group PLC Annual Report 2018
**Governance framework**

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

**Chairman**
Responsible for the overall leadership and governance of the Board and ensuring that it operates effectively through productive challenge and debate.

**Board**
Collectively responsible to the Company’s shareholders for the long-term success of the Group. It provides effective leadership and direction and sets strategic objectives and oversees their delivery, taking into account the interests of a diverse range of stakeholders, within effective systems of risk management and internal control. It also sets the culture, values and standards for the whole organisation and ensures that the necessary governance, structure, financial management and resources (including succession planning) are in place.

**Board Committees**
These Committees operate under the delegated authority of the Board and within formal terms of reference. Their key responsibilities include:

- **Nominations Committee**
  Monitors the structure, size and composition of the Board and its Committees. It oversees succession planning for Directors and senior management, and leads the search and nomination process for the appointment of new Directors.

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

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

- **Remuneration Committee**
  Reviews and recommends to the Board the framework and policy for remuneration of the Chairman, the Executive Directors and other members of the Group Executive Committee, and for implementing the policy.

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

**Executive Committee**
An advisory and reporting body to the Group Chief Executive. It acts to review and oversee the safety, operational and financial performance of the Group, assess the ongoing impact of material risks, approve expenditure and other financial commitments within delegated authority levels and discuss, formulate and approve proposals for onward consideration by the Board. It also addresses other key business and corporate-related matters.
Setting the agenda

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

The key subjects and matters considered by the Board during the year are shown on page 51. Reports for each of the Committees, including details of their responsibilities and activities during the year, appear later in this report.

Board decision-making

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

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

Section 172 of the Companies Act

With reference to the duties placed on Directors by Section 172 of the Companies Act 2006 (as supplemented by the new Code), the Board believes that it does take into account the stakeholder consideration factors set out therein, where appropriate, when making decisions. However, as part of the Board’s current broader review of stakeholder engagement and bringing the voice of the workforce into the boardroom, we will look further at opportunities to improve and formalise the process. This will likely include reminding and training senior management throughout the business of the importance of also bearing these factors in mind when making material local decisions and including details of their preliminary considerations in upward recommendations to the GEC, the Board and its Committees.

Board and Committee meetings and membership in 2018

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

The table below sets out the Board and Committee membership and attendance by members at meetings held in 2018. All Directors attended the AGM on 16 May 2018.

<table>
<thead>
<tr>
<th>Membership and member attendance at meetings</th>
<th>Board</th>
<th>Nominations</th>
<th>Audit</th>
<th>Safety &amp; Environment</th>
<th>Remuneration</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Number of meetings in 2018</strong></td>
<td>7</td>
<td>2</td>
<td>3</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td><strong>Executive Directors</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dean Finch, Group Chief Executive</td>
<td>7</td>
<td></td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Chris Davies, Group Finance Director</td>
<td>7</td>
<td></td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Matt Ashley, President and CEO, North America</td>
<td>7</td>
<td></td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td><strong>Non-Executive Directors</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sir John Armitt CBE</td>
<td>7*</td>
<td>2*</td>
<td>–</td>
<td>3</td>
<td>–</td>
</tr>
<tr>
<td>Joaquin Ayuso</td>
<td>7</td>
<td>2</td>
<td>–</td>
<td>3</td>
<td>–</td>
</tr>
<tr>
<td>Jorge Cosmen</td>
<td>7</td>
<td>2</td>
<td>–</td>
<td>3</td>
<td>–</td>
</tr>
<tr>
<td>Matthew Crummack</td>
<td>7</td>
<td></td>
<td>–</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Jane Kingston</td>
<td>7</td>
<td>2</td>
<td>–</td>
<td>3</td>
<td>4*</td>
</tr>
<tr>
<td>Mike McKeon</td>
<td>7</td>
<td></td>
<td>–</td>
<td>3*</td>
<td>3</td>
</tr>
<tr>
<td>Chris Muntwyler</td>
<td>7</td>
<td>2</td>
<td>3</td>
<td>3*</td>
<td>–</td>
</tr>
<tr>
<td>Lee Sander¹</td>
<td>6</td>
<td>2</td>
<td>2</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Dr Ashley Steel²</td>
<td>6</td>
<td></td>
<td>3</td>
<td>3</td>
<td>–</td>
</tr>
</tbody>
</table>

* Board Chairman or Committee Chair
¹ Lee Sander was unable to attend the Board and Remuneration Committee meetings in January due to a year-end clash with his then new employer responsibilities in the USA. He was unable to attend the Audit and Remuneration Committee meetings in November due to illness
² Ashley Steel was unable to attend the Board meeting in January due to a long-standing commitment which had been pre-agreed with the Chairman

In each of the above situations where Messrs Sander and Steel were unable to attend meetings, they still received all supporting papers in advance and discussed the business to be considered at each meeting with the relevant Chair, providing input, opinion and voting instructions as appropriate. The Company Secretary also provided direct feedback to each Director after the meetings on the key decisions taken.
Roles and responsibilities
The Board has agreed a clear division of responsibilities at the head of the Company between the Chairman and the Group Chief Executive. This extends to other Directors as well to ensure that no individual or group of individuals can dominate the decision-making process. A short summary of roles and responsibilities is set out below.

<table>
<thead>
<tr>
<th>Role</th>
<th>Responsibilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chairman Sir John Armitt CBE¹</td>
<td>- Overall leadership, governance and effectiveness of the Board</td>
</tr>
<tr>
<td></td>
<td>- Sets the agenda, style and tone of Board discussions, with a particular focus on strategic matters</td>
</tr>
<tr>
<td></td>
<td>- Maintains an effective working relationship with the Group Chief Executive</td>
</tr>
<tr>
<td></td>
<td>- Provides the Board with insight into shareholders’ various views, opinions and objectives</td>
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<tr>
<td></td>
<td>- Ensures each Non-Executive Director makes an effective contribution</td>
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<tr>
<td></td>
<td>- Identifies, with the Company Secretary, the training and development needs of the Directors</td>
</tr>
<tr>
<td></td>
<td>- Chairs the Nominations Committee, taking a lead role in succession planning</td>
</tr>
<tr>
<td>Deputy Chairman Jorge Cosmen²</td>
<td>- Maintains a close dialogue with the Chairman and Group Chief Executive</td>
</tr>
<tr>
<td></td>
<td>- Assists the Group Chief Executive in strategic and operational activities (particularly in Spain) as requested</td>
</tr>
<tr>
<td></td>
<td>- Supports and deputies for the Chairman as required</td>
</tr>
<tr>
<td>Group Chief Executive Dean Finch³</td>
<td>- Develops the Group’s strategy for consideration and approval by the Board and provides effective leadership of the executive team in implementing the same</td>
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<tr>
<td></td>
<td>- Leads and manages the Group’s operations and business model</td>
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<tr>
<td></td>
<td>- Communicates, with the Group Finance Director, the Group’s financial performance and strategic progress to investors and analysts, and establishes and services relationships with key stakeholders</td>
</tr>
<tr>
<td></td>
<td>- Ensures the Board is kept fully appraised of the Group’s performance, issues, events and developments</td>
</tr>
<tr>
<td>Group Finance Director Chris Davies³</td>
<td>- Responsible for the financial stewardship of the Group’s resources through compliance, good judgement and appropriate financial controls</td>
</tr>
<tr>
<td></td>
<td>- Directs and manages the Group’s Finance, Treasury, Risk Management and Insurance, IT, Investor Relations and Internal Audit functions</td>
</tr>
<tr>
<td>President and CEO, North America Matt Ashley³</td>
<td>- Responsible for implementation and leadership of the Group’s North America strategy</td>
</tr>
<tr>
<td></td>
<td>- Provides executive-level support and contribution to the Group Chief Executive and the Board</td>
</tr>
<tr>
<td>Senior Independent Non-Executive Director Lee Sander</td>
<td>- Available to investors and shareholders to discuss any concerns that cannot be resolved through the normal Chairman or Executive Director channels</td>
</tr>
<tr>
<td></td>
<td>- Acts as sounding Board for the Chairman (deputising in his absence) and a trusted intermediary for other Directors</td>
</tr>
<tr>
<td></td>
<td>- Meets with the Non-Executive Directors without the Chairman present at least annually and leads the Board in the annual performance evaluation of the Chairman</td>
</tr>
<tr>
<td>Independent Non-Executive Directors</td>
<td>- Provide an external perspective, sound judgement and objectivity to the Board’s deliberations and decision-making</td>
</tr>
<tr>
<td></td>
<td>- Support and constructively challenge the Executive Directors using their broad range of experience and expertise</td>
</tr>
<tr>
<td></td>
<td>- Monitor and scrutinise the Group’s performance against agreed goals and objectives</td>
</tr>
<tr>
<td></td>
<td>- Play a lead role in the functioning of the Board’s standing Committees</td>
</tr>
<tr>
<td>Company Secretary Jennifer Myram⁴</td>
<td>- Provides advice and support to the Board, its Committees, the Chairman and, as required, other Directors individually, primarily in relation to corporate governance practices, induction, training and development</td>
</tr>
<tr>
<td></td>
<td>- Ensures that Board procedures are complied with, applicable rules and regulations are followed and due account is taken of relevant codes of best practice</td>
</tr>
<tr>
<td></td>
<td>- Responsible, with the Chairman, for setting the agenda for all meetings and delivering high quality and timely information and communication between the Board and its Committees, and between senior management and Non-Executive Directors</td>
</tr>
<tr>
<td></td>
<td>- The appointment or removal of the Company Secretary is a Board-reserved matter</td>
</tr>
</tbody>
</table>

¹ Non-Executive Director, independent on appointment
² Non-independent Non-Executive Director
³ Executive Director
⁴ From 1 January 2019 (Michael Arnaouti from 1 January – 31 December 2018)
### Board activity in 2018
The key subjects and matters considered by the Board during the year were as follows:

**Strategy and operations**
- Conducted an in-depth review and approval of the Group’s 2019–2021 strategy and 2030 Vision
- Reviewed and approved material bid, contract and M&A proposals, and acquisition performance versus plan one year post completion
- Received presentations and deep-dive reviews from divisional, senior and local management in relation to business strategy, performance, and specific projects and initiatives
- Monitored competitor and market activity in the bus, coach and rail sectors
- Assessed ongoing performance within the Group’s Operational Excellence programme
- Monitored the economic, legislative and geopolitical landscape, particularly as regards Brexit and its potential business impact

**Financial performance and controls**
- Approved the annual budget, business plan and KPIs, and monitored performance against them
- Reviewed and approved the Group’s full and half year results, including dividends, and interim trading updates
- Approved the Company’s Annual Report, including its fair, balanced and understandable nature
- Reviewed the Group’s debt, capital and funding arrangements
- Approved renewal of the 12-month £1.5 billion Euro Medium Term Note programme and the introduction of a £500 million (bond refinancing) bridging facility
- Approved the Group’s tax strategy, insurance programme and material capex requests, parent Company guarantees and investment proposals
- Approved an insurance buy-in arrangement for the UK Group Staff Pension Scheme (defined benefit)
- Confirmed as unchanged the Group’s Delegated Authorities Framework

**Safety, internal control and risk management**
- Received and discussed regular safety performance reports and updates, including in relation to major incidents and ongoing investigations
- Reviewed the Group’s risk management framework, principal risks and risk appetite, including in relation to cyber security
- Reviewed and confirmed the Group’s Viability Statement and going concern status
- Reviewed and validated the effectiveness of the Group’s systems of internal control and risk management

**Leadership and people**
- Confirmed as unchanged the composition of the Board and agreed the actions arising from this year’s internal performance evaluation
- Reviewed succession plans for the Board and senior management
- Approved the annual Slavery and Human Trafficking Statement and compliance with the UK Gender Pay Gap Reporting Regulations
- Reviewed employee engagement activities and outcomes, including the results of the Group’s internal staff survey and external People Value audit
- Approved a Freedom of Association Agreement with the Teamsters Union in North America
- Reviewed quarterly human capital reports and conducted deep-dives into diversity, high potential and talent development activities in the business
- Reviewed activities and approved a financial commitment increase to the Company’s Charitable Foundation

**Governance and legal**
- Received briefings on legal and regulatory matters and governance developments, including the General Data Protection Regulation compliance programme and the new UK Corporate Governance Code
- Approved proposed changes to the Directors’ Remuneration Policy and the basis on which to consult with major shareholders
- Approved the AGM Notice
- Reviewed feedback from investors and analysts and engagement with major shareholders, institutional investors and other stakeholders
- Established a Bid Response Committee and received appropriate training from advisers
- Received activity reports from the Nominations, Audit, Safety & Environment and Remuneration Committees
As illustrated by the chart above, 2018 was the second year of a three-year cycle following the external evaluation of the Board and its Committees undertaken in 2017. Accordingly, this year, we conducted an internal evaluation of the Board, its Committees and the Directors.

