

Remuneration Committee: Terms of Reference

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Executive Summary

1. Context

- 1.1. The Remuneration Committee of the Post Office Limited is constituted as a sub-committee of Board.
- 1.2. The Terms of Reference are reviewed annually to ensure they are up to date and fit for purpose.
- 1.3. The Terms of Reference were last approved in February 2015 and are attached as Appendix 1.

2. Matters Addressed

- 2.1 The scope of the Remuneration Committee and its purpose is outlined in the Terms of Reference.
- 2.2 It is important to note that the Remuneration Committee will recommend to the Board of the Post Office the remuneration strategy and any changes to individual elements of the remuneration package for:
 - Executive directors of Post Office Limited (the Company);
 - Members of the Group Executive who report directly to the Chief Executive;
 - Other significant senior level appointments with comparable remuneration(defined as 'in excess of the lowest salary of any member of the current Group Executive');
 - To provide an oversight function for the remuneration of the directors of the Post Office Management Services Limited (POMS) board;
- 2.3 It is also important to note that any changes in remuneration for Executive Directors must be approved in advance by the Shareholder.

3. Input Sought

- 3.1 The Remuneration Committee is asked to note the attached Terms of

POST OFFICE LIMITED REMUNERATION COMMITTEE

Reference.

**Appendix 1:
POST OFFICE LIMITED
REMUNERATION COMMITTEE
TERMS OF REFERENCE**

PURPOSE

The purpose of the Remuneration Committee is to recommend to the Board the remuneration strategy and any changes to individual elements of the remuneration package for executive directors of Post Office Limited (the Company); members of the Group Executive who report directly to the Chief Executive; other significant senior level appointments with comparable remuneration; and to provide an oversight function for the remuneration of the directors of the Post Office Management Services Limited (POMS) board, as determined by the Board. Any changes in remuneration for directors of the Company must be approved in advance by the Shareholder. The remuneration of the Chairman and of non-executive directors will be set by the Shareholder.

A. COMPOSITION AND GOVERNANCE

1. The Remuneration Committee is constituted as a sub-committee of the Board and its Chairman shall be appointed by the Board. If considered independent at the time of appointment, the Chairman of the Company may be a member of the Committee, but shall not chair it.
2. Members of the Committee shall be appointed by the Board, acting on the recommendation of the Nominations Committee and in consultation with the Chairman of the Remuneration Committee.
3. The Committee shall be made up of at least two independent non-executive directors. Only non-executive directors shall be eligible to be members of the Committee such that no individual shall be involved in determining their own remuneration.
4. In the absence of the Chairman of the Committee at any meeting, the Committee members present shall determine who shall chair the meeting.
5. Members of the Committee will normally serve for a period of three years. Their appointment may be renewed for a further three year period but no director shall serve as a member of the Remuneration Committee for a period of more than six years.
6. Only members of the Committee have the right to attend Committee meetings. The Chief Executive and the Group People Director (or the holder of any equivalent position) shall be informed of the date of each meeting and may be invited by the Committee Chairman to attend all or part of any meeting, as and when appropriate.
7. The Company Secretary shall not be a member of the Committee but shall act as Secretary to the Committee and shall keep minutes and records of each meeting and ensure regular reporting by the Committee to the full Board.
8. Minutes of each meeting will be circulated to all members of the Committee and, once agreed, to those members of the Board who have no personal interest in the matters

discussed. Where a conflict of interest exists, the Company Secretary will provide sufficient information to the full Board to provide an understanding of the matter(s) considered.

9. If so requested by the Board or by the Shareholder, the Committee shall provide an annual report on its activities.
10. The Committee shall have access to sufficient executive time and resources in order to carry on its duties, including access to the Company Secretary and members of the HR team.
11. The Committee shall be authorised to seek any information it requires from any employee of the Company in order to perform its duties.
12. The Committee shall be exclusively responsible for establishing the selection criteria, selecting, appointing and setting terms of reference of remuneration consultants and have authority to appoint remuneration consultants and to obtain, at the Company's expense, legal or other professional advice on matters within its terms of reference as required, up to a financial limit determined by the Board.
13. If there should be disagreement between the Remuneration Committee and the full Board, the Chairman of the Board shall make time available for discussion of the issue so that the matter may be resolved. Where any such disagreement cannot be resolved, the Remuneration Committee shall report the issue as part of any annual report on its activities required by the Shareholder.
14. Training will be provided by the Company for members of the Committee, as required. Such training may take the form of internal briefings, attendance at formal courses and conferences and/or sessions with external advisers.
15. Members of the Committee shall conduct an annual review of the Committee's performance.

B. MEETINGS

1. The Committee shall meet as often as required but not less than three times each year. The Committee may meet in person, by telephone or by other electronic means, so long as each member can contribute to the business of the meeting simultaneously.
2. The quorum necessary for the transaction of business shall be 2 members.
3. Meetings may be convened by the Secretary to the Committee, at the request of the Committee Chairman, or by any member of the Committee, at any time.
4. Notice of each meeting shall be given to all members of the Committee and any other person required to attend, at least 3 working days before each meeting.

