

Strictly Confidential

POST OFFICE LIMITED
(Company Number 2154540)

Meeting of the REMUNERATION COMMITTEE of the Board
to be held on 13 May 2015 at 13:00 in the Boardroom ('Wakefield') Finsbury Dials, 20 Finsbury
Street, London, EC2Y 9AQ

REMUNERATION COMMITTEE

Time	Subject	Papers	Lead
13:00	1 Minutes of the last meeting and matters arising	Minutes of the meeting held on 10 November 2014	NM
13:05	2 STIP outturn for 2014/15	Paper detailing the impact on Executive	KM
13:15	3 LTIP outturn for 2012/13 to 2014/15 plan	Paper detailing the impact on Executive	KM
13:20	4 Shareholder Executive submission	Draft Shex Submission	KM
13:50	5 Directors' Remuneration Report	Draft Directors' Remuneration Report	KM
14:10	6 New employees with a base pay of over £125k	Noting paper	KM
14:15	7 Recruitment of David Hussey, Transformation Director	Noting paper	KM
14:20	8 Alisdair Cameron – 2015, six month objectives	Paper showing short-term objectives for Chief Financial Officer	KM
14:25	9 Any other business and date of next meeting	The next meeting is scheduled for 8 th July 2015 at 10:00.	NM
14:30	10 Meeting Closes		

Members attending: Neil McCausland, Alice Perkins, Virginia Holmes
Secretary: Alwen Lyons, Company Secretary
Attendees: Neil Hayward, Group People Director
Keith Murdoch, Head of Reward and Pensions

Strictly Confidential

POST OFFICE LTD REMUNERATION COMMITTEE

Post Office Short Term Incentive Plan Outturn and Payments for 2014/15

1.1 Purpose

The purpose of this paper is to:

- 1.1 Approve the payment of the Short Term Incentive Plan (STIP) for Paula Vennells, Chief Executive for the financial year ending 2014/2015.
- 1.2 To approve the payment of the STIP for Alisdair Cameron, Chief Financial Officer for the financial year ending 2014/2015.
- 1.3 To note the STIP payment to Chris Day, Chief Financial Officer (until 30 January 2015) for the financial year ending 2014/2015.
- 1.4 To note the percentage outturn of the STIP for the Group Executive, RemCo, and SLP.

2.1 Background

- 2.1 The STIP for the Chief Executive and the Chief Financial Officer(s) is based 80% on the Post Office Scorecard and 20% on performance against personal objectives.
- 2.2 For reference the STIP payments for financial year 2013/2014 were £76,608 for Paula Vennells and £54,042 for Chris Day.

3.1 Scorecard Outturn

- 3.1 The Post Office Scorecard for 2014/2015 was based on the four sections of Growth, Customer, People, and Modernisation.
- 3.2 Details of the targets and performance against these are shown in Appendix 1.

Chief Executive

- 3.3 The STIP payment to be made to Paula Vennells, Chief Executive, based only on the results of the scorecard, and therefore excluding payments in respect of performance against personal objectives, is **£68,832**. It has been determined that the Chief Executive has achieved 80% of her personal objectives, equating to £19,200. This results in a total STIP for 2014/2015 of **£88,032**.

Paula Vennells' personal objectives for 2014/2015 are shown in Appendix 2.

Chief Financial Officer (Alisdair Cameron)

Neil Hayward
May 2015

Strictly Confidential

3.4 The STIP payment to be made to Alisdair Cameron, Chief Financial Officer, based only on the results of the scorecard, and therefore excluding payments in respect of performance against personal objectives, is <£13,174. The Chief Executive has agreed 50% of his personal objectives, equating to £2,297. This results in a total STIP for 2014/2015 of £15,471. Figures shown have been pro-rated to reflect that Alisdair was in the business for just under three months from 5 January to the end of the 2014/2015 financial year.

Chief Financial Officer (Chris Day)

3.5 The STIP payment to be made to Chris Day, Chief Financial Officer, based only on the results of the scorecard, and therefore excluding payments in respect of performance against personal objectives, is <£41,108 (double check on audited numbers)>. It was agreed as part of Chris's Compromise Agreement that he would receive a performance rating of '3' for the year 2014/2015. This would equate to a payment of 50% in relation to his personal objectives, equating to £7,167. This results in a total STIP for 2014/2015 of £48,275. The figures shown have been pro-rated to reflect that Chris was in the business for ten months from the start of the 2014/2015 financial year to the end of January 2015.

Chris Day's personal objectives for 2014/2015 are shown in Appendix 3.

3.6 For the Group Executive population, excluding the Executive Directors the STIP outturn was 20.16% of base salary, this being a performance of 67.2% of the target of 30%. For the Group Executive a personal performance multiplier range is applied to the bonus outturn. The personal performance multiplier is expressed as a range depending upon the employee's PDR rating.

Table 1 – PDR Rating and Bonus Multiplier Range

PDR Rating	Bonus Multiplier
1	0
2	0.25 – 0.74
3	0.75 – 1.24
4	1.25 – 1.74*
5	1.75 – 2.00*

* The bottom of the range may extend to 1.00 depending on the numbers of people awarded a score of 4 or 5 and the requirement to remain within budget.

4. Recommendation

4.1 The Remuneration Committee is asked to note the outturn of the Post Office Scorecard for 2014/2015 in relation to STIP payments for the Group Executive in June 2015.

4.2 The Remuneration Committee is asked to confirm the percentage of personal objectives achieved by Paula Vennells, Chief Executive and to approve the STIP payment.

Neil Hayward
May 2015

Strictly Confidential

- 4.3 The Remuneration Committee is asked to approve the STIP payment for Alisdair Cameron, Chief Financial Officer.
- 4.4 The Remuneration Committee is asked to note the STIP payment to be paid to Chris Day, formerly Chief Financial Officer.
- 4.5 The Remuneration Committee is asked to note the percentages to be applied to the Group Executive, Remco, and SLP populations.

Neil Hayward
Group People Director
May 2015

Neil Hayward
May 2015

Strictly Confidential

Appendix 1 – STIP Performance 2014/2015

	% of target	Threshold	Target	Stretch	2014/2015	% Achieved	Outturn % of target
Growth							
Total Revenue (excluding NSP) £m	20.0%	915.0	925.0	945.0	870.0	0.0%	0.0%
Operating profit £m	25.0%	99.0	99.0	119.0	100	103.3%	25.83%
Customer							
Easy to do business with	15.0%	47.0%	47.0%	49.0%	26%	0.0%	0.0%
People							
Engagement Index %	15.0%	58.0%	58.0%	60.0%	62%	166.7%	25.0%
Modernisation							
Crown Profit/(Loss) £m	12.5%	0.0	0.0	3.0	(3.0)	0.0%	0.0%
Network Conversions (Mains & Locals)	12.5%	1,650	1,650	1,750	2,039	166.7%	20.83%
Total							71.7%

Notes:

For the Chief Executive and the Chief Financial Officer the performance measures above comprise 80% of the target bonus. The payment delivered by the scorecard measures, therefore, is 57.7% of target bonus.

The '% Achieved' column assumes the stretch of two-thirds for Executive Directors. The stretch for other members of the Group Executive is 33% and so the figures will be different where an element exceeds target.

 Neil Hayward
 May 2015

Strictly Confidential

Appendix 2 – Personal Objectives for Paula Vennells, 2014/2015

1. Building capability and talent in the senior leadership team

- a) Continue to reshape the Executive Committee, in line with the strategy and timetable agreed with the Nominations Committee and Board, ensuring the top team has the capabilities needed to deliver the 2020 strategy, and that they are well motivated and supported to do so.
- b) Personally sponsor the new SLT development programme being rolled out from Q1. Working with the Group People Director, ensure there are clear plans in place for increasing the capability and diversity of the SLT, to facilitate the delivery of our commercial objectives and to raise the bench strength for Executive Committee succession.

2. Driving through culture change including mutual ways of working

- a) Ensure the Post Office delivers against the milestones to mutualisation identified in the 2020 Strategic Plan, including:
 - i. Ensuring the business strongly supports and makes full use of the Post Office Advisory Council following its launch in March 2014;
 - ii. Announcing the Post Office's public purpose with mutualisation milestones, in Q1 of 2014/15, and then working with the Board and Executive Committee to ensure a successful first year of accounting for performance against this definition;
 - iii. Championing the development of new working relationships with the NFSP, the unions, sub-postmasters and staff to support the delivery of our collective long-term financial interests; and
 - iv. Personally leading the Executive Committee's drive to "connect to the edges", achieving greater visibility across the business through regular visits to branches and other parts of the organisation beyond 148 Old Street.
- b) Lead the delivery of the other cultural changes identified in our 2020 Strategic Plan, with a particular focus on modelling and embedding the commercial disciplines, customer focus and retailer mindset needed to secure the Post Office's financial sustainability.

3. Transforming the business

- a) Chair the Transformation Committee, at least for the first six months of 2014/15 (reviewing the position at the end of H1), ensuring the organisation is clearly focussed on delivering the key transformational programmes consistent with the timescales and outcomes needed to secure our 2020 strategy.
- b) Stay closely involved in the work to reform the organisation's operating model (the 'Business Transformation' programme), ensuring this is progressed at pace

Neil Hayward
May 2015

Strictly Confidential

and with the right thought leadership needed to drive our strategic cost reduction agenda and promote innovative ways of working.

- c) Support and challenge others in the Executive Committee team who have lead accountabilities to deliver the revenue growth and cost reductions that are required to underpin our strategic plan, both in 2014/15 and beyond.