The evaluation took the form of an online questionnaire which was completed by all Directors. The questionnaire concentrated on key considerations such as Board and Committee composition, how well the Board and each Committee fulfils its responsibilities and takes decisions, the quality of information and support provided, the character of discussion and debate in meetings, how strategy is developed and how risk is reviewed, as well as the areas identified for development from the 2017 external evaluation.

The Directors’ responses to the questionnaire were reviewed by the Company Secretary in consultation with the Chairman and respective Committee Chairs. A final outcome report was presented to, and discussed by, the Board and each Committee with due recognition being given to those areas of strong performance and those identified for focus and development in 2019.

As in previous years, the Senior Independent Director, in consultation with the other Non-Executive Directors, also conducted an annual performance evaluation of the Chairman and discussed the outcome of that directly with him. It concluded that the Chairman continues to perform well in his role, chairing Board and Nominations Committee meetings, maintaining good communications and managing relationships with Directors outside of meetings, as well as engaging with shareholders and the business as appropriate.

Conclusions from this year’s review
The overall outcome of this year’s internal evaluation was positive, with the Directors concluding that the Board and each of its Committees were functioning effectively and productively to achieve their purpose, and performing to a high level of integrity and probity. The Directors also agreed there was appropriately open, collaborative and challenging debate at Board and Committee meetings during which all relevant matters within their remit are covered.

A key finding from this year’s evaluation was that all Directors are fully engaged with the Company’s business and, through a number of initiatives launched by the Group Chief Executive during the year, the Non-Executive Directors had become more involved in the development of the Company’s strategy. As such, they had gained a deeper understanding of both its likely evolving nature over the next ten years or so as technology advances, and the principal and emerging risks that could affect its delivery.

In addition to the above, the following strengths were identified:
– the Board’s and Nominations Committee’s keen focus on, and attention to the development of, plans for Executive Director and senior management succession, as well as their focus on talent and initiatives to further develop talent within the business;
– the Safety & Environment Committee’s unyielding concentration on the Group’s Driving Out Harm programme and its review of progress on implementation of the new Global Safety Policies;
– the Audit Committee’s vigilant oversight of the Company’s financial and internal controls, particularly its thorough review and development of the internal audit process;
The overall outcome of this year’s internal evaluation was positive, with the Directors concluding that the Board and each of its Committees were functioning effectively and productively to achieve their purpose, and to a high level of integrity and probity.

- the Remuneration Committee’s consistent application of the Directors’ Remuneration Policy and detailed review of the Group’s workforce pay policies and practices when considering executive pay; and
- the valuable opportunities available and taken by the Board collectively and the Non-Executive Directors individually to engage directly with the business, management and the workforce through numerous visits to local operations each year.

Key areas identified for focus and development in 2019
The key areas identified from this year’s evaluation for increased focus and development in 2019 are:

- to move successfully from the planning phase to the implementation phase of the Board’s Non-Executive Director succession plans;
- to review the composition and membership of the Audit and Remuneration Committee to ensure each of them comprises the right mix of skills and support for the important and increasing amount of work they perform;
- to increase the time and attention given through the Safety & Environment Committee to the Group’s environmental objectives and its performance against them;
- to continue to consider and implement the Board’s and the Committees’ plans to address the changes introduced by the new Code, particularly those regarding more engagement with the workforce and the taking into account of stakeholder views as part of the general decision-making process; and
- to continue to bring more external viewpoints to the Board’s attention.

Progress against focus and actions arising from the 2017 external evaluation
The progress made against the three principal areas identified for increased focus and actions in 2018 arising from the 2017 external evaluation of the Board and its Committees is set out below:

<table>
<thead>
<tr>
<th>Focus and actions</th>
<th>Progress</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Increased engagement by the Board with long-term executive succession and leadership planning</strong>¹</td>
<td>Led by the Nominations Committee, the Board has undertaken its annual review of senior management succession planning which this year included potential internal candidates for the CEO position in the longer term. The calibre and development of these candidates against targeted performance plans will be kept under review. Any process to appoint a successor CEO in due course will include consideration of these candidates as well as appropriate external candidates. The Board received and reviewed for the first time this year the individual development and career progression plans of the Group’s Top 20 talent register, which includes those employees identified as having the greatest aptitude to progress to senior leadership roles within the organisation. This review will be conducted at least annually going forward.</td>
</tr>
<tr>
<td><strong>Focus on Board and Committee succession planning to ensure their capability and diversity continue and are enhanced</strong>¹</td>
<td>The Board and Nominations Committee have continued to review and develop succession plans, particularly in relation to the Chairman and those Non-Executive Directors who will reach their nine-year tenure over the next few years. As those plans are implemented, capability and diversity will be key considerations in the recruitment and appointment process.</td>
</tr>
<tr>
<td><strong>Bring more external viewpoints to the Board, including on the rapid evolution of transport sector technology</strong></td>
<td>The Board’s annual strategy review meeting in September, which this year included a Vision outlook to 2030 as well as the traditional three-year outlook, incorporated a wide range of external input and viewpoints on the future of the transport sector, both generally and specifically as regards technology, and most notably in relation to the advancement of electric, automated and alternative fuel vehicles. As part of that, an external presentation was made to the Board by Bank of America Merrill Lynch (‘BAML’), the Company’s joint broker. Other external viewpoints brought to the Board’s attention during the year included IBM’s landscape review of cyber risk, Tom Harris’ independent audit of the Group’s People Value and BAML’s review of takeover activity in the marketplace and training on unwelcome bid response preparations. The process of bringing external viewpoints to the Board’s attention on relevant topics will continue, as appropriate.</td>
</tr>
</tbody>
</table>

¹ Further information is provided in the Nominations Committee Report on pages 58 – 61.
Information and support
To enable the Directors to fulfil their duties and responsibilities effectively, they are provided with and given access to all necessary information and support. This includes access to the Company Secretary (who acts as Secretary to the Board and its Committees), senior management and functional heads and the ability to obtain, at the Company’s expense, independent professional advice. Further details about the role and responsibilities of the Company Secretary can be found on page 50.

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

If a Director is unable to attend a meeting due to illness or exceptional circumstances, they still receive all supporting papers in advance of the meeting and are directed to discuss with, and provide input, opinion and voting instructions to, the relevant Chair on the business to be considered at that meeting. The Company Secretary provides direct feedback to the absent Director on the key decisions taken at the meeting.

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

Induction and ongoing training and development
All new Directors receive a structured and comprehensive induction programme. It is prepared and arranged by the Chairman and Company Secretary, with Executive input as necessary, tailored to the experience and background of the individual and the requirements of the role. With no new Director appointments made in the year, no induction programmes were undertaken.

Existing Directors engage in various forms of ongoing training and development and in 2018 this included:
- the regular receipt of written and oral reports from internal experts and external advisers, including on safety, finance, legal, human resources, risk management and governance matters;
- attendance at external training sessions and briefing forums, including those provided by the Deloitte Academy and other professional advisers;
- an in-depth review of the future direction of, and risks facing, the mass land transport industry from the Company’s Commercial Director, supported by the Company’s joint broker, BAML, at the Board’s annual strategy review meeting;
- a presentation to the Audit Committee by IBM on the fast-changing cyber security risk landscape and best practice response measures that can be taken; and
- guidance from BAML on takeover activities in the market place and associated training on unwelcome bid responses.

Additionally, to provide Directors with opportunities to meet with management, engage with employees and increase their visibility and working knowledge of the Group’s operations and market dynamics, the Board aims to visit two Group locations each year. However, only one such visit took place in 2018, to Boston, which also facilitated a scheduled Board meeting and its annual strategy review. A ‘Board in Action’ review of the Boston trip can be found on the opposite page.

The Chairman also undertakes a busy programme of local site and management visits, which this year focused on the UK. Similar visits, both at home and overseas, are undertaken by other Non-Executive Directors in fulfilment of their roles.

Conflicts of interest and other appointments
The Board operates a policy to identify and manage situations declared by Directors (in accordance with their statutory duty to do so) in which they or their connected persons have, or may have, an actual or potential conflict of interest with the Company.

The Board considers such situations as they arise and decides whether to authorise any conflict based on the overriding principle that a Director must at all times be able to consider and exercise judgement to promote the success of the Company. The policy has been in place and operated effectively throughout the year.

No Director conflict situation currently exists save in respect of Jorge Cosmen (a non-independent Non-Executive Director) as he is a member of the Cosmen family which is a substantial shareholder in the Company and has close links with the Group’s ALSA business (see page 103). This conflict has been authorised by the Board on the basis that Mr Cosmen’s knowledge of the Spanish transport market and political environment brings significant value into the boardroom. During the year, the Nominations Committee considered whether Lee Sander’s new appointment as President Americas of Bombardier Transportation gave rise to a potential conflict situation and concluded that it did not. This is because decisions regarding our RME trains in Germany are normally taken at local and/or divisional level, not at Board level.

A register of Directors’ conflicts and other appointments is maintained by the Nominations Committee, together with conflict authorisations previously given, and regularly reviewed.

The Nominations Committee also monitors a Director’s ability to fully discharge their duties and make a valued contribution to the Board, and that includes monitoring the number of other appointments held by Directors outside of the Company. For Non-Executive Directors, this situation is known and considered when they first join the Company and permission from the Chairman is required before any additional third party appointment can be accepted so that an opportunity exists for any overboarding or conflict risk assessment to be made.

Executive Directors are permitted to hold one external non-executive directorship with a non-competing company provided they first obtain Board approval to do so. No such external appointments are currently held by any of the Executive Directors.
The Board in Action
Engaging with the workforce

The Strategic Initiatives Circuit was a great way to meet the wider North America management team, including some new appointees, and discuss the strategy and various initiatives they are following. It also gave me a first-hand impression of the progress we are making and the development opportunities which exist in such an important major territory of the Group.

Matthew Crummack, Non-Executive Director

The importance for the Board to get out and about, and to be seen doing so, cannot be too strongly emphasised. It gives the Board visibility and enables the Non-Executive Directors to gain a better understanding of operational matters, safety considerations, key performance drivers and the risks and challenges facing the business. It also provides them with the opportunity to engage with local management and employees. While this invaluable experience cannot be replicated in the boardroom, it is there where the benefits can be found as the Non-Executives increase both their personal and collective contribution to the Board’s effectiveness.

With the above in mind, the Board aims to visit two overseas operations each year, with many of the Directors also undertaking individual site visits both at home and abroad throughout the year as an integral part of performing their duties.

In September, the Board went to the USA where we have more than 260 sites, which makes it a little difficult for the Board to get around. So this year we decided to bring some of our regional and local management teams together in Boston to host teach-ins and hold one-on-one meetings with the Non-Executive Directors on various aspects of the North America business as part of a Strategic Initiatives Circuit afternoon. This relaxed forum proved very successful in helping to build knowledge and improve understanding in each of the specific areas covered. An informal dinner attended by the Directors, the North America management team and all presenters from the afternoon’s session provided an excellent opportunity to build on existing relationships and bed in new ones.

Additionally, the Board visited two Customer Service Centres (‘CSCs’) in the region, one in School Bus and one in Transit. The Directors toured the facilities and received presentations from management and employees about the operations and their role within them. They spent time with drivers and maintenance technicians, saw first-hand how the new Target Zero safety campaign had been embraced, had lunch with the workforce and gained valuable insight into the Group’s culture and values and how those are interpreted and exist locally.

While I undertake many site visits on my own each year, there is real value in one or two such field trips being undertaken by the Board as a whole, as we did to Boston this year. It gives the Directors a chance to spend time together, see our operations together and speak with management and our highly motivated staff together. The value this adds in helping to inform discussion and improve our performance in the boardroom is significant.

