

**NATIONAL EXPRESS GROUP PLC
REMUNERATION COMMITTEE
OF THE BOARD**

TERMS OF REFERENCE

Approved on: 28 July 2020

NATIONAL EXPRESS GROUP PLC

REMUNERATION COMMITTEE – TERMS OF REFERENCE

Note: References to: “Committee” shall mean the Remuneration Committee; “Board” shall mean the Board of Directors; “Company” shall mean National Express Group PLC; “Group” shall mean National Express Group PLC and its subsidiaries; “Directors” shall mean the Directors of the Company; “Shareholders” shall mean shareholders of the Company; “Remuneration Policy” shall mean the remuneration policy as approved by Shareholders and “Code” shall mean the most up-to-date version of the UK Corporate Governance Code.

The expression “Senior Management” shall mean the senior managers who operate immediately below Board level, being members of the Company’s Group Executive Committee including the Company Secretary, and “Senior Manager” shall be construed accordingly.

The expression “Workforce” shall mean all employees, contractors and consultants of the Group and any other persons who provide personal services to the Group and “members of the Group’s Workforce” shall be construed accordingly.

The expression “remuneration” shall include base salary, non-cash benefits and allowances, bonuses, pension benefits, long-term incentives (including share options and share awards), relocation assistance, severance payments and buy-out arrangements for new joiners.

1 PURPOSE

- 1.1 The primary function of the Committee is to recommend to the Board the remuneration strategy for the Executive Directors and Senior Management and to determine within that framework a Remuneration Policy for Executive Directors aligned to the long-term success of the Group and Shareholders, while at the same time enabling the Company to competitively attract, retain and incentivise Executive Directors of the quality and experience required to lead the Group’s business and successfully implement its strategy, but without paying more than it is necessary to do.
- 1.2 The secondary function of the Committee is to determine the remuneration of the Chairman, Executive Directors and Senior Management, having due regard to the financial and commercial position of the Group and the Remuneration Policy, and ensure that they are fairly rewarded for their individual contributions to the Group’s overall performance.
- 1.3 The tertiary function of the Committee is to oversee remuneration and related policies across the Workforce.
- 1.4 In discharging its functions, the Committee shall also have regard to the duty of Committee members, as Directors, to promote the success of the Company for the benefit of its members in accordance with the provisions of Section 172 of the Companies Act 2006 and having regard, as appropriate, to the matters specifically referred to in paragraphs (a) to (f) of that Section.

2 MEMBERSHIP

- 2.1 The Committee is established under the Company’s Articles of Association as a committee of the Board and shall consist of at least three Non-Executive Directors, being a Chair and two other members.

- 2.2 All members of the Committee shall be independent Non-Executive Directors and appointed by the Board on the recommendation of the Nominations Committee, in consultation with the Committee Chair. Appointments shall be for a period of up to three years, which may be extended for up to two additional three year periods, provided members continue to be independent. The Board Chairman may serve on the Committee as an additional member if he/she was considered independent on appointment but may not chair the Committee.
- 2.3 The Committee will, at least annually, review its composition and membership and make recommendations for change to the Board as it sees fit.
- 2.4 The Board shall appoint the Committee Chair who shall be an independent Non-executive Director and should have served on the Committee or on the remuneration committee of any other company for at least 12 months before taking the Chair. The Board Chairman shall not be Committee Chair. In the absence at any meeting of the Committee Chair and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.
- 2.5 Only members of the Committee have the right to attend Committee meetings. However, other Directors and individuals, such the Group Human Resources Director and external advisers, may be invited to attend for all or part of any meeting, as and when appropriate. However, no Director or Senior Manager shall be present at or participate in any discussion or decision concerning their own remuneration.
- 2.6 Each member of the Committee shall immediately disclose to the Committee and the Company Secretary any personal interest, including financial interest (other than as a Shareholder), or any actual or potential conflict of interest, they may have in any matter to be considered by the Committee. In such situations, the interested or conflicted member shall not be present at or participate in the discussion or decision on the relevant matter.
- 2.7 The Company Secretary, or his/her nominee, shall be the Secretary of the Committee and will ensure that the Committee receives information and papers in a timely manner to enable full and proper consideration to be given to issues.