4. Strengthening our external relationships

Continue to strengthen relationships with key stakeholders to facilitate the implementation of the 2020 Strategic Plan. Focus in particular on building strong, strategic level relationships with key commercial partners, including:

- a) Royal Mail – holding regular meetings at CEO level to ensure that both organisations are appropriately focussed and working collaboratively in pursuing the growth opportunities in the parcels market (e.g. collections and returns).
- b) Bol - ensure that the Post Office manages its relationship with the Bank effectively to deliver our growth ambitions in FS, including through:
 - holding regular meetings at CEO/Chair level;
 - sponsoring continued joint team building initiatives, including considering the case (by end Q3) for closer structural integration;
 - ensuring clear joint milestones are in place by end Q1 for FSSC oversight.
- c) Retailers and Multiples – ensure the organisation is continuing to strengthen the way it manages its relationship with key retail partners, engaging them at the right level and in the right way to maximise the successful delivery of both the network transformation and network expansion programmes, consistent with the commitments made to the Government, and also to pursue opportunities around collections and returns where appropriate. Ensure all major multiples/retailers are visited at CEO or Director level during the year.

5. Project Sparrow

Personally lead the programme to ensure the risks and issues are being tightly managed, keeping the Board closely updated on progress. Ensure there is a clear plan in place by end Q1 for managing the risks and challenges associated with the mediation scheme, and that it is then implemented.

Neil Hayward
May 2015

Strictly Confidential

Appendix 3 – Personal Objectives for Chris Day, 2014/2015

1. Managing business performance – hitting the numbers and driving commercial value:

- a) Hold Commercial Committee / ExCo to account for the delivery of all key financial outcomes
 - i) Total net income £925m
 - ii) EBIT £99m / EBITDAS (£61m)
 - iii) Cost: income ratio improvement to ≤ £106%
- b) Accelerating delivery of Financial Services transformation:
 - i) Complete full FS P&L (H1)
 - ii) Sustain and increase personal commercial challenge through Board FSSC / BOI SEC / Commercial Committee / QBRs

STRETCH TARGET: De-risk FS budget / exceed top line by £5m

- c) Maximise commercial value of Mails business:
 - i) Ensure PO is not disadvantaged though MSA / DA contractual review
 - ii) Accelerate focus on:
 - a. Collections & returns
 - b. Parcels market
 - c. SME's – Commercial Committee

STRETCH TARGET: De-risk Mails budget / exceed top line by £6m

- d) Seek alternative sources to create income contingency (GS / Telephony)

2. Cost reduction – reducing fixed costs tactically and strategically (by ≥ 20% by 19/20):

- a) Deliver £34m of 'tactical' cost savings in budget

STRETCH TARGET: £2m direct savings v budget

- b) Deliver FY14/15 Business Transformation programme cost effectively

STRETCH TARGET: Identify BTr £3m in year savings

3. Delivering an effective Corporate Financial Strategy, setting the course for financial self-sufficiency:

- a) Treasury
 - i) Upated focus on cash management / working capital to (a) reduce volatility of controllable cash, and (b) monitor release of cash (Finance Committee)

STRETCH TARGET: further £25m improvement in government facility 'headroom'

Neil Hayward
May 2015

Strictly Confidential

- b) Tax
 - i) Secure HMRC agreement to \geq 55% VAT recovery rate

STRETCH TARGET: £3m contribution to EBIT in excess of budget

- c) Insurance
 - i) Optimise (a) insurance cover / excess agreement for three 'core' policies, and (b) organisational / governance arrangements (with GC)

4. Maximise the functional effectiveness of new wider responsibilities:

- a) Challenge and support CIO to deliver IT Transformation on time and to budget
- b) Deliver Finance system separation from RMG with uprated MI completed on time (Sept 2014) and within budget
- c) Further improve Procurement 'in-life' contract management

STRETCH TARGET: £2m direct savings v budget

5. Building a FTSE100 – standard finance function to further drive commercial value and ensure value for money on all spend:

- a) Further enhance external reputation to support talent attraction / retention (speaking events / networking / award nominations) (ongoing)
- b) Develop FLT leadership capability and succession plans for all L4 roles and above (Q3)
- c) Complete roll-out and adoption of Finance Competencies (Q2)

Neil Hayward
May 2015

Strictly Confidential

POST OFFICE LTD REMUNERATION COMMITTEE

Post Office Long Term Incentive Plan Outturn and Payments for 2014/15

1.1 Purpose

The purpose of this paper is to:

- 1.1 Approve the payment of the Long Term Incentive Plan (LTIP) for Paula Vennells, Chief Executive and Chris Day, Chief Financial Officer (until 30th January 2015).
- 1.2 To note the outturn of the LTIP for the Group Executive, Remco, and SLP populations.

2.1 Background

- 2.1 Paula Vennells, Chief Executive, and Chris Day, Chief Financial Officer, were granted LTIP awards dated April 2012. The awards have been tested for performance in the financial year 2014/2015, the last year of the performance cycle.
- 2.2 The award for Paula Vennells was based on 70% of her base salary, with a potential award for stretch performance of 98% of base salary.
- 2.3 The award for Chris Day was based on 35% of his base salary, with a potential award for stretch performance of 49%. It was agreed as part of Chris's Compromise Agreement that he would receive 34/36ths of the 2014/2015 LTIP outturn, representing his pro-rata time in the business.

[Note that Chris Day will not receive payments in respect of any future LTIPs.]

3.1 LTIP Outturn

- 3.1 The LTIP was subject to two pre-determined performance conditions to be tested in financial year 2014/2015. The overriding condition is operating profit which is to be paid out depending on the second, 'gateway' condition of Network Transformation Conversions.
- 3.2 Details of the targets and performance against these are shown in Appendix 1.
- 3.3 The LTIP payment to be made to the Chief Executive (Paula Vennells) is £112,000, equating to 44.8% of base salary. The LTIP payment to be made, after being pro-rated by 34/36ths, to the former Chief Financial Officer (Chris Day) is £45,484 (after time adjustment for 34/36 months) equating to 22.4% of base salary (before pro-rata applied).

Neil Hayward
May 2015

Strictly Confidential

3.4 The LTIP awards for the other populations in receipt of LTIP were:

Group Executive/RemCo -	22.4%
SLP	12.8%

4. Recommendation

- 4.1 The Remuneration Committee is asked to approve the LTIP payments for Paula Vennells, Chief Executive and Chris Day, Chief Financial Officer (until January 2015).
- 4.2 The Remuneration Committee is asked to note the percentages to be applied to the Group Executive, Remco, and SLP populations in June 2015 in accordance with the plan rules.

Neil Hayward
Group People Director
May 2015

Neil Hayward
May 2015

Strictly Confidential**Appendix 1 – LTIP Targets 2012/13 to 2014/2015**

Operating Profit Performance for the Financial Year 2014/15	% Award Pay Out
Less than £69.3 million (70% of £99 million)	0% Pay Out
£69.3 million (70% of £99 million)	70% Pay Out
£69.3 million to £99 million (70% to 100% of £99 million)	70% to 100% Pay Out (straight-line sliding scale)
£99 million	100% Pay Out
£99 million to £118.8million (100% to 120% of £99 million)	100% to 140% Pay Out (straight-line sliding scale)
\geq £118.8 million (120% of £99 million)	140% Pay Out

For 2012 to 2015 the operating profit performance was 100.0 meaning that the % award under the operating profit measure was 102.0%, to be adjusted by the 'Gateway' measure of cumulative transformation conversions.

Number of cumulative Network Transformation conversions for the Financial Year 2014/15	% Pay Out under the Operating Profit Performance Condition
Less than 4,800 (80% of 6,000)	0% Pay Out
4,800 (80% of 6,000)	50% Pay Out
4,800 to 6,000 (80% to 100% of 6,000)	50% to 100% Pay Out (straight-line sliding scale)
\geq 6,000 (100% of 6,000)	100% Pay Out

For 2012 to 2015 the number of network transformation conversions was 5,105 meaning that a 62.7% adjustment was applied to the % award under operating profit measure.

This results in an LTIP award of **62.7% * 102.0% = 64.0%**

Neil Hayward
May 2015

Strictly Confidential

POST OFFICE LTD

Post Office Proposal for the Executive Remuneration Framework 2015/2016

1. Purpose

The purpose of this paper is to

- 1.1 To recommend the level of base pay for Executive Directors for 2015/2016;
- 1.2 To seek approval on the proposed measures in the Post Office Scorecard for 2015/2016 which are bonus worthy measures;
- 1.3 To seek approval on the proposed measures for the Long Term Incentive Plan (LTIP) award date April 2015, pay-out March 2018;

2. Background

- 2.1 Post Office is continuing the journey to transform and modernise the network, and to create a sustainable business moving forwards; however there remain significant challenges in ensuring the financial future of the organisation.
- 2.2 It is essential that the correct strategy and framework are set to ensure continued success and create a profitable future for Post Office. The Remuneration Committee has aligned pay with strategy.
- 2.3 A rigorous and robust process has been applied when setting the targets for the proposed measures. Stretch targets, which deliver additional awards, continue to be used to incentivise overachievement, which will, in turn accelerate turnaround and be of benefit to Post Office and its stakeholders. Income remains the only measure with a threshold for bonus delivery.
- 2.4 Incentive scheme targets for the last financial year (2014/2015) continued the theme of stretching targets. Significant progress was made in delivering our transformation program and last year saw us increase our focus and challenge to the cost base. We shall continue as a business to set stretching targets in order that the business focuses on fulfilling its obligations to its shareholder.

3. Base Pay

- 3.1 For the first time since her appointment, we propose to increase the salary of the Chief Executive. The proposal is to increase the base salary by 8% from £250,000 to £270,000 a year. The proposal is made in the context of internal pay rises, a significant gap now with independent external benchmarking (both of which factors define the level of the proposed increase), salary compression, and the requirement to motivate the Chief Executive in a role where the challenge and complexity has increased since the last increase prior to separation from the Royal Mail Group. Appendix 1 contains details of the proposal.
- 3.2 A new Chief Financial Officer was appointed in January 2015 on a base salary of £240,000, which represented an increase of 11.6% on the previous base salary for Chris Day.
- 3.3 The percentage against the market median of the Executive Director's base pay is shown below in table 1. The Chief Executive's base pay is 53.9% of the market median

Strictly Confidential

previously it was 60%. The Chief Financial Officer's base pay is now 84.8% of the market median. The base salary positions for both the Chief Executive and Chief Financial Officer remain below the lower quartile. The same set of comparator companies have been used in both sets of benchmarking data.