Chris Muntwyler, Non-Executive Director
Board of Directors

1. Sir John Armitt CBE (73)
   Chairman (Non-Executive Director)
   Appointed: February 2013 and as Chairman February 2013
   Key strengths: Sir John has extensive international experience (including working with the Government at ministerial level) in the rail, engineering and construction industries. He also has significant board-level experience both as Chief Executive and Chairman. He was awarded a CBE in 1996 for his contribution to the rail industry and received a knighthood in 2012 for services to engineering and construction.
   Previous experience includes:
   - Chairman, Government Commission on the Thames Estuary (2017-2018)
   - President, Institution of Civil Engineers (2015-2016)
   - Board member, Transport for London (2012-2016)
   - Chairman, Olympic Delivery Authority (2007-2014)
   - Chairman, Engineering and Physical Science Research Council (2007-2012)
   - Chief Executive, Network Rail (including its predecessor, Railtrack) (2001-2007)
   - Chief Executive, Costain Group PLC (1997-2001)
   - Chief Executive, Union Railways (1993-1997)
   Current external appointments:
   - Non-executive director, Berkeley Group Holdings PLC and Expo 2020
   - Chairman, City & Guilds Group and National Infrastructure Commission

2. Dean Finch (52)
   Group Chief Executive
   Appointed: February 2010
   Key strengths: Dean is a qualified chartered accountant. He has more than 30 years’ commercial, financial and operational experience of the transport sector gained in both Europe and North America, including working for the office of Passenger Rail Franchising on the privatisation of train operating companies. He has a proven track record of improving operational performance and delivering financial success in bus, coach and rail businesses. He also has substantial executive leadership and listed company experience.
   Previous experience includes:
   - Non-executive director, Royal Free London NHS Foundation Trust (2014-2016)
   - Group Chief Executive, Tube Lines (2009-2010)
   - Group Chief Operating Officer and various other senior roles (including Group Finance and Commercial Director, President and CEO, North America and Managing Director, Rail Division), FirstGroup plc (1999-2009)
   Current external appointments: None

3. Chris Davis (48)
   Group Finance Director
   Appointed: May 2017
   Key strengths: Chris is a qualified management accountant. He has more than 25 years’ international finance, strategic, IT and commercial experience with a strong global track-record across developed and emerging markets.
   Previous experience includes:
   - Interim Group Chief Financial Officer, Inchcape plc (2016)
   - Chief Financial Officer (North America), Diageo plc (2010-2012)
   - Various senior roles (including Managing Director, Diageo Business Services; UK Finance Director; Strategy Director, Africa; Interim Managing Director, Guinness Nigeria), Diageo plc (2003-2013)
   - International IT and strategy consulting experience at Andersen Consulting and Marakon Associates
   Current external appointments: None

4. Matt Ashley (45)
   Executive Director
   Appointed: January 2015
   Key strengths: Matt is a qualified chartered accountant and brings significant international financial, corporate and operational experience to the Board gained from both within and outside National Express. At National Express, he has previously held Group and divisional finance roles, including Group Finance Director responsible for financial reporting, tax, treasury, investment appraisal, IT, investor relations and financial strategy, Pre-National Express, and in addition to auditing, Matt has supported complex corporate transactions of several multi-national companies. In his current role, he brings his financial and analytical skills together with his understanding of the transport sector and its operations.
   Previous experience includes:
   - Group Finance Director, National Express Group PLC (2014-2017)
   - Group Financial Controller, National Express Group PLC (2010-2014)
   - Director (Transport, Infrastructure and Listed companies), Deloitte (2002-2010)
   Current external appointments: None

5. Jorge Cosmen (50)
   Deputy Chairman (Non-Executive Director)
   Appointed: December 2005
   Key strengths: Jorge is a non-independent Director with a connection to the Company’s largest shareholder, the Cosmen family. He has accumulated a wealth of experience in international business development and has an International MBA from the Instituto de Empresa in Madrid.
   Previous experience includes:
   - Chairman, ALSA Group (until acquired by National Express Group) (1999-2005)
   - Corporate Manager, ALSA Group (1995-1999)
   Current external appointments:
   - Non-executive director, Bankia SA

6. Lee Sander (65)
   Senior Independent (Non-Executive) Director
   Appointed: June 2011
   Key strengths: Lee has a wealth of experience in the transportation, engineering, construction and global architectural sectors. He brings unparalleled US mobility industry knowledge and network from an engineering, customer and academic perspective.
   Previous experience includes:
   - Managing Director (Global Transportation and US Infrastructure), Hatch (2017-2018)
   - President, The I. Grace Company (2015-2016)
   - President, The HAKS Group Inc (2012-2015)
   - Group Chief Executive (Global Transportation), AECOM (2009-2011)
   - Chief Executive Officer, Metropolitan Transportation Authority of New York (2007-2009)
   - Senior Vice President (Global Transportation), AECOM (1998-2006)
   - Commissioner, New York City Department of Transportation (1994-1996)
   - Founder, Rudin Center for Transportation Policy and Management at New York University
   Current external appointments:
   - President (Americas), Bombardier Transportation
   - Chairman Emeritus, Regional Plan Association
   - Vice Chairman, Greater Jamaica Development Corporation
We have in place a highly experienced Board of Directors. The independent Non-Executive Directors bring sound judgement and objectivity to the Board’s deliberations and decision-making process, helping to support and constructively challenge the executive team.

7. Mike McKeon (62)
Non-Executive Director
Appointed: July 2015
Key strengths: Mike is a chartered accountant. He has developed his core skills and extensive, wide-ranging international experience over many years of financial and business management in various sectors. He has acquired in-depth knowledge of how to develop and effect strategy, and of restructuring different businesses and operations to achieve success.

Previous experience includes:
- Senior Independent Director and Chairman of the Audit Committee, The Merchants Trust PLC (2008-2017)
- Chief Financial Officer, Severn Trent plc (2005-2015)
- Chief Financial Officer, Novar plc (2000-2005)
- Various senior business roles, both in the UK and overseas, at Rolls-Royce plc, CarnauMetalbox, Elf Atochem and PricewaterhouseCoopers

Current external appointments: None

8. Jane Kingston (61)
Non-Executive Director
Appointed: February 2014
Key strengths: Jane is an accomplished human resources professional and executive of more than 30 years’ standing with significant experience in developing high performing global organisations and business cultures. She has extensive international experience, having had responsibility for the people agenda in most parts of the world at some point during her career, and in a wide range of industries.

Previous experience includes:
- Group Human Resources Director, Compass Group PLC (2006-2016)
- Group Human Resources Director, BPB PLC (2002-2006)
- Senior HR roles at Enodis PLC, Blue Circle PLC (now Lafarge SA) and Coats Viyella PLC

Current external appointments:
- Non-executive director, Inchcape plc and Spirax-Sarco Engineering plc (where she is also Remuneration Committee Chair)

9. Chris Muntwyler (66)
Non-Executive Director
Appointed: May 2011
Key strengths: Chris has more than 30 years international experience in the IT, aviation and transport industries. He has gained recognition for his achievements relating to business transformations and the effective management of high profile corporate mergers and company integrations. He is now a management consultant, specialising in effective and sustainable turnarounds for organisations, strategy development, leadership guidance, and customer and process orientation.

Previous experience includes:
- Non-executive director, Panalpina World Transport (Holding) Ltd (2010-2018)
- Non-executive director, Pilatus Aircraft Ltd (2008-2011)
- Member, CBI President’s Committee (2007-2008)
- Chief Executive, DHL Express (UK) Ltd (2005-2008)
- Managing Director (Switzerland, Germany and Central Europe), DHL Express (1999-2005)
- Various senior executive roles (Switzerland, Sweden and North America), Swiss Air (1972-1999)

Current external appointments:
- President and CEO, Conlogic AG
- Non-executive director, Österreichische Post AG

10. Joaquín Ayuso (63)
Non-Executive Director
Appointed: June 2011
Key strengths: Joaquín has considerable international experience in the transportation and infrastructure sector, as well as in finance and the regulated business environment. He has managed organisations with more than 100,000 employees with particular responsibility for operational activities.

Previous experience includes:
- Chief Executive, Ferrovial SA (2002-2009)
- Non-executive director, Hispania Activos Inmobiliarios SA (2014-2016)
- Non-executive director, BAA plc (2004-2007)

Current external appointments:
- Board Vice Chairman (Board Executive Committee member), Ferrovial
- Non-executive director (and Nominations Committee Chair), Bankia SA
- Chairman, Autopista del Sol SA
- Senior Advisor (Spain and Portugal), AT Kearney

11. Matthew Crummack (48)
Non-Executive Director
Appointed: May 2015
Key strengths: Matthew has extensive experience in consumer product and digital service industries, across multiple functions on an international basis. His experience is directly relevant to National Express as we place customers at the heart of our strategy and constantly focus on delivering continuously improving services.

Previous experience includes:
- Deputy CEO and Chief Integration Officer, lastminute.com Group (2015)
- Chief Executive, lastminute.com (2011-2015)
- Senior Vice President (Lodging, Europe and US), Expedia (2008-2010)
- Various senior roles at Nestlé UK and Procter & Gamble

Current external appointments:
- Chief Executive Officer, Gocompare.com Group plc

12. Dr Ashley Steel (59)
Non-Executive Director
Appointed: January 2016
Key strengths: Ashley has significant international consultancy experience and has acted as an adviser to FTSE listed and Fortune 500 boards. Her skills include strategy development, M&A, organisation effectiveness, risk management and HR, all across multiple sectors including transport, professional services, media, technology, infrastructure and business services. She has a PhD in Management from Henley Business School.

Previous experience includes:
- Non-executive director, Civil Aviation Authority (2015-2018)
- Member, British Airways International Business Advisory Board (2015-2016)
- Vice Chairman, KPMG LLP (2012-2014)
- Global Chair (Transport, Leisure and Logistics), KPMG LLP (2003-2014)
- European Board Member, KPMG LLP (2007-2010)
- UK Board Member, KPMG LLP (2003-2007)
- Global Executive Partner (Global Media, Telco, Technology Practice), KPMG LLP (2001-2003)

Current external appointments:
- Non-executive director, Gocompare.com Group plc and the British Broadcasting Corporation (where she is also the Nations Representative for England)
Corporate Governance
Effectiveness continued

Nominations Committee Report

Primary role
To ensure that the Board and its Committees are properly structured and balanced (including the requisite skills, experience, knowledge, independence and diversity) and that effective succession planning (including a diverse pipeline) is in place for Directors and senior management.

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

Key responsibilities
- Monitor the structure, size and composition of the Board and its Committees and make recommendations to the Board
- Manage Board and senior management succession planning with due regard to the promotion of diversity

Activity highlights
- Reviewed the structure, composition and diversity mix of the Board
- Developed the Board and senior management succession plans, including anticipated Non-Executive Director rotation
- Reviewed the Group’s Top 20 talent register and individual development plans
- Reviewed diversity initiatives and activities being undertaken in the business
- Directed the internal Board and Committees’ performance evaluation

Dear fellow Shareholder
I am pleased to present the Nominations Committee Report, which provides details of our work and activities during the year.

There were no changes to the membership of either the Board or its Committees in 2018 as they remained well-structured and balanced and continued to operate effectively. The Directors also continued to strengthen their relationships, working well together in achieving the Group’s objectives and individually making a valued contribution to the Board’s performance.

Notwithstanding this strong platform:
- with due consideration to the length of service of the Board as a whole, and with a view to ensuring that membership is regularly refreshed in a timely manner, the Committee increased its focus during the year on succession planning for Executive and Non-Executive Directors, and senior management; and
- in monitoring external developments, including increased emphasis – whether arising through the new UK Corporate Governance Code ("Code"), which applies to the Company from 2019, or otherwise – the Committee increased its visibility and time spent in looking at diversity in the business and the identification and career planning of our high potential and top talent employees across the Group.

Given that the above matters are viewed as important whole-Board topics, and while Committee led, full Board meeting discussion took place on each of them wherever possible.

Board composition
The Board consists of 12 members comprising myself as Non-Executive Chairman (independent on appointment), three Executive Directors, seven independent Non-Executive Directors and one non-independent Non-Executive Director. Further information on all Directors, including their key skills and strengths, is set out in their biographies on pages 56 and 57.

Membership, meetings and attendance

<table>
<thead>
<tr>
<th>Committee member</th>
<th>Appointed</th>
<th>Meetings attended</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sir John Armitt (Chair)¹</td>
<td>01.01.13</td>
<td></td>
</tr>
<tr>
<td>Lee Sander²</td>
<td>01.06.11</td>
<td></td>
</tr>
<tr>
<td>Jorge Cosmen³</td>
<td>01.12.05</td>
<td></td>
</tr>
<tr>
<td>Chris Muntwyler²</td>
<td>11.05.11</td>
<td></td>
</tr>
<tr>
<td>Joaquín Ayuso²</td>
<td>01.06.11</td>
<td></td>
</tr>
<tr>
<td>Jane Kingston²</td>
<td>26.07.16</td>
<td></td>
</tr>
</tbody>
</table>

¹ Non-Executive Chairman of the Board
² Independent Non-Executive Director
³ Non-independent Non-Executive Director

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

Biographical details of the members are set out on pages 56 and 57.
During the year, we again reviewed the composition of the Board and its Committees, with a particular focus on whether we continue to have Non-Executive Directors with the right mix and balance of skills and experience to optimise our performance. To assist us, we maintain a matrix setting out the different backgrounds and other attributes of all the Non-Executives and use it to review and assess those factors in the context of ensuring the continued delivery of the Group’s strategy and vision. The matrix therefore serves two useful purposes in relation to skills, experience and knowledge:

- firstly, it identifies whether there is currently a gap on the Board or any of its Committees, and I am pleased to confirm that no such gap was identified.
- secondly, and something which will grow in importance as three Non-Executive Directors approach their nine-year tenure on the Board, it will help us identify what we will need to look for in potential replacement candidates.