3. **MEETINGS**

- 3.1 Meetings and proceedings of the Committee shall be governed by the provisions of the Company's Articles of Association regulating the meetings and proceedings of the Board.
- 3.2 The Committee shall meet at least three times a year and otherwise as required. Meetings of the Committee shall be convened by the Company Secretary at the request of the Committee Chair or any other member of the Committee.
- 3.3 The quorum for meetings of the Committee shall be any two members (each being an independent Non-Executive Director) present throughout the meeting in person or by telephone or by video conference. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

- 3.4 Notice of each meeting of the Committee confirming the venue, time and date of the meeting, together with an agenda of items to be discussed and supporting papers, shall be circulated to all Committee members and any other person required to attend no later than five working days in advance of the meeting (except in exceptional or emergency circumstances or where the Committee members otherwise agree).

4. MINUTES OF MEETINGS

- 4.1 The Secretary shall minute the proceedings and decisions of all meetings of the Committee, including recording the names of those present and in attendance.
- 4.2 Committee Chair approved draft minutes of Committee meetings shall be circulated promptly to all Committee members. Unless deemed inappropriate to do so by the Committee Chair, they shall also be circulated to other attendees and made available to all other Board Directors.

5 ANNUAL GENERAL MEETING AND SHAREHOLDER RELATIONS

- 5.1 The Committee Chair shall attend the Annual General Meeting to respond to any Shareholder questions on the Committee's activities
- 5.2 The Committee Chair shall seek engagement with shareholders on significant matters related to the Committee's areas of responsibility.

6. AUTHORITY

The Committee is authorised by the Board in the performance of its duties to:

- 6.1 conduct any activity within its Terms of Reference;
- 6.2 seek any information it requires from any member of the Group's Workforce in order to perform its duties and all members of the Group's Workforce shall be directed by management to co-operate with any request made by the Committee;
- 6.3 ask any member of the Group's Workforce, external adviser or other outsiders with relevant experience and expertise to attend meetings of the Committee as and when required;
- 6.4 obtain, at the Company's expense, independent legal, financial, remuneration or other professional advice (including from external remuneration consultants) on any matter the Committee considers necessary;
- 6.5 consult with the Group Chief Executive in relation to his or her proposals, recommendations and performance evaluation relating to the remuneration of the other Executive Directors and Senior Management;
- 6.6 consult with other Non-Executive Directors in its performance evaluation of the Group Chief Executive and the Chairman of the Board; and
- 6.7 delegate any of its powers to one or more of its members.

7. **DUTIES**

The Committee shall:

7.1 recommend to the Board an overall strategy for the remuneration of Executive Directors and Senior Management and, within the agreed strategy, determine the Remuneration Policy and the level of the remuneration of the Executive Directors, the Senior Management and the Chairman;

7.2 in determining the Remuneration Policy, take into account and consider:

- the Company's long-term strategic goals;
- the risk appetite of the Company;
- Shareholders' views and other Stakeholders' interests;
- Workforce remuneration and related policies across the Group;
- all other factors which it deems necessary, including (without limit), relevant legal and regulatory requirements and the other factors set out in provision 40 of the Code (namely, clarity, simplicity, risk mitigation, predictability, proportionality and alignment to culture).

recognising that the objective of the Remuneration Policy is to:

- align remuneration with the Company's purpose, values and culture, support its strategy and promote its long-term sustainable success;
- protect the Company against the reputational and other risks arising from excessive rewards;
- promote long-term shareholdings by Executive Directors and support alignment of their interests with Shareholders' interests;
- competitively attract, retain and incentivise Executive Directors of the quality and experience required to run the Company successfully;
- ensure that a significant proportion of remuneration is structured to include performance-related elements which are transparent, stretching and rigorously applied so as to link rewards to corporate and individual performance; and
- ensure that Executive Directors are fairly rewarded for their individual contributions to the Group's overall performance, but without paying more than is necessary to do so;