Table 1 Base pay percentage against market median

	% of median	Date of Benchmark
Chief Executive	53.9%	December 2014
Chief Financial Officer (appointed Jan 2015)	84.8%	June 2014

4. Short Term incentive Plan (STIP)

- 4.1 It is proposed for the financial year 2015/2016 the design of the STIP for the Chief Executive and Chief Financial Officer will continue to be based on 80% of award on the Post Office Scorecard (see appendix 2) and 20% of award on the achievement of personal objectives.
- 4.2 The principle of maintaining challenging targets has been applied by making the income target more challenging and being progressively tougher, thus ensuring the stretch is achievable whilst maintaining the motivation of the leadership team to over perform. The threshold is also the target for all measures with the exception of net income.
- 4.3 The personal objectives of both the Chief Executive and Chief Financial Officer are detailed in appendices 3 and 4. See 6.1 for a breakdown of the quantum of award.

Measures

- 4.4 The STIP proposal for 2015/2016 retains the four categories from 2014/2015, although 'Growth' is re-titled 'Commercial Sustainability'. The weightings between the four categories remain broadly the same as for last year, although 5% has been reallocated from 'Modernisation' to 'Commercial Sustainability'. The measures and targets are shown in greater detail in the Post Office Scorecard (Appendix 5 below).
 - Commercial Sustainability – EBITDAS, Total Net Income, and Digital Net Income
 - Customer – Customer Effort and Net Promoter Score (FS)
 - People – Engagement Index
 - Modernisation – Crown Profit and Loss, and Network Branch Openings

Each measure on the scorecard is assigned an individual weighting. The financial indices contained within 'Commercial Sustainability' remain at the heart of Post Office's challenge for the coming year and have the highest weight. In line with the strategy we need to ensure that the drive is focused on the right measures and behaviours; therefore, there have been changes within the detail of the measures in two of the four categories.

4.5 *Commercial Sustainability*

The series of measures formerly grouped under 'growth' are now referred to as 'commercial sustainability' reflecting the requirement for profitable growth and utilising the Post Office's improved reporting capabilities in this area.

Strictly Confidential

The weighting for 'Commercial Sustainability' is increased from 45% in 2014/15 to 50% for 2015/16.

Earnings before Interest, Tax, Depreciation, Amortisation, and Subsidy (EBITDAS)

Although EBITDAS is already in focus under the Long Term Incentive Plan (LTIP) arrangements, in recognition that it forms the key metric of our strategy, we feel that the added short-term focus is important. The target figure of -£35m aligns with the strategic plan.

Income

It is proposed that for 2015/16 the weighting given to total net income should reduce from 20% (2014/15) to 10%. Income clearly remains important, but the focus now needs to move to generating income which is profitable in order to ensure the commercial sustainability of the Post Office.

The target figure for net income is the budget figure of £875m. The principle of maintaining a threshold is important and for 2015/16 the threshold is set at £870m in line with the anticipated outturn for 2014/15.

The income target in the financial plan is consistent with the EBITDAS target of -£35m.

Digital Net Income

The growth in income from digital outlets represents a vital strategic feature of the Post Office's long-term strategy. As such it is right to include digital net income as a specific measure for 2015/16.

Digital net income will be the product of sales volumes and income factors, where income factors are set at the product level and sales volumes reflect both online sales and branch sales via the Horizon system.

It is expected that from next year onwards, digital net income will be refined to include: 'backbook' sales to reflect revenue from sales in previous years (especially relevant for FS products); and the impact of multichannel sales which might begin in branch but be concluded online.

4.6 *Customer Measures*

For 2015/16 we propose to increase the number of customer measures to two. Our inclusion of Net Promoter Score (NPS) is judged right for our Financial Services businesses but not for the rest of the business where we will retain 'Effort' as our measure. This is reflective of the different markets in which we offer, namely the more traditional role of the Post Office counter offerings and our growth sector of financial services, where customer perceptions differ and different measures are both appropriate and provide us with the best opportunity to gain customer intelligence and devise and implement action plans to improve the customer experience.

The overall weighting for 'Customer' remains at 15% and will be divided between Customer Effort (10%) and Net Promoter Score for Financial Services (5%).

Customer Effort Score

Customer Effort is an updated version of 'Easy to do Business With' (ETDBW). It continues to produce a measure of customer advocacy which is closely aligned with commercial performance.

Net Promoter Score (Financial Services/Post Office Money)

NPS is a measure commonly used within Financial Services, where customer perception and satisfaction is an important driver of commercial opportunity. We feel that the time is

Strictly Confidential

right to introduce this measure in a genuinely competitive market to ensure we focus on elements which will drive future business growth and retention.

4.7 People Measures

The engagement index is a critical measure as it enables us to track progress on the engagement agenda. Highly engaged workers create better business outputs, more loyal customers and better financial performance. The importance of this index as a key component of the Strategic Plan is recognised by maintaining the increased weight of 15% from the 2014/15 scorecard.

As Post Office continues to change the people challenges remain to the fore. Carrying our people with us on the journey to creating a modern, sustainable business remains critical and so an ambitious target of 64% has been set for 2015/16, which is four percentage points higher than for 2014/15 and 1 percentage point higher than the outturn for 2014/15.

Post Office remains committed to engaging with its sub-postmasters. It was originally intended to include the Sub-postmaster Engagement Index as a bonusable measure for 2015/16; however, concern over being able to guarantee a representative sample size means this has been held over with the intention that sub-postmasters will form part of the measurement for 2016/17.

4.8 Modernisation Measures

The weighting for modernisation will decline from 25% to 20%. With break-even for the Crown Branches being anticipated during 2015/16, the proposal is to shift the focus from 'run rate' to 'Crown Profit'.

Network Transformation

Although Network Transformation has been a success story, 2015/16 represents an important year in the continuing push to a transformed network. The proposal is to retain the focus on branches opening, rather than contract signatures. The target for branches opening in 2015/2016 is 1,800 with a stretch of 1,900.

Crown Profit

Although the break-even run rate target was not met in March 2015, indications are that if those branches which had been franchised, had been included in the results, ie a like for like basis to the beginning of 2014/15, that target would have been met. As the Post Office seeks to become a sustainable business it is important to focus now on the profitability of the remaining Crown branches.

- 4.9 The rules of the STIP remain unchanged.
- 4.10 The personal objectives of the Chief Executive and Chief Financial Officer have been designed to drive the company strategy and turnaround. See appendix 2 and 3.

5. Long Term Incentive Plan (LTIP)

- 5.1 The LTIP is designed to reward sustained performance over the long term. An award (bonus) is promised subject to agreed performance conditions at the end of a specified period. The award may increase or decrease dependent on the achievement of targets as agreed in the performance conditions. Typically the award period is 3 or more years

Strictly Confidential

and incentivises Senior Leadership to focus on the long term viability of the organisation, creates value for the organisation and is measured in the final year of the award period.

- 5.2 To provide continuity and focus on maintaining the branch network and a strong link to financial sustainability the proposal is to retain the performance conditions of Access Criteria and EBITDAS (Earnings before Interest, Tax, Depreciation, Amortisation and Subsidy).
- 5.3 The first proposed performance condition will remain Access Criteria as set out in the funding Agreement with the Government and this will act as a gateway. If the Access Criteria is not met no payment will be made under the scheme.
- 5.4 The proposed performance condition remains EBITDAS. EBITDAS is effectively the controllable element of the existing operating profit measure and a target of £28m is proposed for the year ending March 2018.

Threshold	£5m
On-target	£28m
Stretch	£55m

The target for EBITDAS is consistent with the our strategic objective to become a commercially sustainable business.

- 5.5 The design of the Post Office LTIP includes a threshold target with the setting of the 'start to earn' point at somewhere below target performance. For the 2015/16 plan the gap between this threshold and the target has been narrowed. The scheme is aligned to the Strategy Plan and seeks to deliver the targets agreed over a three year horizon. Appendix 5 demonstrates the steep upward trend in profitability and the threshold target has been set out 80% ensuring focus is maintained in the early years of the plan. It is important to note that maintaining the threshold is vital at this stage in our turnaround as:
 - a) the LTIP is projecting 3 years out
 - b) the budgeted rate of EBITDAS improvements remains challenging
 - c) it is important to keep management motivated to make the changes necessary to return to a sustainable business model.
- 5.6 Payment against the target will be on a straight line sliding scale assuming the first condition has been met. Stretch will be a factor of 1.4. The quantum of the target award for the Chief Executive remains at last year's level of 70% (stretch 98%) of salary. The target award for the Chief Financial Officer has been increased to 50% (stretch 49%) of salary.
- 5.8 The proposal is for an award to be made in 2015 (backdated to 1 April 2015), with pay-out being measured against the predetermined performance conditions at the end of the 2017/2018 financial year.
- 5.9 The three year time horizon of the Long Term Incentive Plan encourages planning and investment in the business to deliver a future-proof sustainable business. The plan also aids retention of senior leaders, and will contribute towards the Post Office having continuity of leadership which will aid delivery of the strategic plan.
- 5.10 All awards will be paid in cash and paid via payroll ensuring the correct PAYE tax and National Insurance Contributions are paid.
- 5.11 The rules of the LTIP remain unchanged.