While acknowledging the value that refreshing the composition of a board can bring, the Committee also recognises the value that a stable board’s engagement with, and detailed understanding of, the business can bring. Both the Committee and I are of the view that with the current Board composition, we are reaping the benefits of Directors who are fully engaged with the business and delivering against the Group’s objectives, and they are committed to continue doing so going forward.

**Succession planning**

Both the Board and the Nominations Committee recognise the importance of having effective succession planning in place, including a diverse pipeline, for Directors and senior management and ensuring that their mix of skills, experience, knowledge, independence and diversity reflect the changing needs of the business and are aligned with the Group’s evolving strategy.

During the year, and as noted above, the Committee reviewed and reflected on succession planning, both at Board level (particularly with regard to anticipated changes in certain Non-Executive Director roles, including my own, in the next few years), and at senior management level (particularly with a view to identifying potential internal candidates as successors to the Group Chief Executive in the longer term). While we agreed that no new actions were then necessary, the positions are being closely monitored and I do expect that we will commence the search for at least one Non-Executive Director this year.

Managed by the Group HR Director, and in consultation with the Group Chief Executive and Divisional Managing Directors, the Group maintains an established succession planning process for all Group Executive Committee (‘GEC’) members and their direct reports, divisional management teams and identified employees on the Group’s high potential and Top 20 talent register. These succession plans, which include individual development roadmaps, are reviewed at least annually by the Board.

Having regard to these matters, the Committee is satisfied that the Group’s succession plans are aligned to its strategy, appropriate for its size and reach and sufficiently robust.

**Commitment to diversity**

The Board strongly believes that diversity, in its broadest sense, is essential for creating and maintaining a competitive advantage. This is because having a clear commitment to diversity will enable the Group to attract and retain the best talent, drive innovation and ensure that multiple perspectives are brought to bear leading to improved decision-making and performance. The Group also serves customers and communities which are themselves significantly diverse and therefore our own diversity can help us to better serve and engage with these and other stakeholders. As such, the Board and this Committee remain committed to increasing the diversity of people, in terms of gender, social and ethnic background and other individual qualities, at all levels of the organisation.

**Diversity at Board and senior management level**

As can be seen from the charts overleaf, one of the key strengths of the existing Board is its diversity in terms of how its membership reflects the geographic spread of the Group’s business, with Directors being nationals of, and having significant transport, infrastructure and related market experience in, countries where the Group has a material operating presence, such as the UK, Spain, Switzerland and the USA. This direct knowledge and relevant experience are invaluable to the Board in its deliberations and decision-making, and in enhancing the Board’s overall effectiveness.

While female representation on the Board has remained at 17% given that no Director changes were made during the year, the Committee believes a natural opportunity to enhance diversity arises from the anticipated rotation of three Non-Executive Directors over the next two years or so. While all Board appointments are made on merit, the recruitment process will ensure that candidates of both genders, and from a range of different social and ethnic backgrounds who possess the requisite skills, experience and knowledge, participate in the process. The Board remains committed to the objectives of increasing its female representation to 33% by 2020, in line with the Hampton-Alexander recommendations, and also of seeking to enhance its ethnic diversity, within the context of appointing the best candidates.

Encouragingly, the GEC, which currently comprises 14 of the most senior managers below Board level, has over the last few years increased its gender and ethnic diversity, with four members now being female, representing 29% of its membership, and one being of ethnic origin. The gender diversity of the direct reports into GEC members is also 29%.
Diversity in the business

Management is committed to promoting a culture of inclusion and diversity and continues to develop initiatives to attract, retain and engage more women at all levels across the business. This commitment is supported by the Group’s Diversity Policy and reflected in our embedded Values. To further drive this commitment and give it increased profile, we will shortly be launching a new Diversity & Inclusion Council with the aim of coordinating diversity strategies across the Group, and monitoring and reporting on progress. The Council will look at best practice externally and undertake further research internally in order to develop actions which will make a tangible and sustainable difference, recognising that it can take five to ten years for noticeable changes to come through.

The Board now receives an annual report from the Group HR Director on diversity and inclusion in the wider workforce, the first of which was received last November. This provided valuable diversity statistics and analysis and, supplemental to the divisional presentations received earlier in the year, updated the Board on the busy level of activity and various initiatives being pursued in the business to further enhance diversity. Examples of these included:

- in Spain, where ALSA has established a Gender Equality and Work-Life Balance Committee to promote gender equality and is participating in several government and industry-led programmes, such as the Promotion Project (Proyecto Promociona), which is supported by the Spanish Ministry for Health, Social Services and Gender Equality, and the Spanish Institute for Women’s Affairs and Equal Opportunities, which assists women in developing management skills;

- in the US, where we employ over 27,000 people of which 57% are female and 53% are from an ethnic background, work continues to further strengthen and leverage the benefits from this significant diversity, including by conducting focused recruitment campaigns through media which target specific population groups (such as women, ethnic minorities, disabled persons and veterans) and providing diversity training to all employees;

- in the UK, where we employ over 6,000 people of more than 50 different nationalities, the bus and coach businesses have adjusted their recruitment and employment practices to encourage greater gender diversity, including by rewriting job advertisements to seek to attract more female job applicants, and by accommodating requests for flexible working wherever possible which has assisted with female employee retention; and

- in all territories, where we are working to ensure that our high potential and global graduate and apprentice programmes are focused on, and have active initiatives targeted at, improving gender and ethnic diversity in supervisory and management positions throughout the business.

Gender pay gap

In line with the new UK regulations, we published our first gender pay gap report for affected subsidiaries in April 2018. It showed an aggregated median and mean gender pay gap of 13.34% and 4.24% respectively across all UK-affected employees. We are confident that our gender pay gap is caused by the gender imbalance in our senior executive and vehicle driver positions and is not an issue of equal pay. We are also confident that over time our diversity commitment should act to reduce this UK gender pay gap.
Director effectiveness, independence and commitment

I again undertook a review of the effectiveness, independence and commitment of each of the Non-Executive Directors, with the Senior Independent Director undertaking the same review of myself, the outcomes of which have been shared with the Nominations Committee and the Board. Based on these reviews, the Committee has satisfied itself on the value of individual contributions made and time commitments given, and expected to continue, of all the Non-Executive Directors in the fulfilment of their duties. In doing so, the Committee also satisfied itself that:

- Lee Sander’s absence from four meetings in 2018 (two in January due to a clash with his then new USA employer responsibilities and two in November due to illness) should be seen as a one-off occurrence recognising that his meeting attendance for the three years prior to 2018 was 100%;
- each Non-Executive Director, other than Jorge Cosmen, continues to be independent; and
- all Directors remain free of any conflict of interest which could interfere with the exercise of the Board’s judgement.

Mr Cosmen is not considered to be independent due to his connection with the significant shareholding interest that the Cosmen family holds in the Company and his close links with the ALSA business in Spain. Despite his non-independent status, the Board benefits greatly from having Mr Cosmen’s extensive knowledge and experience to hand, particularly about the Spanish transport market and political environment, both inside and outside the boardroom.

Directors’ re-election

Based on the above considerations, the Board is recommending the re-election to office of all current Directors at this year’s AGM. Details of the Service Agreements for the Executive Directors and Letters of Appointment for the Non-Executive Directors are set out in the Directors’ Remuneration Policy which is available at www.nationalexpressgroup.com/about-us/corporate-governance/remuneration.

Board evaluation and Committee effectiveness

Given that the 2017 performance evaluation of the Board and its Committees was externally facilitated, this year we conducted an internal review based on various questions and follow-up discussions aimed at further improving effectiveness. Details of the evaluation, the Board discussion of its output (which confirmed that the Committee continues to operate well and to a high standard) and the actions agreed for increased focus and development during the remainder of this year, are set out in the Effectiveness section on pages 52 and 53.

Looking forward

Like last year, and given the increased emphasis provided under the new Code, the Committee expects that its main focus and activities in 2019 will remain focused on Board and senior management succession planning, diversity progress and talent development.

Sir John Armitt CBE
Chairman
28 February 2019
**Primary role**
To protect the interests of shareholders through ensuring the continuing integrity of the Company’s published financial information and the effectiveness of the Group’s internal audit function, external audit process and the systems of internal controls and risk management.

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

**Key responsibilities**
- Monitor the integrity of the Group’s financial reporting process and management
- Ensure that any significant financial judgements or estimates made by management are sound
- Approve the activities and monitor the performance of the internal and external auditors, including monitoring their independence, objectivity and effectiveness
- Evaluate the effectiveness of the Group’s internal controls (including financial controls) and risk management systems
- Review the Group’s process and controls for the detection of fraud, prevention of bribery and whistleblowing, and compliance with the Group’s regulatory, legislative and applicable codes of practice requirements
- Maintain an appropriate and effective relationship with the external auditor

**Activity highlights**
- Scrutinised the full and half year financial statements
- Challenged the robustness of the Group’s going concern and Viability Statement
- Implemented new accounting standards IFRS 9 and 15 and completed preparations for IFRS 16
- Conducted an external review of the internal audit function and commissioned one for the cyber security programme
- Reviewed the systems of internal controls and risk management
- Conducted an end-to-end effectiveness review of local whistleblowing facilities and arrangements throughout the Group

**Membership, meetings and attendance**

<table>
<thead>
<tr>
<th>Committee member</th>
<th>Appointed</th>
<th>Meetings attended</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mike McKeon (Chair)¹</td>
<td>01.01.13</td>
<td>☐ ☐ ☐</td>
</tr>
<tr>
<td>Lee Sander</td>
<td>01.06.11</td>
<td>☐ ☐ ☐</td>
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<tr>
<td>Dr Ashley Steel¹</td>
<td>01.01.16</td>
<td>☐ ☐ ☐</td>
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<tr>
<td>Chris Muntwyler¹</td>
<td>11.05.11</td>
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</tbody>
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¹ Independent Non-Executive Director

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

**Dear fellow Shareholder**
I am pleased to present the Audit Committee’s Report for 2018. It demonstrates the important role being played by the Committee within the Company’s governance framework and in supporting the Board with risk management, internal control and financial reporting, and its high level of activity during the year against a structured programme.

**Review of the year**
In terms of compliance with the 2016 UK Corporate Governance Code (‘Code’) and related Guidance on Audit Committees, I believe the Committee has continued to address the spirit and requirements of both during the year. We have also worked to capture early the two key accountability changes in the new Code, issued by the FRC in July 2018 and which applies to the Company from 2019, namely, the management of emerging risks and the extension of whistleblowing arrangements.

The Committee again challenged itself to ensure that its work addressed those areas of most importance to the Group and/or which could have the biggest impact on its current or future financial performance. This resulted in the Committee’s time and attention being focused on the highlighted activities shown opposite and explained below. Full activity details are set out on page 65.

**Committee in action**
With a view to helping make a meaningful contribution as Chair of the Committee to the exercise of its obligations, I visited the Group’s North America management offices in Chicago last September. The purpose was to undertake a deep-dive review of:

- our improved North America insurance claims handling process: this is because insurance reserves are an area of significant estimation and judgement by management each year; and
While the Group’s risk landscape continues to be challenging and dynamic, we are well placed to manage it effectively through both our risk management framework and strategic planning process.

− our first significant use of a recently introduced data analytics and business intelligence tool: this is because the new technology will increasingly be relied upon by local management for the predictive risk profiling of our drivers and the management and use of key operational performance indicators and personnel scorecards. When mature, this data tool set will allow a different approach to be taken to many aspects of management and governance in our North America business, including those of internal and external audit, hence why it merited advanced scrutiny.

I also took the opportunity while in Chicago to meet various other personnel, including our North America lead internal auditor and the local risk and insurance manager. It is my intention to visit at least one major operational business each year to achieve similar objectives.