7.3 review the ongoing appropriateness and relevance of the Remuneration Policy;

7.4 in consultation with the Board Chairman and/or Group Chief Executive, as appropriate, determine the total individual remuneration package of the Board Chairman, the Executive Directors and Senior Managers, including salary, benefits, pensions, bonuses, incentive payments and share options or other share awards;

7.5 review the design of all share incentive plans for approval by the Board and Shareholders and, for any such plans, determine each year whether awards will be made to the Executive Directors, Senior Managers and other employees and, if so, the performance targets to be used, the phasing and vesting periods to be applied and the overall amount of awards to be made to individuals (with the aim being for share awards being released for sale on a phased basis), together with the additional holding periods (both during and post-employment) for the Executive Directors (with the aim being that the total vesting and holding period is five years or more);

- 7.6 determine the targets for any performance-related pay schemes operated by the Company for the Executive Directors, Senior Managers and other employees, assess performance against such targets and approve the total annual pay-outs to be made under such schemes;
- 7.7 take whatever measures it deems necessary to have the calculation of awards or payments under performance-related pay schemes or share incentive plans reviewed by the Group's external auditors and/or remuneration consultants;
- 7.8 assess the overall reasonableness of performance-related pay schemes and incentive plan outcomes and total sums and awards paid or made thereunder, with authority to exercise discretion to adjust formulaic outcomes where they do not align with the Company's performance, the individual's performance or the wider circumstances, or meet the intention of the Remuneration Policy, subject to and in accordance with the rules of the relevant performance-related pay schemes and incentive plans;
- 7.9 determine the policy on provisions that would enable the Company to recover sums paid or withhold the payment of any sum to Executive Directors (whether by way of clawback, malus or otherwise);
- 7.10 determine the share ownership policy for Executive Directors and regularly monitor compliance with such policy;
- 7.11 determine a policy for post-employment shareholding requirements for vested and unvested shares held by Executive Directors;
- 7.12 approve the letter of appointment of the Board Chairman and the terms and conditions of service contracts for Executive Directors and any material amendments to those contracts;
- 7.13 ensure that the term or notice period provided for in Executive Directors' service contracts or other Directors' letters of appointment does not exceed one year, except in the short term in exceptional circumstances when engaging new Executive Directors;
- 7.14 ensure that contractual terms on termination of any Directors, and any termination payments made, are fair to the Company and the individual Director, do not reward poor performance and that the duty to mitigate loss is fully recognised;
- 7.15 ensure that only basic pay of Directors is pensionable and approve pension provision contribution rates and/or payments in lieu rates for the Executive Directors, taking into account pension arrangements in place for the rest of the Workforce;
- 7.16 agree the policy for authorising claims for expenses from the Executive Directors and the Board Chairman;
- 7.17 recognise and manage any actual or potential conflicts of interest declared by its members or when consulting with or receiving proposals from the Group Chief Executive, other Executive Directors and Senior Managers;

- 7.18 be responsible for selecting, appointing and setting the terms of engagement for any external remuneration consultants and exercise independent judgement on any advice provided by such remuneration consultants;
- 7.19 obtain reliable, up-to-date information about remuneration in other companies of comparable scale and complexity, and commission or purchase any reports, surveys or information, which it deems necessary to help the Committee fulfil its duties;
- 7.20 oversee any major changes in the employee benefits structure throughout the Group; and
- 7.21 consult with Shareholders if 20% or more of the votes cast on any remuneration resolution put to the Annual General Meeting or General Meeting receives more than are cast against that resolution.

8. Reporting Responsibilities

8.1 The Committee Chair shall report formally to the Board on its proceedings after each meeting, on all its other activities within its remit and on how the Committee has discharged its duties and responsibilities.