Strictly Confidential

6. Quantum of Award

6.1 The value of the annual bonus and LTIP at threshold, on-target and stretch are shown in the table 2.

Table 2 Quantum of award for both STIP and LTIP

	LTIP pay out at different performance levels % of salary			Annual bonus pay out at different performance levels % of salary		
	Threshold	On-Target	Stretch	Threshold	On-Target	Stretch
Chief Executive Salary £250K	56% £140K	70% £175K	98% £245K	4.8% £12K	48% £120K	80% £200K
Chief Executive Proposed Salary £270K	56% £151.2K	70% £189K	98% £264.6K	4.8% £12.96K	48% £129.6K	80% £216K
Chief Financial Officer Salary £240K	40% £96.0K	50% £120.0K	70% £168.0K	4% £9.6K	40% £96.0K	67% £160.8K

6.2 In relation to the STIP, Income is the only target which has a threshold therefore if all other 5 measures did not hit target but Income reached the threshold target of £870m, 5% of the on target bonus is payable (half of the bonus attributed to the Income measure is payable).

7. Recommendations

7.1 The Shareholder Executive on behalf of the Special Shareholder is asked to approve the proposed increase to the Chief Executive's salary.

7.2 The Shareholder Executive, on behalf of the Special Shareholder, is asked to approve the STIP and LTIP awards as described in this paper for the Chief Executive and Chief Financial Officer for the financial year 2015/2016.

**Neil McCausland
Remuneration Committee, Chair
May 2015**

Strictly Confidential

Appendix 1

Proposal to increase Base Salary for the Chief Executive (Paula Vennells)

1. Proposal

- 1.1 To increase the base salary of the Chief Executive by 8% with effect from 1 July 2015. The proposed increase is in line with increases for other staff groups within the Post Office over the four years since her base salary was last increased and this has led to a compression of salaries within the business. During the last four years the role has grown significantly following the separation from Royal Mail and independently supplied comparator data shows a significant shortfall to the market. It is also felt important to recognise the contribution made by the Chief Executive who is leading the transformation of the Post Office into a sustainable business.

2. Background

- 2.1 The base salary for the Chief Executive has remained at the same level since 1st April 2011.
- 2.2 During the same period, Post Office compounded salary increases for other groups have moved as follows:

Supply Chain: compound increases of 11.2% inclusive of 2015/16.

Crown Operations: 7.4% excluding 2015/16 which has yet to be agreed. In addition, circa 15% of non-consolidated increases have been paid.

Crown Middle Management: non-consolidated increases amounting to circa 12.0%, with an increase of 3% agreed to be effective 2015/16.

Senior Managers: non-consolidated awards totalling circa 10.5%, inclusive of 2015/16.

SLP – no increases have been given to this population.

3 Chief Executive Pay and Comparator Data

- 3.1 The table below compares the current salary and benefits for the Chief Executive with those in the Post Office's comparator group.

The comparator group comprises: Mutuals (5); Publically Accountable (6); and FTSE 250 companies with a similar footprint to the Post Office (10).

The overall findings are summarised in the table below. The complete benchmarking is shown in Appendix 2.

Strictly Confidential

3.2 Figures in £000s a year

	Lower Quartile	Median	Upper Quartile	PV current	PV proposed
Salary	369	464	531	250.0	270.0
Benefits	14	19	25	9.5	9.5
Pension	74	105	117	62.5	67.5
Total Fixed Pay	491	593	649	322.0	347.0
Tgt Bonus	102	308	387	120.0	129.6
EV of LTIP	35	240	440	175.0	189.0
Total Target Remuneration	667	1,108	1,464	617.0	665.6

4 Analysis and Rationale

- 4.1 An 8% increase is reflective of increases for other groups in the Post Office over the four year period since the salary for the Chief Executive was last reviewed.
- 4.2 The current base salary has fallen in relation to our comparator group to a level where it is now only 67.8% of the lower quartile (53.9% of the median). Although the position is improved slightly in terms of total target remuneration, it remains below the lower quartile.

This proposed base salary would still be only 73.2% of the lower quartile of the comparator group (58.2% of the median). Proposed total fixed pay would increase to £347k (70.7% of the lower quartile), and proposed total target remuneration to £665.6k (broadly equal to the lower quartile).

- 4.2 The need recently to recruit externally for senior positions (Chief Financial Officer, General Counsel) has highlighted the difficulties in competing on pay in the external market without suffering serious compression between the salary levels of the Chief Executive and her direct reports.

5. Recommendation

- 5.1 The recommendation is to increase the base salary of the Chief Executive by 8% from £250,000 to £270,000.

Strictly Confidential

Appendix 2

Proposed Post Office Scorecard for 2015/2016

Key Performance Indicators	2015-16 Proposals			
	Weight	Threshold	Target	Stretch
Commercial Sustainability Earnings before Interest, Depreciation, Amortisation, and Subsidy	Total 50% 30.0%	as target	(£35m)	(£30m)
Total Net Income (excl NFSP)	10.0%	£870m	£875m	£895m
Digital Net Income	10.0%	as target	£21.5m	£25m
Customer Customer Effort (Easy to do Business with)	Total 15% 10.0%	as target	64%	66%
Net Promoter Score (Financial Services only)	5.0%	as target	25	27
People Engagement Index %	Total 15% 15.0%	as target	63%	65%
Modernisation Crown Profit/Loss	Total 20% 10.0%	as target	tba	tba
NT Branches Transformed in Year	10.0%	as target	1,800	1,900

Strictly Confidential

Post Office Scorecard for 2014/2015 Results

Key Performance Indicators	2014-15 Scorecard					
	Weight	Threshold	Target	Stretch	Result	Contribution
Growth						
Operating Profit	Total 45%					
Total Net Income (excl NFSP)	25.0%	as target	£99m	£119m	£100m	25.8%
	20.0%	£915m	£925m	£945m	£870m	0.0%
Customer						
Easy to do Business with	Total 15%					
'Effort' (bonus measure for 2015)	15.0%	as target	47%	49%	26%	0.0%
People						
Engagement Index %	Total 15%					
Crown Run Rate	15.0%	as target	58%	60%	62%	25.0%
NT Branches Transformed in Year						
	Total 25%					
Crown P&L (bonus measure for 2015)	12.5%	as target	£0m	£3m	-£3m	0.0%
	12.5%	as target	1,650	1,750	2,039	20.8%

Strictly Confidential

Appendix 3

Personal Objectives for the Chief Executive [2014/15 objectives shown for reference]

1. Building capability and talent in the senior leadership team

- a) Continue to reshape the Executive Committee, in line with the strategy and timetable agreed with the Nominations Committee and Board, ensuring the top team has the capabilities needed to deliver the 2020 strategy, and that they are well motivated and supported to do so.
- b) Personally sponsor the new SLT development programme being rolled out from Q1. Working with the Group People Director, ensure there are clear plans in place for increasing the capability and diversity of the SLT, to facilitate the delivery of our commercial objectives and to raise the bench strength for Executive Committee succession.

2. Driving through culture change including mutual ways of working

- a) Ensure the Post Office delivers against the milestones to mutualisation identified in the 2020 Strategic Plan, including:
 - i. Ensuring the business strongly supports and makes full use of the Post Office Advisory Council following its launch in March 2014;
 - ii. Announcing the Post Office's public purpose with mutualisation milestones, in Q1 of 2014/15, and then working with the Board and Executive Committee to ensure a successful first year of accounting for performance against this definition;
 - iii. Championing the development of new working relationships with the NFSP, the unions, sub-postmasters and staff to support the delivery of our collective long-term financial interests; and
 - iv. Personally leading the Executive Committee's drive to "connect to the edges", achieving greater visibility across the business through regular visits to branches and other parts of the organisation beyond 148 Old Street.
- b) Lead the delivery of the other cultural changes identified in our 2020 Strategic Plan, with a particular focus on modelling and embedding the commercial disciplines, customer focus and retailer mindset needed to secure the Post Office's financial sustainability.

3. Transforming the business

- a) Chair the Transformation Committee, at least for the first six months of 2014/15 (reviewing the position at the end of H1), ensuring the organisation is clearly focussed on delivering the key transformational programmes consistent with the timescales and outcomes needed to secure our 2020 strategy.
- b) Stay closely involved in the work to reform the organisation's operating model (the 'Business Transformation' programme), ensuring this is progressed at pace and with the right thought leadership needed to drive our strategic cost reduction agenda and promote innovative ways of working.
- c) Support and challenge others in the Executive Committee team who have lead accountabilities to deliver the revenue growth and cost reductions that are required to underpin our strategic plan, both in 2014/15 and beyond.

Strictly Confidential

4. Strengthening our external relationships

Continue to strengthen relationships with key stakeholders to facilitate the implementation of the 2020 Strategic Plan. Focus in particular on building strong, strategic level relationships with key commercial partners, including:

- a) *Royal Mail – holding regular meetings at CEO level to ensure that both organisations are appropriately focussed and working collaboratively in pursuing the growth opportunities in the parcels market (e.g. collections and returns).*
- b) *BoI - ensure that the Post Office manages its relationship with the Bank effectively to deliver our growth ambitions in FS, including through:*
 - *holding regular meetings at CEO/Chair level;*
 - *sponsoring continued joint team building initiatives, including considering the case (by end Q3) for closer structural integration;*
 - *ensuring clear joint milestones are in place by end Q1 for FSSC oversight.*
- c) *Retailers and Multiples – ensure the organisation is continuing to strengthen the way it manages its relationship with key retail partners, engaging them at the right level and in the right way to maximise the successful delivery of both the network transformation and network expansion programmes, consistent with the commitments made to the Government, and also to pursue opportunities around collections and returns where appropriate. Ensure all major multiples/retailers are visited at CEO or Director level during the year.*

5. Project Sparrow

Personally lead the programme to ensure the risks and issues are being tightly managed, keeping the Board closely updated on progress. Ensure there is a clear plan in place by end Q1 for managing the risks and challenges associated with the mediation scheme, and that it is then implemented.