Risk landscape
During the year, the Committee again reviewed and debated changes in the Group’s risk profile at both a macroeconomic and geopolitical level, and from a key operational risks and threats perspective, as set out in the Group’s principal risk matrix. Certain changes were made to reflect developments in our risk environment, including the treatment of Brexit as a separate principal risk rather than as a part of the wider economic environment risk as it had been before. Various Brexit outcomes were also considered as part of our ongoing concern and viability stress testing, review of the Group’s debt facilities and tax treaty arrangements and personal data handling.

One new risk was added to the Group’s principal risk register during the year, namely, alternative fuel vehicles (‘AFVs’). In anticipation of the new Code, the Committee has been supporting the Executive and the Board to create an emerging risk register at Group level to complement the principal risk register already in place. While AFVs were previously considered an emerging risk, given the rapid developments in associated technology and the fact that many OEMs are developing mass market products, it is now considered a principal risk.

This type of change is a good example of the increasing maturity of the Group’s risk management processes in a dynamic environment. It also demonstrates the need for regular re-appraisal as some emerging risks can also represent significant opportunities, and for these both the upside potential and the downside risk need to be managed at the same time.

The Committee has increased its oversight of the internal controls and programme of activities in place across the Group to address cyber-attack threats which continue to pose a real risk to all businesses and noted that further progress against key milestones, as validated by our external advisers, has been made. However, recognising the fast-changing nature of cyber security and the increasingly sophisticated and organised nature of cyber criminals, and following a Committee presentation, IBM has recently been instructed to conduct a Group-wide review of our current structure, approach and protection capabilities, and to advise the Group on the next stage of its cyber development. I will report on IBM’s findings and our response next year.

The Committee supports the ongoing development of good practice in risk reporting, hence why we have reviewed and enhanced our own reporting this year as set out on pages 39 – 45. We believe that the new format of presenting the principal risks adds clarity to the Group’s risk profile and context in terms of relative likelihood and impact. Further evidence of our increased risk management maturity can be seen by the inclusion of a specific Board approved risk appetite statement and in the development of an emerging risk register, to complement the principal one already in place.

Overall, while the Group’s risk landscape continues to be challenging and dynamic, we are well placed to manage it effectively through both our risk management framework and strategic planning process.

New accounting standards
A significant amount of management and Committee time was spent during the year considering the introduction of three new accounting standards. Implementation of IFRS 9 ‘Financial Instruments’ and 15 ‘Revenue from contracts with customers’, which applied to the Company for 2018, was completed satisfactorily in consultation with the external auditor.

In preparing for the introduction of IFRS 16 ‘Leases’, which applies to the Company from 2019, management conducted a thorough use and operations analysis of all leased assets across the Group to then categorise, evaluate and assess their qualification against the new requirements. The Committee has been involved in reviewing the thoroughness of management’s analysis and considerations in consultation with external advisers, and these were also the subject of separate challenge by and discussion with Deloitte. Additionally, the Committee recommended that the Remuneration Committee consider the potential knock-on effect of IFRS 16 to the EPS and ROCE targets applying to outstanding LTIP awards.

Full details regarding these three new accounting standards and their respective impact appears on pages 119, 120 and 129. The Remuneration Committee’s review of IFRS 16 appears on page 76.

Viability Statement
The Committee reviewed and challenged management on its recommended viability period as well as on its robust modelling, stress testing scenarios and conclusions, and satisfied itself that a three-year outlook remained appropriate. This choice of period is driven principally by the fact that it is covered by the Group’s strategic plan, reflects the nature of the Group’s principal risks (some of which are external and have the potential to impact in the short-term) and takes into account three major risks, namely, Brexit, the Spanish long haul concession renewals and our bond refinancing timetable, all of which are expected to fall within the next three years. The Viability Statement, and a full explanation of it, appears on page 45.
Corporate Governance
Accountability continued
Audit Committee Report continued

**Fair, balanced and understandable**
The Committee assessed and recommended to the Board (which it subsequently endorsed) that, taken as a whole, the 2018 Annual Report is fair, balanced and understandable and provides the necessary information for shareholders to assess the Company’s position and performance, business model and strategy.

**Internal audit and control**
The Group’s internal audit function continued to operate effectively in 2018, particularly in respect of some high profile compliance assurance work, against a plan of activity approved and monitored by the Committee.

The outcome of EY’s quality assurance review conducted early in the year was reassuring in that it confirmed the function operated to a high level and in adherence with the International Internal Auditing Standards. It also identified, in the light of best practice, an opportunity to evolve the function’s role within the Group’s ‘three lines of defence’ model and align its activities closer to the future needs and material risks of the business, and to make more use of technology in doing so. Implementation of EY’s recommendations will continue throughout 2019.

During the year, the Committee also:

- reviewed, pre-publication, the Company’s first payment practices and UK gender pay gap reports, and new processes and training to address the offence of facilitating corporate tax evasion;
- conducted an end-to-end effectiveness review of the Group’s whistleblowing arrangements – this had a positive outcome and resulted in the need for an updated Group Whistleblowing Policy and the issue of an annual awareness campaign directive to all territories; and
- agreed an assurance work plan with the legal and procurement teams for 2019 to extend our modern slavery risk exposure analysis, compliance due diligence and training, with a particular focus on the North America supply chain.

The Committee is encouraged by the continuing improvement being made across the Group in its underlying control environment, as evidenced in the output work presented to it by the internal audit and risk management teams.

**GDPR compliance**
The proper use and safeguarding of personal data remains one of our most important risk areas and has been a high profile topic this year. The Committee had oversight of the Executive-led plan and training programme, and received implementation reports and presentations, to meet the requirements of the new General Data Protection Regulation (‘GDPR’) by 25 May.

Overall, we took a number of steps to improve our personal data management both internally and externally, particularly as regards key stakeholders, in order to achieve on-time compliance. We also met with UK senior management shortly after ‘go-live’ to assess how the introduction of our new GDPR policies and procedures were operating in practice. We were pleased to see that the UK business had fully integrated them into their normal activities ensuring they get the right management focus going forward.

Ongoing GDPR compliance will be monitored by internal audit as part of its annual work plan.

**Committee effectiveness**
The Committee’s operations and activities formed part of the internal Board performance evaluation undertaken this year, details of which are provided in the Effectiveness section on pages 52 and 53. It confirmed that the Committee continued to operate effectively and to a high standard, with clear priorities, well defined responsibilities and clarity around its work plan.

**Looking forward**
The Committee is aware of the recently completed Kingman Review of the Financial Reporting Council (‘FRC’) and the CMA Market Study on statutory audit services, as well as the impending Brydon Review into the quality and effectiveness of the UK audit market. Many of the recommendations from both completed works are far reaching and if implemented would significantly change the Audit Committee’s remit and how it operates. Equally, the Brydon Review could lead to significant change in the audit landscape. While the next steps are currently unclear, the Committee will closely monitor developments on all fronts.

I am pleased that the Committee achieved a consistently high level of performance during 2018, as highlighted above, and expect that 2019 will be equally challenging and busy as we seek to fulfil our core responsibilities in accordance with the new governance regime, in support of the Board and in a way that is consistent with the Company’s culture and values.

That said, I look forward to the Committee continuing to make a meaningful contribution to the success of the Group.

Finally, I would like to thank my fellow Committee members, together with management, internal audit and Deloitte, for their support during the year. In particular, I would like to recognise the excellent work of management in achieving on-time GDPR compliance and completing preparations for IFRS 16, two very demanding Group-wide and cross-functional projects.

Mike McKeon
Audit Committee Chair
28 February 2019
Committee composition and operations
The Board is satisfied that the Committee as a whole possesses relevant sectoral experience and that its members bring a broad range of financial and commercial experience from across various industries. It is also satisfied that Mike McKeon possesses the recent and relevant financial experience required by the Code.

Details of the Committee meetings held during the year are shown on page 49 and these included various private sessions with both the external auditor and Head of Group Internal Audit. The Committee Chair also has regular private meetings with the Group Finance Director, Head of Group Internal Audit and the Deloitte Senior Statutory Auditor (and his team) to ensure that throughout the year open and informal lines of communication exist should they wish to raise any concerns outside of formal meetings.

Audit Committee activity in 2018
The main areas of Committee activity during the year and through to the date of this report included the planning, monitoring, reviewing and approval (as applicable) of the following:

Financial reporting
− The integrity of published Financial Statements, including the significant financial matters considered
− The information, underlying assumptions and stress test analysis presented in support of the Viability Statement and going concern status
− The consistency and appropriateness of the financial control and reporting environment
− The implementation of new accounting standards IFRS 9 and 15 and preparation for IFRS 16
− The availability of distributable reserves to fund the dividend policy and make dividend payments
− The fair, balanced and understandable assessment of the Annual Report and half year statement
− The risk, uncertainty and potential impact on the Group arising from Brexit and a potential no-deal outcome

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

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

Risk management and internal control
− The scope of the Group’s internal controls and risk management programme
− The adequacy and effectiveness of the Group’s internal control and risk management systems, including the management of its insurance and claims handling programme
− The Group’s risk environment, including its significant and recently created emerging risk register
− The Group’s IT risk strategy and disaster recovery plans
− The Group’s cyber security threats, their continuing evolution and the Group’s response to them
− The Group’s fraud, anti-bribery and corruption and whistleblowing prevention measures
− The Group’s preparation for and controlled implementation of GDPR
− Compliance with the Code and the Group’s regulatory and legislative environment

Tax and treasury
− The Group’s treasury policy and affairs, including associated key risks management
− The impact of refinancing activities on the Group’s financial position
− The Group’s tax affairs, including its tax strategy and tax evasion defence and controls programme
− The assurance of the Group’s continuing liquidity in view of uncertain future threats, including a potential no-deal Brexit

Other
− The Committee’s effectiveness and terms of reference
− The Group’s Modern Slavery and Human Trafficking Statement
− The Company’s payment practices and UK gender pay gap reporting
− The new Code requirements as they apply to the Committee’s responsibilities
**Significant financial matters**

The following descriptions are of the two significant financial matters considered by the Committee, with input from management and the external auditor, in connection with the Group’s Financial Statements and disclosures. These were considered to be significant taking into account the level of materiality and the degree of critical judgement or estimation exercised by management. The descriptions should be read in conjunction with the Independent Auditor’s Report on pages 106 – 113 and the accounting policies disclosed in the notes to the Financial Statements on pages 119 – 129.

We have not provided a description of those other areas of management judgements and estimates reviewed, challenged and assessed by the Committee in consultation with Deloitte, and which the Committee considered as not significant. These areas included taxation, pensions, financial instruments, business combinations and discontinued operations, revenue recognition and new accounting standards IFRS 9, 15 and 16 and IFRIC 12.

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### Significant area of focus

**Goodwill and fixed asset impairment**

(see notes 2 and 14 to the financial statements)

The Committee considered whether the carrying value of goodwill and intangible assets held on the Group’s balance sheet at the year end (£1,461 million) should be impaired. The potential risk is around the recoverability of these balances, particularly in relation to our ALSA (£812 million) and North America (£621 million) businesses, with the key area of estimation uncertainty (as assessed and tested by management as part of their annual goodwill impairment review) arising from the application of discounted cash flows on a value in use basis. The discount and future growth rates applied are highly sensitive to change because both must reflect a long-term view of the underlying growth in each respective economy.

The Committee received a detailed report from management which outlined the robust impairment analysis and testing undertaken for the year on a bottom-up basis and which included: (i) the underlying cash flows, discount rates and future growth rates assumed; and (ii) the modelling adopted relating to the use of country-specific discount rates and various impact scenarios arising from the potential outcomes of ALSA’s concession renewal programme. The report concluded that there is not a material risk of non-recoverability in this area and that neither the North America nor the ALSA goodwill assets are impaired. Indeed, both continue to have sufficient levels of headroom (albeit less than in previous years due to an increase in the discount rates used) and notwithstanding the addition of goodwill during the year through ongoing acquisition activities.

The Committee challenged management’s methodology, range of assumptions and testing scenarios undertaken. It also noted that Deloitte had challenged management assumptions and found no issues. As a result, the Committee was satisfied that neither the goodwill nor other non-current assets of the Group as at the balance sheet date are impaired.

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### Significant area of focus

**Insurance and other claims provisions**

(see notes 2 and 26 to the financial statements)

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

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

The Committee noted that in considering the overall balance sheet provision, there was a wide range of potential outcomes. However, taking into account the comfort taken by the Committee’s Chair in his recent first-hand review of the North America claims handling process, the thorough internal analysis undertaken and the audit work conducted by Deloitte, the Committee concluded that the provision for North America insurance and other claims, as recommended by management, was within an acceptable range and was fairly stated.