C. DUTIES AND RESPONSIBILITIES WITH REGARD TO THE COMPANY

The main duties and responsibilities of the Committee with regard to the Company are:

1. to recommend to the Board the remuneration strategy for the Chief Executive, executive directors and those members of the Group Executive who report directly to the Chief Executive, always taking into account the remuneration policy set for other employees.
2. in determining such strategy, take into account all factors which it deems necessary including relevant legal and regulatory requirements, the provisions and recommendations of the UK Corporate Governance Code (the Code) and associated guidance. The objective of such strategy should be to attract, retain and motivate executive management of the quality required to run the Company successfully without paying more than is necessary having regard to views of shareholders and other stakeholders. The remuneration policy should have regard to the risk appetite of the company and alignment to the company's long strategic term goals. A significant proportion of remuneration should be structured so as to link rewards to corporate and individual performance and designed to promote the long-term success of the Company.
3. review the on-going appropriateness and relevance of the remuneration strategy.
4. with the consent of The Secretary of State for Business, Innovation and Skills, determine each element of the total individual remuneration package of the Chief Executive and other executive directors, both existing and for new hires, including any increases in salary (whether or not resulting from company-wide pay increases), pension provision and the outturn of performance related pay arrangements and incentive schemes.
5. to determine the elements which will form the remuneration package for an individual in the above group, which may include, but shall not be restricted to:
 - base salary
 - short term incentive (annual bonus)
 - Long Term Incentive Plan
 - pension provision
 - benefits such as car or car allowance, private health, holidays
 - contractual terms such as notice periods
6. to keep under review the contractual terms applicable to executive directors such that payments made are fair to the individual and to the company, that success, rather than failure, is rewarded and that the duty to mitigate loss is fully recognised.
7. to work with the Nominations Committee in respect of new hires, such that the Remuneration Committee can recommend to the Board an appropriate level of remuneration which will attract talent but not be excessive.
8. to receive information on each element of the remuneration package and total remuneration for new hires and any internal promotions and appointments which are proposed to carry a salary in excess of the lowest salary of any member of the current Group Executive.

9. to review the overall total remuneration of the Senior Group (defined as the Chief Executive, executive directors and members of the Group Executive) compared both with external market comparators and with the remuneration of other employees in the Group.
10. to review and recommend to the Shareholder the implementation of, or changes to, performance related incentive schemes for the executive directors, Group Executive members and senior managers eligible to be invited to participate in the Post Office Long Term Incentive Plan.
11. to review and agree the criteria for, and the outturn of, performance related pay arrangements for executive directors and Group Executive members, subject to authorisation from the Shareholder.
12. to review the total outturn of performance related pay arrangements across the business.
13. to approve any exit package for any individual with a salary above the lowest salary within the Group Executive membership, where the exit package would be in excess of contractual obligations.
14. to undertake any other function delegated to the Committee by the full Board.

D. DUTIES AND RESPONSIBILITIES WITH REGARD TO POMS

The main duties and responsibilities of the Committee with regard to POMS are as follows, to provide an oversight function for remuneration of senior executives within POMS:

1. to ensure the remuneration strategy for and any appointments to the POMS board is consistent with remuneration policies within the Company, always taking into account the remuneration policy set for other employees.
2. to ensure each element of the total individual remuneration package of the executive directors of POMS, both existing and for new hires, including any increases in salary (whether or not resulting from company-wide pay increases), pension provision and the outturn of performance related pay arrangements and incentive schemes is consistent with remuneration policies within the Company.
3. to ensure the elements which will form the remuneration package for an individual in the above group, are consistent with remuneration policies within the Company and may include, but shall not be restricted to:

- base salary
- short term incentive (annual bonus)
- Long Term Incentive Plan
- pension provision
- benefits such as car or car allowance, private health, holidays
- contractual terms such as notice periods

4. to ensure the contractual terms applicable to executive directors of POMS such that payments made are fair to the individual and to the company, that success, rather than failure, is rewarded and that the duty to mitigate loss is fully recognised.
5. to work with the Nominations Committee in respect of new hires to the POMS board such to ensure that levels of remuneration will attract talent but not be excessive and will be consistent with remuneration policies within the Company.
6. to review the overall total remuneration of the Senior Group (defined as any members of the POMS board) compared both with external market comparators and with the remuneration of other employees in the Group.
7. to ensure the criteria for, and the outturn of, performance related pay arrangements for executive directors of the POMS board is consistent with remuneration policies within the Company.

E. ANNUAL REVIEW

1. The Committee will undertake an annual review of its own performance and the Terms of Reference and recommend to the Board any necessary changes.
2. These Terms of Reference were last reviewed in February 2015.