Strictly Confidential

Appendix 4

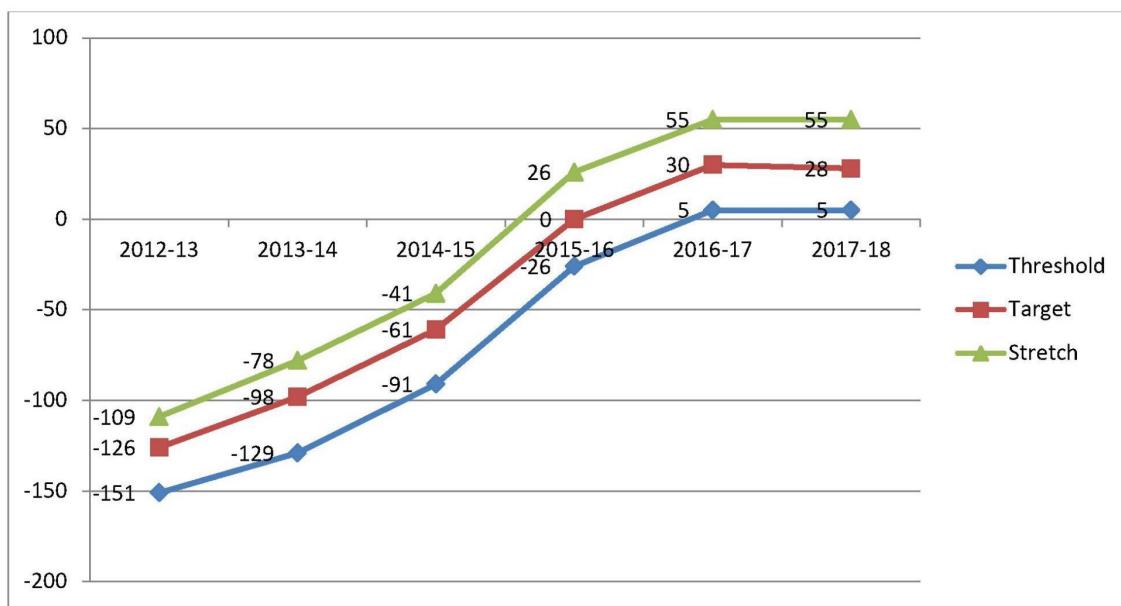
Draft Personal Objectives for the Chief Financial Officer 2015/2016

Objective	Action to achieve objective	Measure
Results	<ul style="list-style-type: none"> Hit profit target Deliver cost savings Agreement on future direction of big cost decisions 	<ul style="list-style-type: none"> EBITDAS at -£34m Costs delivered in line with plan with new governance established and working effectively Confidence of cost plans delivering £10m ahead of current plans for 2016-17
Step change in numerical understanding across the business	<ul style="list-style-type: none"> Embed FDs in the businesses Agreed set of KPIs embedded to show how product income is delivered Product profitability is in use across the commercial teams Digital reporting is established as a consistent measure with a plan for usage or replacement Embed a greater understanding of cashflow 	<ul style="list-style-type: none"> Planning for 2016-17 income has clear numerical drivers Product profitability is affecting decisions in 2015-16 as well as being a bedrock of planning for 2016-17 A digital income measure is agreed by the Board for the 2016-17 scorecard with clear improvement targets Define scorecard measure, debate it at Board and GE, agree how it can be improved in 2016/17 and get it included on the bonusable scorecard
Establish an effective strategy function	<ul style="list-style-type: none"> Agree an integrated business strategy Clear strategy for supply chain Greater clarity on the commercial options around the network and government support Team in place led by a Strategy Director 	<ul style="list-style-type: none"> Feedback from June Board awayday Board agreement on the future of supply chain Strategy Director appointed Clear narrative presented to new government
Develop into playing a full role at GE and the Board and with third parties	<ul style="list-style-type: none"> Establish relationships with key government departments Establish working relationships with BoI and RMG Play a full role at GE and Board, getting the right balance of challenge and being challengeable 	<ul style="list-style-type: none"> Effective working relationships with BiS, SHEX, Treasury, DWP, BoI, RMG PV feedback Board feedback

Strictly Confidential

Appendix 5

LTIP EBITDAS Targets 2015/16 to 2017/18



Private and Confidential – DRAFT

DRAFT DIRECTOR'S REMUNERATION REPORT 2014/15

Statement by the Chair of the Remuneration Committee

I welcome the opportunity to outline our progress on Executive Remuneration during our third year as an independent business. This has been another tough year for the Post Office but we have continued to make progress towards our strategic objectives. Our remuneration framework reflects the challenging environment in which we operate.

The Post Office continues to follow its clear strategy, set for the remainder of the decade, to create a thriving business with a strong purpose. The strategy will reduce our reliance on the taxpayer and deliver a business which is financially sustainable, whilst continuing to provide a network which is used and accessed by all sectors of the population.

The performance criteria for the 2014/15 incentive scheme reflected the business strategy, and continued to be stretching. The short-term bonus performance in 2014/2015 was similar to that in 2013/14 and was driven by significant progress in transforming our network, engaging with our employees and developing mutual ways of working, and a sustained focus on managing costs.

The remuneration framework for 2015/16 will continue to maintain the broad principle of having stretching measures and targets. The short term incentive plan measures have been reviewed to ensure continued alignment with our business objectives and strategy as they progress. The performance measures in the long-term incentive plan remain the same to ensure continued and consistent focus on achieving the long term business strategy.

The Executive Directors have not received an increase to base pay for four years. A benchmarking exercise was carried out for the recruitment of a new Chief Financial Officer during the recruitment phase and a further benchmarking exercise was carried out towards the end of 2014 for the Chief Executive. We were able to recruit a new Chief Financial Officer on a fixed remuneration package in line with the lower quartile of our comparator group. The pay for the Chief Executive pay remains significantly below lower quartile (circa 30% for fixed remuneration). The shortfall has resulted in salary compression as other employees in the Post Office receive salary increases.

The Post Office is owned by the Government and we maintain a regular dialogue with our Special Shareholder on all matters related to the remuneration of our Executive Directors.

The Remuneration Committee is comfortable that the current policy provides the strong link between reward and performance to continue the transformational journey and return the Post Office to profitability. I commend this report to our stakeholders.

Private and Confidential – DRAFT

The Remuneration Report

This report has been prepared in accordance with the provisions of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, as amended in 2013, to the extent that they are applicable for Post Office in its capacity as an unlisted company.

The remuneration report has been split into two sections. The Remuneration Policy Report sets out the Committee's policy for remuneration and its link to the business strategy. The Annual Report on Remuneration sets out how this policy was applied during the year under review, the remuneration received by directors in the year under review and how the Committee intends to implement the policy in the current financial year.

Both sections of the report (**pages xx to xx**) have been approved by the Remuneration Committee and the Board.

Neil McCausland

Chair, Remuneration Committee

Private and Confidential – DRAFT

Remuneration Policy report

The Committee is responsible for setting the remuneration packages for the Chief Executive and Chief Financial Officer and determining the overall remuneration policy for the Group Executive, which reports into the Chief Executive.

The Committee's intention is that the remuneration policy aligns with the business strategy and risk profile so that individuals are motivated to deliver the Post Office's objectives and protect its value. The Post Office remuneration strategy is based on the following:

- Attracting and retaining the right people within an agreed policy to lead and deliver the strategic plan;
- Using incentives appropriately to reward the achievement of the turnaround strategy and promote the long-term viability of the organisation;
- Reinforcing an emerging culture of mutual ways of working and partnership; and
- Providing a transparent approach to the disclosure of pay.

Remuneration policy summary

The table [overleaf] describes the current remuneration and the breakdown of the packages for the Executive Directors, which comprise fixed pay (base salary, benefits and cash in lieu of pension contributions) and pay at risk (STIP and LTIP).

The remuneration framework for the Executive Directors requires consent from the Special Shareholder each year.

Private and Confidential – DRAFT

Remuneration policy table

Element	Link to strategy	Operation	Maximum values
Base salary	<p>Determined by reference to the skills and responsibilities of the individual.</p> <p>When determining base salary increases, consideration is given to (i) pay and employment conditions elsewhere in the Post Office and (ii) market data on comparable roles.</p>	Directors' salaries are reviewed annually in July of each year. The external pay benchmarking group is a basket of comparators, selected and agreed with the Special Shareholder.	There is no formal cap set on salaries. However, when reviewing salaries, the Committee also pays close attention to the level of salary increases across the rest of the workforce.
Benefits	Participation in life and health assurance schemes, company car and private medical schemes are part of Post Office-wide benefit programmes.	The value of the benefits package is monitored by the Committee and benchmarked against comparator organisations.	The value of the core benefit is reasonable and in proportion with the market.
Pension	<p>Pension provision is provided by the Post Office and is available to all employees to help them meet their retirement needs and provide a competitive remuneration package.</p> <p>Executive Directors receive a salary supplement in lieu of pension scheme membership.</p>	A contribution in lieu of pension is paid as a cash supplement to the Chief Executive and Chief Financial Officer.	25% of salary