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In addition to the above, the Committee has considered, taken action and made onward recommendations to the Board, as appropriate, on a range of other matters during the year, including in relation to the Viability Statement, going concern, the potential impact arising from Brexit and other specific areas of audit, compliance and governance focus.

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

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

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

The external audit plan and the £1.3 million fee proposal for the financial year under review (2017: £1.2m) was prepared by Deloitte in consultation with management and presented to the Committee for consideration and approval. The plan again focused on risk, challenge and materiality and was aligned to the Group’s structure and strategy. It was also designed to continue transition of the audit, as directed by Deloitte, to be more internal control assurance based (and less substantive) in its emphasis and with increased use made of data analytics.

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

**Effectiveness**

Immediately following completion of the external audit process for 2018, the Committee conducted a review of its effectiveness and a performance review of Deloitte. This was carried out through a mix of a survey questionnaires and analysis and follow-up consultation with Committee members, the Executive Directors, members of the senior finance team and divisional Finance Directors. The qualitative and robust assessment focused on the valuable feedback and insights received, process and communication, handling of issues and the quality of the audit team, and had regard to the latest Audit Quality Inspection Report on Deloitte issued by the FRC.

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

**External audit tendering policy**

The Company last put its external audit out to competitive tender in 2011 following which Deloitte was appointed to the office of auditor, replacing EY. The Company has complied during the year under review, and through to the date of this report, with the provisions of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

The Company is next required to retender the audit by no later than the financial year ending 2021. The Committee will assess the quality of the external audit annually and, on the basis that its quality remains high and the audit fee represents good value to shareholders (both as benchmarked versus market practice), it is expected that the next audit tender will take place at that time. We will, however, look to start early planning for the next tender during 2019.

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

**Non-audit services**

To help protect the objectivity and independence of Deloitte, and in addition to its own internal safeguards, the Company operates a Non-Audit Services Policy that sets out the types of non-audit services, such as assurance work, which Deloitte may provide to the Group. The policy, which includes a pre-approval process, specific financial control limits and a definitive list of permitted and non-permitted services, and which meets the FRC’s revised Ethical Standard requirements, remained unchanged during the year and is, after review, proposed to remain so again for 2019.

Details of the fees charged by Deloitte, split between audit and permitted non-audit fees, for the year ended 31 December 2018 can be found in note 6 to the financial statements on page 133. Total fees for non-audit services, including the half year review, amounted to £0.1 million, representing 7.7% of the Group’s total audit fees payable to Deloitte for the year. No fees were approved or paid on a contingent basis.
Internal audit

The Committee has oversight and directional responsibility for the Group’s internal audit function which is led by the Head of Group Internal Audit and who has a direct reporting line into the Committee Chair. The function’s purpose is to provide an independent and objective assessment of the effectiveness of the internal controls, risk management and governance processes in operation throughout the Group. The function adds value by:

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

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

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

Effectiveness

The Committee monitors and formally assesses the effectiveness of the internal audit function on an annual basis and seeks to satisfy itself that the quality, expertise, experience and cost of the function is appropriate to the Group.

As reported last year, the Committee commissioned EY to conduct an external quality assurance review of the function in early 2018. EY’s development recommendations and 18-month plan of action through to the end of 2019 are being implemented in full to ensure the positioning of the function and the focus of its activities continue to be aligned with the future needs and material risks of the business. The Committee will monitor implementation progress against plan during the year.

Overall, the Committee concluded that the internal audit function continued to be effective, objective and independent in the work it undertakes, and has a good value-add reputation with operational management in the performance of its role.

Risk management and internal control

The Board is responsible for determining both the nature and extent of the Group’s risk management and internal control framework and for determining its risk appetite (i.e. the balance in risk and opportunity deemed acceptable in pursuing the Group’s strategic objectives).

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

Risk management

The Group has an embedded risk management culture and our approach continues to mature and evolve. This is being led by the divisional heads and actively supported by the Group Director of Insurance and Risk in the management of their risk registers, in driving risk awareness and in developing and sharing best practice.

The Committee receives regular updates on the Group’s principal and emerging risks, including deep-dive reviews of particular risks, such as cyber, which allows for discussion and the monitoring of progress against mitigation actions previously agreed. This year, the Committee also received specific and satisfactory updates on:

− regulatory developments in relation to risk management and the Group’s proposed response;
− benchmarking of the Group’s risk reporting against FTSE100 and S&P 100 organisations; and
− the good progress being made in each division with their new risk registers, and additional risk-related work, such as that carried out by the recently established North America Risk & Compliance Committee.

Regular reports are also received by the Committee from the external auditor, and from internal audit and other major business functions on various aspects of financial reporting, internal control, risk management, legal and compliance. In turn, the Committee provides the Board with interim assessments of risk and their potential impact on the Group’s financial position, accounting affairs and control systems and on how material risks to the Group are being managed. The annual risk management work plan, prepared in consultation with management, is reviewed and approved by the Committee to ensure alignment with the Group’s changing risk profile as well as its strategic plan and the near-term priorities of the business.
2019 will see the Committee continue to support the Board in fulfilling its responsibilities for risk management by carrying out further deep-dive reviews, as appropriate, with associated business management and reviewing the Group’s principal and emerging risk registers, and the divisional risk registers.

The Group’s risk management framework and appetite, together with the process in place for identifying, evaluating, monitoring and managing the principal risks and uncertainties faced by the Group, are set out on pages 39 – 44.

Internal controls
The Group’s internal controls system (which is subject to internal audit’s ongoing programme of review and reporting to the Committee) comprises the following key elements:

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

Effectiveness
Assisted by the Committee, the Board reviewed the systems of internal controls and risk management described above (which have been in place for the year under review and through to the signing of this Annual Report) taking into account the assurance work undertaken by both the risk management and internal audit functions, and the relevant process, controls and testing undertaken by Deloitte as part of its half year review and full year audit.

In respect of the centralised treasury back-office accounting function, and following the successful implementation of IFRS 9, the Committee reviewed and assessed the need to address some control findings. It is satisfied management has a plan to address these findings and will review its implementation in 2019. Other than in this area of technical non-cash accounting, no significant weaknesses or control failures were found while identified opportunities to strengthen the controls have been taken and will themselves be subject to regular review as part of internal audit’s work plan.

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

Based on the above, the Committee recommended, and in turn the Board confirmed, that the 2018 Annual Report, taken as a whole, is fair, balanced and understandable and provides the necessary information for shareholders to assess the Company’s position and performance, business model and strategy.

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

Whistleblowing Policy
The Group is committed to promoting a safe and effective culture for employees to raise genuine concerns without fear of reprisals.

The Committee reviews the Group’s whistleblowing facilities in each of the businesses, which allows employees to report genuine concerns about suspected impropriety or wrongdoing (whether financial or otherwise) on a confidential basis, and anonymously if legally permitted. The facilities take the form of a free multi-lingual helpline per country of operation provided by an independent third party.

Reported whistleblowing incidents are investigated locally in the first instance with monthly summary reports submitted to the Group Company Secretary and reviewed by the Group Executive Committee in case a higher level of independent investigation is required. During the year, there were no whistleblowing incidents investigated at Group level. A summary incident report is presented to the Board at each meeting.

An end-to-end effectiveness review of the whistleblowing facilities in place in all territories was undertaken during the year – this had a positive outcome and identified the need to issue an updated Group Whistleblowing Policy and an annual awareness campaign directive in all territories. The updated policy will meet the extended requirements of the new Code for whistleblowing facilities to be made available to the whole workforce, to cover the reporting of any concerns and for the Board to routinely review the operation of the facilities. The practicalities surrounding the implementation of these new policy extensions will be addressed during the year.
Primary role
To oversee the quality and effectiveness of the Group’s safety and environment strategies, standards, policies and initiatives, together with risk exposures, targets and performance.

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

Key responsibilities
- Review the Group’s strategy and framework of standards, policies and initiatives for managing safety risks across the Group
- Monitor and review the Group’s safety leadership and performance
- Review the Group’s strategy and approach to the environment and the external reporting of performance

Activity highlights
- Monitored safety and environmental targets, performance and initiatives for the Group, its divisions and operations
- Received regular implementation updates on the Group’s five new Global Safety Policies (introduced in 2017)
- Reviewed actions taken and lessons learnt arising from major accidents and incidents, past and present
- Ensured safety-related benefits from the Group’s Driving Out Harm and World Class Driver programmes are coming through
- Received annual updates on local health and wellbeing programmes for employees in all territories

Membership, meetings and attendance

<table>
<thead>
<tr>
<th>Committee member</th>
<th>Appointed</th>
<th>Meetings attended</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chris Muntwyler (Chair)¹</td>
<td>11.05.11</td>
<td>☐☐☐☐</td>
</tr>
<tr>
<td>Sir John Armit CBE²</td>
<td>01.01.13</td>
<td>☐☐☐☐</td>
</tr>
<tr>
<td>Lee Sander¹</td>
<td>01.06.11</td>
<td>☐☐☐☐</td>
</tr>
<tr>
<td>Jorge Cosmen³</td>
<td>01.12.05</td>
<td>☐☐☐☐</td>
</tr>
<tr>
<td>Joaquin Ayuso³</td>
<td>01.06.11</td>
<td>☐☐☐☐</td>
</tr>
<tr>
<td>Jane Kingston¹</td>
<td>26.07.16</td>
<td>☐☐☐☐</td>
</tr>
<tr>
<td>Dr Ashley Steel¹</td>
<td>01.01.16</td>
<td>☐☐☐☐</td>
</tr>
<tr>
<td>Mike McKeon¹</td>
<td>03.07.15</td>
<td>☐☐☐☐</td>
</tr>
<tr>
<td>Matthew Crummack¹</td>
<td>06.05.15</td>
<td>☐☐☐☐</td>
</tr>
</tbody>
</table>

¹ Independent Non-Executive Director
² Non-Executive Chairman of the Board
³ Non-independent Non-Executive Director

Other attendees (by invitation): Executive Directors, Group Safety Director, Head of Group Property and, as required, external advisers.

Biographical details of the members are set out on pages 56 and 57.

Dean Finch, Group Chief Executive, has established a strong and embedded safety culture in the business and this is maintained through his personal ownership of a rigorous governance framework. He has overall responsibility for safety and is supported by divisional Managing Directors, the Group Safety Director and local safety teams. It is they who set the annual safety plan and priorities for continued improvement and progress against these are reviewed at the Chief Executive’s Safety Committee on a quarterly basis.

Dear fellow Shareholder
I am pleased to present this year’s Safety & Environment Committee Report which provides an overview of the Group’s main activities and progress in these two important areas during the year. More information can be found on pages 32 and 33 respectively.

Safety
The Board believes that the Company should aim to lead the industry on safety matters and continuously seek to improve our standards. That is why the safety of our employees and customers receives the highest level of attention from the Board with all Directors being members of the Committee. It is also why safety remains the number one priority of the executive team. In recognising this ongoing strategic importance:

- an 18% weighting of the executive team’s annual bonus continues to be linked to the Group’s safety performance: 10% on improving our normalised Fatalities Weighted Injuries (FWI) Index score per million miles operated and 8% on improving safety systems and processes; and
- a revised safety underpin applied to this year’s annual bonus plan, and has been introduced as an underpin to the Company’s Long-term Incentive Plan for awards to be made in 2019 onwards.

Dean Finch, Group Chief Executive, has established a strong and embedded safety culture in the business and this is maintained through his personal ownership of a rigorous governance framework. He has overall responsibility for safety and is supported by divisional Managing Directors, the Group Safety Director and local safety teams. It is they who set the annual safety plan and priorities for continued improvement and progress against these are reviewed at the Chief Executive’s Safety Committee on a quarterly basis.
Your decision to install cameras in all fleet vehicles [in North America] shows your commitment to developing a comprehensive safety management system for driver oversight and remediation of unsafe behaviour throughout your fleet.

US National Transportation Safety Board

As Committee Chair, and to ensure independence of safety oversight, I have direct access to the Group Safety Director and meet with her on regular basis throughout the year. I also visit operations from time to time (as do other Non-Executive Directors) to better understand the safety risks, exposures and challenges facing the business and the actions being taken locally to address them. I feedback my observations and assessment to both management and the Committee. To this end, I spent four days in February 2018 making safety audit visits in the USA (as reported on last year) and in October I visited Oviedo in Spain to review:

- ALSA’s Driver Training Centre, which is continuing its research programme with the local university on how to select the best vehicle drivers. It has recently introduced driver psychometric testing and simulation for specific road situations and accidents, not just for basic training. With the Group investing heavily in driver training, this work is extremely relevant in helping to identify good and not so good drivers earlier, before the investment is made. By analysing drivers across Spain, Morocco and Geneva, the team is building a statistical database which will improve the quality of their driver testing module; and

- ALSA’s accident investigation and management response following a tragic accident that had recently occurred in Avilés. I was extremely impressed with the quality and speed of their approach and pleased with the recognition expressed by Pere Navarro, Director General of Traffic in Spain, when he commented at the time that: ‘It (ALSA) is not a pirate company, local or small, but one of the most important in passenger transport. ALSA has always been a benchmark in road safety.’