8.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where it considers action or improvement is needed.

8.3 The Committee shall produce a report to Shareholders, for approval by the Board, on its activities relating to Executive Director remuneration to be included in the Company's Annual Report. This report shall constitute the Directors' Remuneration Report ("DRR") and shall be made up of (at least):

- a Directors' Remuneration Policy to be put to Shareholders for a binding vote at the Company's AGM every three years, in any year in which a change to the Policy is proposed, in any year if Shareholder approval for the Policy was not obtained when last submitted and in any year if majority Shareholder approval was not achieved to the last submitted Annual Remuneration Report (see below). In any year when the above does not apply, the Policy may be excluded from the DRR or an abridged version only included; and
- an Annual Remuneration Report to be put to Shareholders for a non-binding advisory vote at the Company's AGM each year;

and shall also include:

- an explanation of the strategic rationale for Executive Directors' remuneration policies, structures and performances metrics;
- an explanation of the reasons why Executive Directors' remuneration is appropriate, using internal and external measures, including pay ratios and pay gaps;
- a description, with examples, of how the Committee has, when determining Executive Directors' pay, addressed the factors in provision 40 of the Code;
- whether the Remuneration Policy has operated as intended and, if not, whether the Committee proposes any changes;
- whether the Committee has applied discretion to remuneration outcomes and, if so, why;
- the engagement that has taken place with Shareholders and the impact this has had on the Remuneration Policy and remuneration outcomes;

- the engagement that has taken place with the Workforce to explain how executive remuneration aligns with the Company's wider pay policy;
- the frequency of and attendance by members at Committee meetings held during the year; and
- all other information required in accordance with applicable laws and regulations and any information recommended by the Code.

8.4 If the Committee has appointed external remuneration consultants, the Annual Report on Remuneration shall identify such consultants, the amount paid to them for their advice during the year and state whether they have any other connection with the Company or individual Directors.

8.5 Through the Committee Chair and/or Board Chairman, the Committee shall ensure that the Company maintains contact as required with its principal Shareholders about the work of the Committee.

8.6 Where at the Company's AGM 20% or more of the votes cast by Shareholders are cast against the Directors' Remuneration Policy or Annual Remuneration Report, the Committee will take all necessary actions to understand the reasons for the votes against and publish an explanation of the reasons together with an outline of what the Committee has done and/or is proposing to do to address the dissent.

8.7 The Committee shall make available to Shareholders these Terms of Reference by placing them on the Company's website.

9. **Other Matters**

The Committee shall:

9.1 consider the disclosures relating to the role of the Committee to be included in the Company's Annual Report;

9.2 consider other topics and review other disclosures or documents as determined by the Board from time to time;

9.3 have access to sufficient resources in order to carry out its duties, including to the Company Secretary for assistance as required;

9.4 be provided with appropriate and timely training, both in the form of an appropriate induction programme for new members and on an ongoing basis for all members;

9.5 ensure compliance with all applicable and relevant laws and regulations including (without limit), the Companies Act 2006 (including any regulations made under that Act), the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended), the Companies (Miscellaneous Reporting) Regulations 2018, the Enterprise and Regulatory Reform Act and the requirements of the UK Listing Authority's Listing, Prospectus and Disclosure and Transparency Rules, and give due consideration to corporate governance best practice including (without limit) the provisions of the Code and, as deemed appropriate, any relevant guidelines published by institutional investors or shareholder representative bodies;

9.6 work and liaise as necessary with all other Board committees, as required;

- 9.7 on an annual basis, review its membership, evaluate its own performance against its Terms of Reference and best practice, using external evaluators where and when appropriate, to ensure it is operating at maximum effectiveness, and report the results of this review to the Board and recommend any changes considered necessary; and
- 9.8 on an annual basis, review and, if necessary, update its own Terms of Reference requesting Board approval for all proposed changes.