Private and Confidential – DRAFT

Short-term Incentive Plan (STIP)	<p>The STIP drives and rewards performance over a single financial year, against a set of key financial and operational targets taken from the balanced scorecard, set each year according to the current priorities for the business.</p> <p>STIP awards are also linked to the achievement of personal performance objectives.</p>	<p>The metrics and target ranges are agreed annually with the Board and the Special Shareholder as part of the annual business and budget planning cycle.</p> <p>80% of the target STIP award is based on a balanced scorecard and 20% is based on individual performance objectives which are agreed with the Board and require approval by the Special Shareholder.</p> <p>The balanced scorecard is set annually to include a mix of financial and non-financial measures (including customer, modernisation and employee engagement measures). The precise metrics and their weightings are determined at the start of each financial year.</p> <p>STIP awards may be subject to clawback as described in more detail on page X.</p>	<p>The maximum STIP opportunity for the Chief Executive is 73.6% of salary (with 48% of salary being payable for on-target performance, with a threshold of 4.8% of salary and a minimum of 0%).</p> <p>The maximum STIP opportunity for the CFO is 61.6% (with 40% payable for on-target performance, with a threshold of 4% of salary and a minimum of 0%).</p>
Long-Term Incentive Plan (LTIP)	<p>The LTIP is designed to reward and retain key executives and senior managers and to incentivise the achievement of longer term performance goals.</p> <p>The payout of the award is based on the achievement of strategic targets linked to the longer term development growth of a sustainable business.</p>	<p>Performance measures for the LTIP are drawn from the Post Office Strategic Plan agreed with the Special Shareholder.</p> <p>LTIP awards are made annually. The performance targets are agreed with the Special Shareholder in advance of each grant and will be described annually in the Report on Remuneration.</p> <p>LTIP awards may be subject to clawback as</p>	<p>The maximum LTIP opportunity for the Chief Executive is 98% of salary for maximum performance, on target is 70% of salary the threshold is 56% of salary and minimum of 0%.</p> <p>The maximum LTIP opportunity for the Chief Financial Officer is up to 70% of salary for maximum performance, on target is 50%, threshold is 40%</p>

Private and Confidential – DRAFT

		described in more detail on page [].	of salary and minimum is 0%.
Non-Executive Directors' fees	To attract and retain a high calibre Chairman and Non-Executive Directors.	<p>The fees for the Chairman are reviewed by the Committee and approved by the Special Shareholder. The fees of the Non-Executive Directors are reviewed by the Executive Directors and submitted to the Special Shareholder.</p> <p>The Chairman is paid a single fee to cover all her duties. The Non-Executive Directors are paid a basic fee together with additional fees for chairing Board Sub Committees or the role of Senior Independent Director. No fees to the Chairman or Non-Executive Directors are pensionable.</p> <p>The fees have not been reviewed since appointment.</p>	There is no prescribed maximum annual increase. The Committee is guided by the general increase for employees and the Executive Directors.

Private and Confidential – DRAFT

Notes to the policy table

The framework is approved by the Special Shareholder.

Differences in remuneration policy for the Executive Directors and employees generally

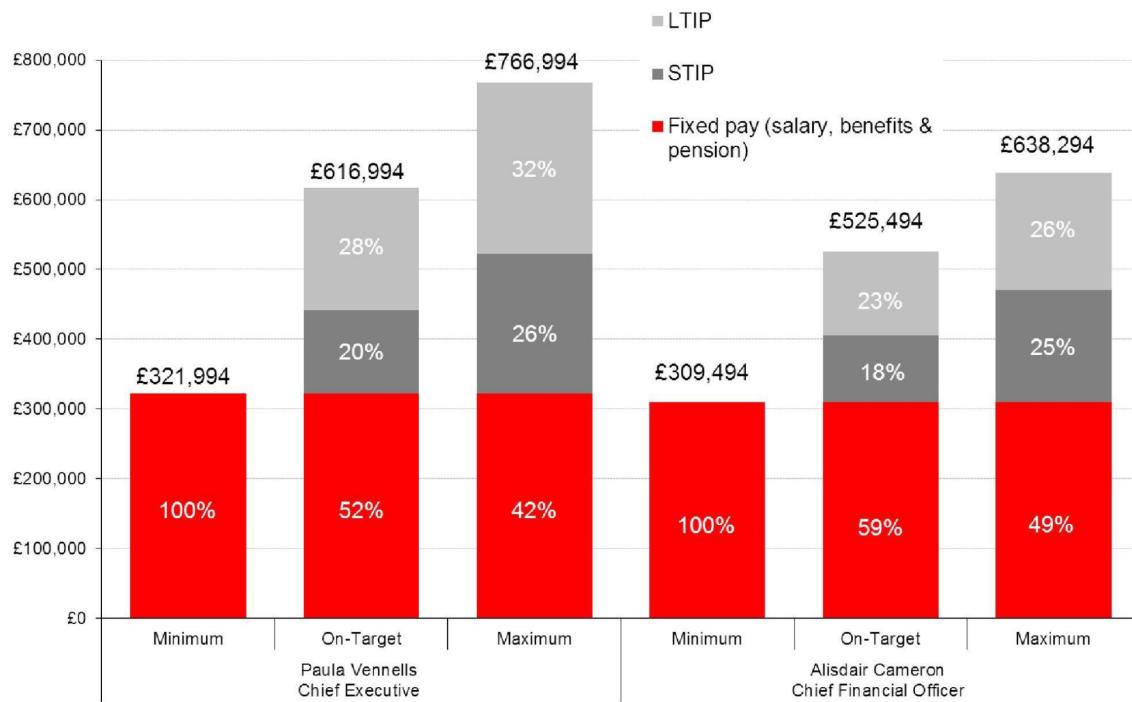
- The remuneration policy for the Executive Directors takes account of their level of responsibility and their influence over the Company's performance. Accordingly, a higher proportion of their total remuneration package is at risk and subject to performance (under the STIP and LTIP). The incidence and potential amounts payable under such incentives across the workforce are determined by their role and grade within the organisation.

Choice of performance measures and approach to target setting under the STIP and LTIP

- Under the STIP, performance is based on achievement against a balanced scorecard and delivery of personal objectives. The balanced scorecard measures achievement of the Company's key operational objectives and includes metrics for financial performance and commercial sustainability, customer, people and modernisation. The Committee reviews the components of the scorecard each year and varies them as appropriate to reflect the priorities for the business in the year ahead.
- Under the balanced scorecard, a sliding scale of targets is set for each metric to encourage continuous improvement and challenge the delivery of stretch performance.
- Under the LTIP, a minimum level of EBITDAS (Earnings Before Interest, Tax, Depreciation, Amortisation and Subsidy) must always be met in order for any payment to be made. In addition a 'gateway' measure of Access Criteria must be met to trigger any payment. The metrics were carefully chosen to align with the Company's long-term strategic plan, as agreed with the Special Shareholder. The metrics are reviewed annually for each new scheme to ensure that they remain aligned to Post Office's longer term strategic objectives.

Draft and in confidence**Performance scenarios 2015/2016**

The chart below shows the quantum and composition of the current remuneration policy for the Executive Directors under three performance scenarios. These are scenarios showing potential remuneration assuming there is no STIP or LTIP pay-out, (fixed pay only), on-target performance (STIP and LTIP paying out at a target level) and maximum performance (full pay-out of STIP and LTIP).

**Approach to recruitment remuneration**

The remuneration package for a new Executive Director would normally be set in accordance with the terms of the Company's remuneration policy in force at the time of appointment.

The salary for a new Executive Director may be set below the normal market rate, with phased increases over the first few years as the Executive Director gains experience in their new role. Sometimes, to facilitate an external recruitment, it may be necessary to consider reasonable compensation for remuneration relinquished at a former employer (buyout award). Should this be the case, the terms of any buyout

Draft and in confidence

award would reflect (as far as is reasonably possible) the nature, performance conditions and time horizons attaching to the remuneration foregone with the overall package tailored to the individual. Any such award would require approval by the Special Shareholder.

For an internal appointment, any variable pay element awarded in respect of their previous role will be allowed to pay out according to its terms, adjusted as relevant to take into account their appointment.

Statement of pay considerations elsewhere in the Post Office

The Committee takes into account the pay and employment conditions of employees elsewhere in the Post Office when setting the remuneration policy for the Executive Directors. The balanced scorecard used for the STIP for Executive Directors is also used to assess performance in the annual bonus for Post Office managers, providing alignment between performance and reward for all employees at manager level and above.

Contracts and loss of office payment policy

Each of the Executive Directors has a signed contract with the Post Office.

Service contracts normally continue until the Executive Director's agreed retirement date or such other date as the parties agree. The service contracts contain provisions for early termination.

In summary, the contractual provisions are as follows:

Notice period	Other than for certain events such as gross misconduct (in which no notice must be provided by the Company), twelve months to be given by the Post Office and six months by the director.
Remuneration-related provisions	Payments in lieu of notice of salary only. Payments in lieu of notice are not pensionable.
Change of control	There are no enhanced provisions on a change of control

In some circumstances, the Committee may also, at its discretion, pay a bonus to the Executive Director equivalent to the amount that they would have been entitled to and earned under the STIP and LTIP, pro-rated over the portion of the year that they

Draft and in confidence

were in service. The Committee will take into account the reason for the Executive Director leaving the company and the contribution made to the performance conditions.

Under the LTIP, the default treatment is that any outstanding awards will lapse on termination of employment. However, in certain prescribed 'good leaver' circumstances, the awards remain subject to performance conditions measured to, and paid after, the end of the performance period, and reduced pro-rata to reflect the portion of the period they were employed. The definition of good leaver status is set out in the rules.

Clawback provision

Executive Directors have clawback clauses in their contracts, as well as the STIP and LTIP rules, which provide for the return of any over-payments in the event of mis-statement of the accounts, error or gross misconduct on the part of an Executive Director. These provisions are structured in line with market best practice.

Non-Executive Directors

Non-Executive Directors' Letters of Appointment are described in the Corporate Governance statement ([see page XXX](#)).

Statement of consideration of shareholder views

The Chairman of the Committee communicates regularly with the Shareholder Executive on behalf of the Special Shareholder on all matters concerning executive remuneration and the Special Shareholder approves all aspects of the framework for Executive Director Remuneration.