Performance

The Committee is extremely pleased to report that the executive team has continued to operate and manage a robust set of safety processes and systems across the Group which, compared with 2017, has delivered an improved performance with fewer responsible major injuries, lost time injuries and high severity vehicle accidents, and a lower vehicle accident rate.

Most notable within that performance was North America’s excellent safety performance which included no responsible fatalities (for the first time in five years), no lost time injuries, a 30% reduction in major injuries and a 6% reduction in minor injuries – together, these represent a very commendable achievement.

However, the Committee notes the slight increase in the Group’s absolute FWI score in 2018, up 0.717 to 9.291, although on a per million miles operated basis, FWI was flat year-on-year and is therefore still the lowest on record. While it is disappointing that FWI did not improve again, the Committee takes comfort and encouragement from the 74% improvement achieved in the Group’s FWI per million miles operated since we launched Driving Out Harm in 2011.

Following the report issued in May 2018 by the US National Transportation Safety Board (‘NTSB’) into the driver-responsible school bus accident in Chattanooga in late 2016, the Company moved quickly and positively to submit a response to the recommendations made, including setting out the Group-wide actions already taken and planned to be taken to address them, particularly in relation to improving driver oversight and behaviour. I believe that the acknowledgement letter received back from the highly reputable NTSB clearly demonstrates the significant ongoing investment and commitment we are making in pursuing safety performance improvements throughout the Group: ‘We are pleased that you implemented the recommended complaint resolution system and have established training and monitoring systems to identify and resolve safety violations. In addition, your decision to install cameras in all fleet vehicles shows your commitment to developing a comprehensive safety management system for driver oversight and remediation of unsafe behaviour throughout your fleet. We commend your prompt action to embrace the intent of our recommendations and invest in company-wide procedures to improve safety across all your operations. These actions satisfy Safety Recommendations H-18-17 and -18, which are classified ‘Closed – Acceptable Action’.

The Committee has also received assurance from internal audit that the Company’s committed action plan to the NTSB is being implemented Group-wide within the agreed timescales.

Global Safety Policies

The implementation of our five new Global Safety Policies (‘Policies’), launched in April 2017, continued in 2018. Internal audit has again provided the Committee with assurance that each division has met its key milestones against plan for the year and is on track to meet the completion target of 2020. When business acquisitions are made, and as part of our integration management, a tailored plan is created to ensure they too commence and complete implementation of the Policies within an acceptable timeframe.

The focus of our transformational programme this year has been on improving driver oversight and management, and the progress made has been immense. For example:

- over 10,000 more vehicles have been fitted with Lytx DriveCam, the incident alert and driver monitoring system provided by an on-board camera. Altogether, over 2,400 vehicles have now been fitted in the UK, 15,000 in North America and some 1,000 in Spain. The UK fit-out will be completed in 2019 and North America in 2020;
- all businesses have introduced risk profiling of their drivers. This is a critical part of the overall plan to improve driver oversight and uses inputs such as accident history, speed management, DriveCam events, telematics and complaints to determine what actions need to be taken for individual drivers; and
- extensive driver oversight and evaluation training of supervisors and managers has taken place across the Group – 350 in the UK, 130 in Spain and 1,400 in North America.
In February last year, Dean Finch launched a ‘Target Zero’ safety campaign with a simple message that any fatality is unacceptable and with a simple objective of trying to achieve a Target Zero year (i.e. one in which no responsible fatalities occur). A number of hard-hitting posters, videos and other communications were created and shared across the Group for local use to drive home the tough message and ensure it was clearly understood in all territories. The campaign has been wholeheartedly received by the entire business with lots of innovative promotions and events taking place to support it.

As part of a North America initiative, local businesses were invited to come up with their own take on the campaign and some of the winning and honourable mention entries appear above and below.

The Directors witnessed first-hand how two local operations in Boston, a School and a Transit Customer Service Centre (‘CSC’), had embraced Target Zero and the approach they were taking to promote it when the Board visited the CSCs in September – the pride, passion and strength of belief were clear for all to see. While Target Zero may not have been achieved across all territories in 2018, it was achieved in North America and I am sure it will not be long before it is achieved Group-wide as well.

Particularly pleasing to the Committee is that it can see both tangible benefits and a return on the Company’s investment coming through from the introduction of the new Policies, which are making a real difference. For example, in 2018:

- recognising that DriveCam is our key method for monitoring and improving driver behaviour, at the 35 Customer Service Centres (‘CSCs’) in North America where DriveCam has been installed for more than a year, the average risk score has improved by 58% and coachable events per event recorder has improved by 66%; and
- the average cost per incident claim in North America was 22% lower than in 2017 and the estimated cost of their Top 10 incidents was 50% lower.

These impressive results, being driven by our strong safety leadership, are helping us to improve both the effectiveness of our driving standards and the efficiency of our safety programme across the Group.

Safety awards and further external certification
The Committee was also pleased to learn of several safety awards and external certifications received again in the Group during 2018. These included:

- the prestigious Sword of Honour from the British Safety Council (‘BSC’), which recognises the commitment to an excellent health and safety management standard, received by UK coach for the fourth successive year and by UK bus for the third successive year. Bus also became the first company to achieve the BSC’s 45001 certification while Coach retained its BS OHSAS 18001 standing. Separately, both businesses also achieved 5-Star Occupational Health and Safety Audit Status with the BSC; and
- ALSA being selected by the European Council for Transport Safety as an example of good practices in road safety management. It also received the Best HR Practice Award from Estrella LUIKE (a specialist automotive magazine) for its Master Driver programme.

Target Zero
In February last year, Dean Finch launched a ‘Target Zero’ safety campaign with a simple message that any fatality is unacceptable and with a simple objective of trying to achieve a Target Zero year (i.e. one in which no responsible fatalities occur). A number of hard-hitting posters, videos and other communications were created and shared across the Group for local use to drive home the tough message and ensure it was clearly understood in all territories. The campaign has been wholeheartedly received by the entire business with lots of innovative promotions and events taking place to support it.

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Lake Villa, IL – School Bus Winner
By challenging drivers to share best practice with each other on their Target Zero clip-board, this CSC was able to get everyone involved.

Salina, KS – School Bus Winner
It took a team effort, precision driving and a drone to create this aerial photo reinforcing Target Zero.

Boston, ‘The Ride’ – Transit Honorable Mention
‘The Zero Team’ photo emphasises the steps needed to achieve zero fatalities.
The focus on employee engagement and driving training continues as does significant fleet and technology investments with improvements in fleet efficiency and miles per gallon fuel usage remaining key deliverables in all divisions.

These industry-leading awards and recognitions give the Committee great confidence in the embedded nature and robustness of our safety management framework and arrangements in place across the whole Group.

Environment
The Committee recognises that the Company has an important role to play in enabling and delivering climate change strategies which, in partnership with our partners and other stakeholders, can help mitigate the impact arising from the operation of our vehicles and sites. Accordingly, the Committee has continued to monitor the Group’s strategy and approach to the environment, as well as the external reporting of its environmental performance, including greenhouse gas emissions.

With respect to the management of the Group’s environmental responsibilities, our performance remained strong in 2018. The maintenance of our CDP rating ‘B’ and Water Disclosure rating ‘C’ represents a significant achievement in the sector and we are proud to have continued our record of no reported violations, enforcement actions or compliance notices in the year. We are also prepared to meet ESOS Phase 2 compliance from 5 December 2019.

While a year-on-year outturn for the Group shows only a marginal decrease in total emissions of 0.3% tCO2e per million passenger km, this still represents a worthy reduction of 2,500 tonnes of CO2. However, the outturn should not detract from the UK’s strong performance this year (3% decrease) and needs to be considered in the context of an overall increase in both driven km and passenger km of 3% and 4% respectively in the year. Additionally, and in applying the intensity metrics, the Group’s tCO2e per million passenger km shows a year-on-year decrease of 4.75% and a total decrease of 13% for our five-year KPI period ended 31 December 2018 – this is significant when measured against a 20% increase in passenger km operated in the same period.

We have continued to make solid progress with our Driving Excellence in Environmental Performance programme. We set ourselves some ambitious five-year KPI targets against which we have delivered at the close some good results, with our water consumption and transaction energy use running well ahead of target. Also, and notwithstanding the fact that challenges remain with site energy use and waste to landfill, we exceeded our total tCO2e target per million passenger km by almost 5% year-on-year and by over 19% for the five-year period. Robust new science based KPIs, in line with the Sectoral Decarbonisation Approach, are being finalised. These will cover a seven-year period to 2025 and focus on the six elements identified by the Intergovernmental Panel on Climate Change.

The focus on employee engagement and driver training continues as does significant fleet and technology investments with improvements in fleet efficiency and miles per gallon fuel usage remaining key deliverables in all divisions.

Health and wellbeing
During 2018, the Group continued with its various divisional programmes and initiatives, as reviewed annually by the Committee, to promote and enhance the health and wellbeing of our workforce through a mix of physical, occupational and mental health services. Examples of these included:

- in the UK, the Health Bus, which is run by medical professionals and visits local sites to provide free and confidential medical appointments to employees, conducted over 6,500 appointments in the year – it also received the British Quality Foundation’s Innovation in Employee Engagement Award in March 2018. Mental health received increased focus with the provision of counselling support through the Employee Assistance Programme and the launch of a mental health awareness campaign in October 2018 to coincide with World Mental Health Day;
- in Bahrain, the company arranges free health checks by a registered nurse and personal support through its Employee Assistance Programme. The company has also raised awareness of mental health issues, the dangers of fatigue and heat exhaustion and, in conjunction with the local hospital and Bahrain Cancer Care Group, breast cancer among women;
- in the USA, where the Health and Wellbeing Strategy is in its second year, the company carried out a range of initiatives with its employees aimed at identifying and preventing medical issues. Counselling support to employees and their families on mental health and other issues is also provided through their Employee Assistance Programme; and
- in Spain and Morocco, the businesses continue to promote the wellbeing of employees through their ‘For Your Health’ programme, which includes an online blog with suggestions and advice on healthy living, eating and exercise. They also offer discounts to all employees and their families on a range of health services.

Committee effectiveness
The Committee’s operations and activities formed part of the internal performance evaluation of the Board conducted this year (see the Effectiveness section on pages 52 and 53). It confirmed that the Committee continues to operate very well and effectively in providing oversight of safety and environmental governance.

Looking forward
In 2019, the Committee will continue to monitor and review the structure, content and operation of the Group’s safety and environment arrangements. Finally, I would like to thank Dean Finch and his management team for their relentless effort and ongoing leadership in again delivering improvements in both of these two very important aspects of the business in 2018.

Chris Muntwyler
Safety & Environment Committee Chair
28 February 2019
# Investor engagement

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

The Chairman, supported by the Executive Directors and the investor relations team, has overall responsibility for ensuring that we listen to and effectively communicate with our shareholders. The Board is kept fully informed of the views and concerns of major shareholders and the views and information needs of institutional and major investors.

The investor relations section of the Company’s website, [www.nationalexpressgroup.com/investors](http://www.nationalexpressgroup.com/investors), includes all RNS announcements, share price information, annual and interim results statements, Annual General Meeting (‘AGM’) notices and other similar corporate communication and shareholder materials available for download.

# Institutional investors

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

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

## Investor relations programme 2018

<table>
<thead>
<tr>
<th>Month</th>
<th>Events</th>
</tr>
</thead>
<tbody>
<tr>
<td>JAN</td>
<td>Consultation with major shareholders on proposed changes to the Company’s Directors’ Remuneration Policy</td>
</tr>
</tbody>
</table>
| FEB   | Chairman meeting with Cosmen family (largest shareholder)  
Consultation with major shareholders on proposed changes to the Company’s Directors’ Remuneration Policy |
| MAR   | 2017 full year results announcement and presentation to analysts and investors (London)  
Investor roadshow in respect of full year results (London and Edinburgh)  
Chairman meetings with investors about strategy, corporate governance and the AGM |
| APR   | Non-deal US investor roadshow (New York and Boston) |
| MAY   | Q1 Trading Update and conference call with analysts and investors  
AGM (Birmingham) |
| JUN   | Investor meetings at investor conference (London)  
Investor meetings |
| JUL   | 2018 half year results announcement and presentation to analysts and investors (London) |
| AUG   | Investor meetings |
| SEP   | Investor roadshow in respect of half year results (London)  
Investor meetings at investor conferences (London)  
Non-deal US investor roadshow (Boston) |
| OCT   | Investor meetings at investor conference (London)  
Investor meetings  
Q3 Trading Update and conference call with analysts and investors |
| NOV   | Non-deal specific investor roadshows (London) |
| DEC   | Investor meetings |
The Board is committed to maintaining an open dialogue with the Company’s equity institutional and debt investors and individual shareholders and recognises the importance of those relationships in the governance process.