Draft and in confidence

Annual Report on Remuneration

Remuneration for each director for the Financial Year 2014/2015 (audited)

Name	Annualised salary/fees 2014/15	Actual salary/fees 2014/15	Benefits 2014/15	Cash in lieu of pension 2014/15	STIP 2014/15	LTIP 2014/15	Total 2014/15	Total 2013/14
Non-Executive Directors								
Tim Franklin	£40,000	£42,097	-	-	-	-	£42,097	£37,097
Virginia Holmes	£40,000	£42,097	-	-	-	-	£42,097	£37,097
Alasdair Marnoch	£45,000	£45,000	-	-	-	-	£45,000	£45,000
Neil McCausland	£50,000	£50,000	-	-	-	-	£50,000	£50,000
Alice Perkins	£100,000	£100,000	-	-	-	-	£100,000	£100,000
Richard Callard (Note 1)	£0	£0	-	-	-	-	£0	£0
Executive								

Draft and in confidence

Directors								
Name	Annualised salary/fees 2014/15	Actual salary/fees 2014/15	Benefits 2014/15	Cash in lieu of pension 2014/15	STIP 2014/15	LTIP 2014/15	Total 2014/15	Total 2013/14
Paula Vennells (Note 2)	£250,000	£250,000	£9,855	£62,500	£88,032	£112,000	£522,387	£543,852
Chris Day (Note 3)	£215,000	£179,167	£7,880	£44,792	£48,275	£45,484	£325,598	£373,925
Alisdair Cameron (Note 4)	£240,000	£57,419	£2,281	£14,953	£15,471	£0	£90,124	N/A
Total 2014/2015 (Note 5)	£ 761,583	£765,777	£20,016	£122,245	£151,778	£157,484	£1,217,303	£1,187,971

Note 1: Richard Callard is an employee of the Shareholder Executive of the Department for Business, Innovation and Skills.

Note 2: The salary for Paula Vennells remained unchanged from 2013/14

Note 3: Chris Day resigned from the Board on 28 January 2015 and left the business on 31 January 2015. In addition to the salary and benefits shown he received a payment in lieu of notice of £179,167 (see page **xxx** below)

Draft and in confidence

Note 4: Alisdair Cameron was appointed to the Board on 28 January 2015. As Mr Cameron joined the Post Office as Chief Financial Officer (designate) on 5th January 2015, earnings are shown from the time he joined the company.

Note 5: The annualised salary/fees total has been calculated by applying 10/12ths of Chris Day's annual salary and approximately 3/12ths of Alisdair Cameron's annual salary, reflecting that Mr Cameron joined on 5th January as Chief Financial Officer (designate) and there was almost one month's overlap. All other totals are actual totals.

Benefits comprise a company car (or cash equivalent), participation in life and health assurance schemes and private medical provision.

Draft and in confidence

Pay at risk paid to Executive Directors in 2014/15 (audited)

a) Short Term Incentive Plan 2014/15

Performance metrics

The STIP payable to the Executive Directors is based on the 2014/15 Post Office balanced scorecard (80%) and personal performance (20%). Six measures in the scorecard were identified for use in the STIP. These relate to financial performance (45%), customer experience (15%), our people (15%) and achievement of specific objectives related to the modernisation programme (25%).

Measure	Maximum opportunity as a % of base salary		Performance	Payouts as a % of Base Salary	
	CEO	CFO		Indicative vs Target	CEO
Net Income	12.8%	10.7%	Below target	0%	0%
Operating Profit	16.0%	13.4%	Above target	9.9%	8.2%
Customer Experience	9.6%	8.0%	Below Target	0%	0%
People	9.6%	8.0%	Above target	9.6%	8.0%
Crown profit loss	8.0%	6.7%	Below Target	0%	0%
Modernisation	8.0%	6.7%	Above target	8.0%	6.7%
Personal Objectives	9.6%	8.0%		7.7%	4.0%
Total	73.6%	61.6%		35.2%	26.9%

[Note: The fall in operating profit is explained by the reduction in the government subsidy. Earnings before interest, tax, depreciation, amortisation, and subsidy (EBITDAS) increased by 36.5%.]

Specific targets are deemed to be commercially sensitive and are not disclosed.

The personal objectives for the Executive Directors are agreed by the Board and approved by the Special Shareholder. The Personal Objectives for the Chief Executive included building capability and talent of the Post Office leadership team, strengthening external relationships and driving transformation of the business and a culture of change

The personal objectives for the Chief Financial Officer(s) included a reduction in costs whilst building a finance function to manage business performance. The Chief Financial Officer also took on additional responsibilities.

Draft and in confidence

b) Long Term Incentive Plan awards 2012 – 2015

The LTIP award to pay out this year is based on the three-year performance period ended 29 March 2015. The award values were as follows:

Executive	Type of award	Basis of award granted	Value of award	Maximum value of award if all performance targets are met	Vesting determined by performance over
Paula Vennells	Cash	70% of salary target award	£175,000	£245,000	Three financial years to 29 March 2015
Chris Day*	Cash	35% of salary target award	£71,069	£99,497	

* 2012/15 LTIP award pro-rated for time in office, Chris Day resigned 28 January 2014

Chris Day was treated as a 'good leaver' under the Scheme Rules for the 2012/2015 award, with performance measured to the usual time and pro-rated for length of service. Awards under the 2013/2016 and 2014/2017 schemes have lapsed.

The primary performance condition for the 2012 award was operating profit (sliding scales of targets) based on the strategy plan. The secondary performance condition was modernisation which also acted as a secondary gateway (the access criteria being the first gateway).

Operating profit before exceptional items for the year-ended 29 March 2015 (£xx million) was between the *target and stretch level*.

The STIP and LTIP paid out to the Chief Executive and Chief Financial Officer expressed as a percentage of salary is shown below.

	STIP (payments as a % of salary)		LTIP (payments as a % of salary)	
	2013/14	2014/15	2013/14	2014/15
Chief Executive	31%	35%	58%	45%
CFO (Chris Day to 31/1/2015)	25%	27 %	19%	22%
CFO (Alisdair Cameron from 5 Jan 2015)	N/A	27%	N/A	N/A

Draft and in confidence

The 2014/2015 STIP payments for Chris Day and Alisdair Cameron are pro-rated for time spent in the business. The percentage figures shown are before the application of the pro-rata.

Outstanding interests in Long-Term Incentive Plan

Under the remuneration policy, LTIP awards are granted annually. The Chief Executive and Chief Financial Officer have the following outstanding awards:

	Target award	Stretch award	Performance period
Paula Vennells, Chief Executive			
2013 LTIP	£175,000	£245,000	Three years to 27 March 2016
2014 LTIP	£175,000	£245,000	Three years to March 2017
Alisdair Cameron , Chief Financial Officer			
2014 LTIP*	£30,000	£42,000	Three years to March 2017

*pro-rated for time in office

Both the 2013 and 2014 LTIP awards are subject to challenging financial and strategic performance conditions based on business profitability and the financial sustainability in line with the Special Shareholder's objectives.

As mentioned above, the outstanding 2013 and 2014 LTIP awards for Chris Day (Chief Financial Officer to 28th January 2015) have lapsed.

Total pension entitlements (audited)

Paula Vennells, Chris Day, and Alisdair Cameron all received a cash supplement of 25% base pay in lieu of pension scheme membership.

Paula Vennells was previously an active member of the Royal Mail Senior Executives Pension Plan (an HMRC approved defined benefit occupational pension scheme) until 5 April 2012 when she left the scheme. As a result she retains past pensionable service up until the date she left, any increases in the deferred pension amount is due to revaluation not new accrual.

Draft and in confidence

Payments for loss of office

Chris Day left the Company on 30 January 2015. Under the terms of his service agreement the Company paid £179,167, being 10 month's salary as compensation for loss of office as follows:

Chris Day was entitled to 12 month's pay; however he worked for 2 months of his notice and was paid for the remaining 10 months.

It was agreed he would retain the entitlement to the 2012/15 LTIP and the STIP for 2014/15 on a pro-rated basis. The LTIP awards for 2013/2016 and 2014/17 have lapsed.

Relative importance of the spend on pay (audited)

The figure below shows the change in employee costs between 2014 and 2015 relative to total revenues:

	2015	2014	% increase
Total People Costs	£238m	£255m	(6.67)%
Of which related to Directors' pay	£1.22m	£1.19m	2.56%
Total revenue excluding Network Subsidy Payment	£976m	£979m	(0.03)%

Remuneration of the Chief Executive Officer over time

The table below shows the total remuneration of the Chief Executive Officer over four financial years, together with her STIP and LTIP payouts in that year:

	2012 ¹	2013	2014	2015
Total remuneration (£'000)	£456,283	£696,413	£543,852	£522,387
STIP (% of maximum)	86%	79%	38%	35%
LTIP vesting (% of maximum)	No LTIP vested	89%	59%	45%

Draft and in confidence

¹. The Post Office became independent from the Royal Mail on 1 April 2012. The Committee has chosen to set out the Chief Executive Officer's pay data since this date.

Percentage change in remuneration of director undertaking the role of Chief Executive Officer

There has been no increase in the level of base salary or benefits since 1 April 2012. Variations in pay are as a result of differing levels of payment under the STIP and LTIP.

How the Committee intends to implement the remuneration policy in 2015/16

Salaries

The annual base salary for the Chief Executive for 2014/15 was unchanged from the previous year, at £250,000. The Chief Financial Officer joined the Post Office in January 2015 on an annual base salary of £240,000.

The next salary review will take place in July 2015 for the Chief Executive.

The Chief Executive has not been awarded any increase in pay since April 2011. There was no increase in pay in April 2012, when the company began operating independently from the Royal Mail Group and the role of the Chief Executive significantly increased. The remuneration of the Chief Executive has been benchmarked and analysis shows her salary is below the lower quartile of the market.

Performance targets for the STIP and LTIP awards to be granted in 2015 and beyond

For 2015, the STIP will continue to be based on performance against a balanced scorecard (80%) and personal performance (20%).

The LTIP targets will continue to operate with a performance target, which is predominantly linked to the Company's operating profit performance.

The Committee has chosen not to disclose, in advance, the actual targets applying, as these are deemed to be commercially sensitive.

Recruitment of CFO

Alisdair Cameron was recruited as Chief Financial Officer on a base salary of £240,000, with standard terms for STIP, LTIP, and benefits. In addition, as part of Alisdair Cameron's recruitment, he will be able to earn an additional bonus of up to £75,000 during 2015. This bonus, which is subject to achieving specific performance conditions during his first 6 months of employment to the end of June

Draft and in confidence

2015. These performance conditions are deemed to be commercially sensitive and will be disclosed next year. This arrangement was put in place to partially compensate for remuneration relinquished at his former employer.

Fees for the Chairman and Non-Executive Directors

The Chairman currently receives a single fee of £100,000. The non-executive directors receive a base fee of between £35,000 and £40,000 together with additional fees of £5,000 - £10,000 for chairing Board Sub Committees and for the role of Senior Independent Director.

No annual increase is proposed to the fees to the Chairman and the other Non-Executive Directors.

Statement of Consideration of Shareholders Views

When setting the Remuneration Policy for the Executive Directors the Remuneration Committee take into consideration the views of the Special Shareholder. The policy for pay at risk concentrates on ensuring remuneration is performance led with targets aligned with those of the Shareholder.

The current economic and political climate is taken into account in terms of restraint on pay to reflect the current practice in the public sector. All remuneration for the Executive Directors requires Special Shareholder approval.

Membership of the Committee

The members of the Committee are listed in the table below. All of these are independent Non-Executive Director. In total the Committee met six times and all committee members attended each meeting, either in person or by conference call.

Committee members

Neil McCausland

Alice Perkins

Virginia Holmes

The Chief Executive attends the meeting by invitation of the Chairman and assists the Committee in its deliberations, except in matters relating to her own remuneration. No directors are involved in deciding their own remuneration. The Committee also receives advice from the Group People Director, along with other members of the Human Resources team and external consultants.

Draft and in confidence

External Advisors

In the year under review, advice on matters related to executive remuneration was primarily obtained from New Bridge Street (NBS). NBS is part of Aon plc. The total fees paid to NBS in respect of its services to the Committee during the year were £29,722. Fees are generally agreed in advance for each piece of work carried out by NBS.

NBS is a signatory to the Remuneration Consultants' Code of Conduct. The Committee has reviewed the operating processes in place at NBS and is satisfied that the advice that it receives is objective and independent.

Outside directorships

Subject to Board approval, the Executive Directors are permitted to take on Non-Executive positions with other companies.

Paula Vennells is a Director of Hymns Ancient and Modern and received a fee of £6,350 in respect of the year ended 31 March 2015.

Strictly Confidential

POST OFFICE LTD

Noting Paper
New Employees

1. Purpose

- 1.1 The Committee is asked to note the employees below who have either started employment with the Post Office since the last Remuneration Committee on 25 February 2015, or have received an increase which takes their base salary to £125,000 or above.
- 1.2 The Committee is also asked to note the complete list of employees, excluding the Group Executive, who are in receipt of salaries of £125,000 or above.

2. People

- 2.1 The table below indicates those employees who are employed in senior roles and who were offered salary at or above £125k since the last Remuneration Committee on 25th February 2015.

Name	Job Title	Directorate	Salary per annum	Grade	Notes
Geoff Smyth	Head of Telecoms	Commercial	£130,000	SLP	Currently on contract. Offer yet to be accepted and included for information.
Mike Morley-Fletcher	Head of Risk & Assurance	Corporate Services	£170,000	SLP	Role combines Heads of Risk and Audit roles. Offered but start date to determined.
Mark Ellis	Senior Leader	Finance	£170,000	RemCo	Interim Head of Supply Chain
Jim Rawlings	Head of Procurement	Finance	£165,000	RemCo	
Henk van Hulle	Head of FS Products	Financial Services	£130,000	SLP	Internal move. No 2 to Director – Financial Services
Tom Moran	Director of Employee Relations & Engagement	People & Engagement	£130,000	SLP	Internal promotion.
David Hussey	Transformation Director	Transformation	£210,000	GE	Group Executive – see separate noting paper

Strictly Confidential

2.2 The table below summarises all employees of the Post Office, excluding those noted above and members of the Group Executive, who are in receipt of salaries at, or above, £125,000.

Name	Job Title	Directorate	Salary per annum	Grade	Notes
Phillip Clarke	Principal Commercial Manager	Commercial	137,615	Band 4	No bonus. Pension allowance of 9%.
Pete Markey	Head of Marketing	Commercial	150,000	SLP	Delivery bonus of up to £7,500 a quarter
Mark Siviter	Head of Mails and Retail	Commercial	165,000	SLP	Delivery bonus in place for three years.
Colin Stuart	Head of Procurement and Commercial Finance	Finance	150,000	SLP	
Paul Bleasby	Chief Technology Officer	Finance (IT)	130,000	SLP	FTC - no LTIP. Personal delivery bonus in lieu of annual bonus. Retention bonus also in place.
Lesley Sewell	Chief Information Officer	Finance (IT)	150,000	ExCo	Personal delivery bonus in place - £30k subject to successful delivery of IT transformation.
Neil Wilkinson	Head of IT Transformation	Finance (IT)	130,000	SLP	FTC - no LTIP. Personal delivery bonus in lieu of annual bonus. Retention bonus also in place.
Harry Clarke	Head of Supply Chain	Network & Sales	130,000	RemCo	
Mark Davies	Head of Communications	People & Engagement	150,000	ExCo	
Fay Healey	Chief HR Officer	People & Engagement	130,000	SLP	
Alison Thompson	Head of Change Management	Transformation	130,000	SLP	

Strictly Confidential

3. Recommendation

The Committee is asked to note:

- 3.1 The employees who have been employed, or received an offer letter, since the last meeting (February 2015) on salaries at or above £125k.
- 3.2 All other employees of the Post Office who are employed on salaries at or above £125,000.

Neil Hayward
Group People Director
May 2015

Confidential

POST OFFICE LIMITED REMUNERATION COMMITTEE

Appointment of the Transformation Director

1. Purpose

1.1 The Remuneration Committee is asked to note the recruitment of the Transformation Director within the terms of the mandate.

2. Background to process

2.1 Odgers was engaged to conduct the executive search for a Transformation Director. Post Office identified five candidates (4 male: 1 female) from the initial long list. These five were interviewed at the first stage by Fay Healey and David Ryan and three were progressed to the next stage of Hay assessment and subsequent interview Paula Vennells and Neil Hayward.

2.2 All three final interview candidates were in demand and are actively being courted in the marketplace and a negotiating mandate was sought from the Remuneration Committee in March 2015.

2.3 The mandate sought to operate within the range below, based on standard 'RemCo' grade terms.

Remuneration (on-target)	Amount
Base salary	£200,000 - £215,000
STIP	Standard – 30%
LTIP	Standard – 35%
Pension (cash supplement)	Standard – 25%
Benefits	£8,777

2.4 The preferred candidate was David Hussey, who was recruited to the Group Executive as Transformation Director on a base salary of £210,000. David's first day with the Post Office was 20th April 2015. The total package value is significantly lower than that earned by David Ryan as Interim Business Transformation Director over the last year.

2.5 Mr Hussey is required to provide the Post Office with 6 months' notice should he wish to terminate his employment; the Post Office is required to provide 12 months' notice.

3 Recommendation

3.1 The Remuneration Committee is asked to note the recruitment of the Transformation Director and the starting salary of £210,000.

Neil Hayward
Group People Director
May 2015

Confidential

POST OFFICE LIMITED REMUNERATION COMMITTEE

Chief Financial Officer – Personal Objectives

1. Purpose

1.1 The Remuneration Committee is asked to approve the objectives pertaining to the first six months' employment of the Chief Financial Officer.

2. Background

2.1 In order to structure a competitive offer to Alisdair Cameron, Chief Financial Officer, the Post Office incorporated a special bonus of up to £75,000, the payment of which is to be determined by reference to specific objectives to be achieved during the initial six months' employment period.

2.2 The employment offer was made to Alisdair in October 2014 and he began employment on 5 January 2015, succeeding Chris Day as Chief Financial Officer on 28 January 2015.

2.3 A set of objectives has been discussed between Paula Vennells, Chief Executive and Alisdair Cameron. These are shown on the following page as Appendix 1.

3 Recommendation

3.1 The Remuneration Committee is asked to approve the six-monthly objectives for Alisdair Cameron as forming the basis for determining his six-monthly personal bonus.

**Neil Hayward
Group People Director
May 2015**

Confidential

Alisdair Cameron - Chief Financial Officer 2015/16 Objectives (Jan to June)

Objective	Action to achieve objective	Measure
Agree a new Finance org structure, bringing Finance closer to the business	<ul style="list-style-type: none">• New structure agreed• Capability and capacity issues identified	New structure announced and implemented Q1 15/16
Deliver core product profitability reporting	<ul style="list-style-type: none">• Simple, spreadsheet version developed for immediate use	New reporting produced and in use for 2015-16
Agree the financial plan for 2015-16	<ul style="list-style-type: none">• Agree a plan within the business• Obtain GE and Board approval for the plan	Board approval for the 2015-16 plan
Chair Cost Reduction Group to achieve 14/15 staff and non staff savings.	<ul style="list-style-type: none">• Bi-weekly meetings of CRG held• Cost savings tracked and forecast	14/15 cost reduction targets defined and owned by CRG met in full (run rate - £60 pa)
Develop into playing a full role at GE and the Board	<ul style="list-style-type: none">• Day to day working• Insights profile completed and PDR in place	PV feedback and assessment