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

There were 11 analysts who published equity research notes covering the Company during the year. Details of the firms that currently follow the Company appear on the investor section of our website. As anticipated, with the introduction of MiFID II, analyst coverage has reduced during the year, with nine analysts currently providing coverage. It is anticipated that this level could fall further over the coming year. As a result, the Company is engaging more frequently with investment banks’ sales teams and attending investor conferences to ensure that shareholders and investors continue to receive timely updates and information on the Group’s strategy, financial and operational performance. In addition, the Company has hosted a few non-deal roadshows in the past year, including meeting with investors in the USA for the first time in a number of years.

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

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

Debt investors
The Group Finance Director and Group Treasurer have met debt investors in the UK during the year to discuss various topics such as the full and half year results, future funding requirements, subsidiary security and guarantees and credit rating movements. The treasury team also maintains regular dialogue with the Group’s key relationship banks and other potential lenders.

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

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

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

Details of the Company’s 2019 AGM can be found on page 104.

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

The Corporate Governance Report was approved by the Board.

Jennifer Myram
Group Company Secretary
28 February 2019
The Directors present their report and audited accounts for the year ended 31 December 2018. This Directors’ Report and the Strategic Report, which includes the trends and factors likely to affect the future development, performance and position of the business and a description of the principal risks and uncertainties of the Group (which can be found on page 41 – 44 and is incorporated by reference), collectively comprise the management report as required under the Disclosure and Transparency Rules (‘DTR’).

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

Information | Page No
--- | ---
Business model and likely future developments | 4
Viability Statement and going concern | 45
Governance | 46 – 103
Financial instruments | 162
Greenhouse gas emissions | 200

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

Disclaimer
The purpose of this Annual Report is to provide information to the members of the Company and it has been prepared for, and only for, such members as a body, and no other persons. The Company, its Directors and employees, agents and advisers do not accept or assume responsibility to any other person to whom this document is shown or into whose hands it may come and any such responsibility or liability is expressly disclaimed.

A cautionary statement in respect of forward-looking statements contained in this Annual Report appears on the inside back cover of this document.

Results and dividends
The results for the year are set out in the financial statements on pages 114 – 199.

The Board has recommended a final dividend for the year of 10.17 pence per ordinary share (2017: 9.25p) which, together with the interim dividend of 4.69 pence per ordinary share (2017: 4.26p) paid on 21 September 2018, gives a total dividend for the year of 14.86 pence per share (2017: 13.51p). Subject to shareholder approval, the final dividend will be paid on 14 May 2019 to ordinary shareholders on the register of members at the close of business on 23 April 2019.

Events since the balance sheet date
Save in respect of the £500 million bridge-to-bond facility introduced in January 2019 (see note 36 page 178), there have been no material post balance sheet events since 31 December 2018.

Directors
The names and biographical details of the current Directors (all of whom held office throughout the year), and the Board Committees of which they are members, are set out on pages 56 – 57.

The Service Agreements of the Executive Directors and the Letters of Appointment of the Non-Executive Directors are available for inspection at the Company’s registered office. Brief details of these are included in the Directors’ Remuneration Policy, a copy of which is available on the Company’s website at www.nationalexpressgroup.com/about-us/corporate-governance/remuneration.

Appointment and removal of Directors
The rules for the appointment and replacement of Directors are set out in the Company’s Articles of Association (‘Articles’), the 2016 UK Corporate Governance Code (‘Code’), the Act and related legislation. The Board may appoint a Director either to fill a casual vacancy or as an addition to the Board so long as the total number of Directors does not exceed the limit prescribed in the Articles. An appointed Director must retire and seek election to office at the next Annual General Meeting (‘AGM’) of the Company (see below).

In addition to any power of removal conferred by the Act, the Company may by ordinary resolution remove any Director before the expiry of their period of office and may, subject to the Articles, by ordinary resolution appoint another person who is willing to act in their place.

In accordance with the requirements of the Code and the Board’s policy, all the Directors will retire at the forthcoming AGM and have offered themselves for re-election. The Board is satisfied that each of the Directors standing is qualified by their skills, experience, time commitment and contribution to the Board and the long-term sustainable success of the Company.

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

Directors’ interests
Save as disclosed:
- in the Directors’ Remuneration Report, none of the Directors, nor any person connected with them, has any interest in the share or loan capital of the Company or any of its subsidiaries; and
- in note 36 to the Consolidated Financial Statements on page 176, none of the Directors had at any time during the year ended 31 December 2018 a material interest, directly or indirectly, in any contract of significance with the Company or any subsidiary undertaking (other than the Executive Directors in relation to their Service Agreements).

Directors’ conflicts of interest
The Board operates a policy to identify and manage declared actual and potential conflicts of interest which Directors (or their connected persons) may have and are obliged to avoid under their statutory duties and the Articles.
The Board considers each Director's situation and decides whether to approve any conflicts based on the overriding principle that a Director must always only be able to consider and exercise judgement to promote the success of the Company. The policy has been in place and operated effectively throughout the year.

Directors’ indemnities and insurance
The Company has granted indemnities to each Director in respect of any liabilities incurred in relation to acts or omissions arising in the ordinary course of their duties, but only to the extent permitted by law. The Company also maintains appropriate Directors’ and Officers’ liability insurance in respect of potential legal action instigated against its Directors.

Substantial shareholders
As at 31 December 2018, the Company had been notified under DTR 5 of the following interests in its shares representing 3% or more of the voting rights in its issued share capital:

<table>
<thead>
<tr>
<th>Number of ordinary shares</th>
<th>Percentage of total voting rights</th>
</tr>
</thead>
<tbody>
<tr>
<td>European Express Enterprises Limited</td>
<td>26,481,891</td>
</tr>
<tr>
<td>Newton Investment Management Limited</td>
<td>51,043,618</td>
</tr>
<tr>
<td>Prudential plc</td>
<td>45,956,649</td>
</tr>
<tr>
<td>Standard Life Aberdeen PLC</td>
<td>41,017,767</td>
</tr>
<tr>
<td>J O Hambro Capital Management Limited</td>
<td>25,165,433</td>
</tr>
</tbody>
</table>

1 The total number of voting rights attaching to the issued share capital of the Company on 31 December 2018 was 511,738,648
2 The holding of European Express Enterprises Ltd forms part of the holding of Jorge Cosmen (Deputy Chairman) as shown in the Directors’ Remuneration Report on page 93

Other than as disclosed above, the Company received no further DTR notifications, by way of change to the above information or otherwise, during the period from 1 January to 28 February 2019, being the period from the year end through to the date on which this report has been signed. Information relating to notifications received under the DTR is publicly available to view via the regulatory information service on the Company’s website.

Share capital
The Company has a single class of share capital which is divided into ordinary shares of nominal value 5 pence each all ranking pari passu. No new shares were issued during the year and as at 31 December 2018 there were 511,738,648 ordinary shares in issue and fully paid. The rights attached to the ordinary shares of the Company are defined in the Articles. Further details relating to share capital can be found in note 32 to the Consolidated financial statements on page 167.

The Company was granted authority at the 2018 AGM to make market purchases of its own shares up to 10% of its issued share capital and to allot shares within certain limits approved by shareholders. These authorities have not been used during the year and will expire at the 2019 AGM. Renewal of these authorities will be sought at the 2019 AGM.

Employee Benefit Trust
First Names (Jersey) Limited is a shareholder in the Company which acts as Trustee of the National Express Group Employee Benefit Trust (‘EBT’). It is used to purchase Company shares in the market from time to time and hold them for the benefit of employees, including for satisfying outstanding awards under the Company’s various share incentive plans. The EBT purchased a total of 2,025,000 shares in the market during the year for an aggregate consideration of £7.99 million (including dealing costs) and released 1,910,086 shares to satisfy vested share plan awards.

As at 31 December 2018, the EBT held 1,758,660 Company shares in trust (representing 0.34% of the issued share capital). The Trustee may vote the shares it holds at its discretion. A dividend waiver is in place from the Trustee in respect of dividends payable by the Company on certain of the shares held in the EBT.

Further details regarding the EBT, and of shares issued during the year pursuant to the Company’s various share incentive plans (whose rules, where relevant, reflect the current Investment Association guidelines for permitted dilution limits), are set out in note 7 to the Consolidated Financial Statements on page 134.

Shareholder voting rights and restrictions on transfer of shares
Shareholders are entitled to attend and vote at all general meetings, where every shareholder has one vote on a show of hands and one vote for each share held on a poll.

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

The Company is not aware of any agreements or control rights between existing shareholders that may result in restrictions on the transfer of securities or voting rights. The rights, including full details relating to voting of shareholders and any restrictions on transfer relating to the Company’s ordinary shares, are set out in the Articles and in the explanatory notes to the Notice of 2019 AGM which accompanies this document. Resolutions will be proposed at the 2019 AGM to authorise the Directors to exercise all powers to allot shares, or grant rights for, or to convert any security into shares, and approve a limited dispossession of statutory pre-emption rights.

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

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

Under the terms of the £1.5 billion Euro Medium Term Note (‘EMTN’) Programme (as updated on 3 October 2018), there is a change of control put option such that, upon a change of control event, any EMTN holder may require the Company to redeem or purchase that EMTN.
Corporate Governance

Directors’ Report continued

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

The Group’s UK bus business’ operating subsidiary is party to a contract with Transport for West Midlands (‘TfWM’), formerly known as Centro, governing certain aspects of such operation. The contract with TfWM contains an event of default on a change in control of the UK operating subsidiary (which would be triggered on a change in control of the Company) if such change in control is not approved by TfWM.

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

The Company’s various share incentive plans contain provisions that take effect on a change in control of the relevant subsidiary company party to such contracts (certain of which would be triggered by a change in control of the Company). While no one of these contracts is considered significant in the context of the Group’s business as a whole, the impact on the Group if all such contracts were terminated could be significant.

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

Political contributions

No political donations were made during the year (2017: nil).

Equal opportunities

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

Information regarding the Company’s safeguarding of human rights is set out on pages 34 and 35.

Employee engagement

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

Employee views are sought through regular employee satisfaction surveys, both within business units and across the Group. Following such surveys, the results are reviewed by the Board and senior management before being shared with employees and action plans put in place to deal with issues arising.

The Group has a structured programme to encourage innovation and reward suggestions and employees’ contributions. The Board reviews other employee activities and outcomes, including the Group’s independent People Value audit which to date has been conducted annually.

Further information relating to employees and employee engagement is set out in the Strategic Report on pages 33 – 35 and in the Board in Action case study on page 55.

Auditor and disclosure of information to the auditor

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

As recommended by the Audit Committee and endorsed by the Board, a resolution to re-appoint Deloitte LLP as auditor of the Company will be proposed at the 2019 AGM.

Annual General Meeting

This year’s AGM will be held at 2.00pm on Thursday, 9 May 2019 in the Horton Suite at the Macdonald Burlington Hotel, Burlington Arcade, 126 New Street, Birmingham, B2 4JQ. A separate circular, comprising a letter from the Chairman, Notice of Meeting and explanatory notes on the resolutions proposed, accompanies this Annual Report. Copies of both documents can also be found on the Company’s website at www.nationalexpressgroup.com.

The Directors’ Report was approved by the Board on 28 February 2019.

By Order of the Board

Jennifer Myram
Group Company Secretary
National Express Group PLC
Company number 2590560
Directors’ Responsibilities Statement

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (‘IFRS’), as adopted by the European Union (‘EU’) and Article 4 of the International Accounting Standards Regulation and have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (combining United Kingdom Accounting Standards and applicable law), including FRS 101 ‘Reduced Disclosure Framework’. Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:

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

In preparing the parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company’s transactions and disclose with reasonable accuracy at any time the financial position of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Responsibility statement
We confirm that to the best of our knowledge:

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

This Responsibility Statement was approved by the Board of Directors and is signed on its behalf by:

Dean Finch
Group Chief Executive

Chris Davies
Group Finance Director
28 February 2019