

RC(11)13(a)

Royal Mail Holdings plc

REMUNERATION COMMITTEE

EXECUTIVE DIRECTOR BONUSES: ASSESSING EXECUTIVE DIRECTOR PERFORMANCE AGAINST OBJECTIVES

2010-11 was the first year in which executive Directors received detailed objectives, including personal objectives. Letters were sent in early May 2010 to each executive Director setting out the objectives and bonus potential against each objective.

The purpose of this note is to summarise the achievement of each executive Director against these objectives and to propose payouts in accordance with these assessments.

Mark Higson

During the year Mark Higson's role changed from MD Letters to Director of Operations and Modernisation. The first four measures remained appropriate in his new role, but his personal objectives changed (two of the original personal objectives fell away).

ITEM	TARGET % OF SALARY	ACTUAL ACHIEVED	COMMENT
Group Profit	7.2%	-	Performance did not hit threshold
Letters Cash Generation	4.8%	-	Performance did not hit threshold
Letters Profit	12%	-	Performance did not hit threshold
Quality	12%	7.25%	Independent measures of quality result in this calculation
Personal Objectives: <ul style="list-style-type: none"> • Deliver on-track the letters modernisation plan as per the KPIs • Improve HYS scores across the Letters business • Maintain improved relationships with the Unions as per the 2010 agreement • Jointly lead a review 	12.5% 2.5% 2.5% 2.5%	5.0% 1.25% 2.0% 1.25%	Performance against each of these objectives was reviewed jointly by the Chairman and the Chief Executive

of central costs to achieve agreed savings	20%	9.5%	
• Total Personal Objectives			
TOTAL		16.75% of salary	
Salary		£428,400	
PROPOSED PAYMENT		£71,757	

Paula Vennells

Paula Vennells' role changed twice, from POL Network Director to COO to MD. To calculate her bonus we have used as a base the letter sent to Dave Smith, as MD POL. Paula Vennells was appointed MD POL on 14/10/10.

ITEM	TARGET % OF SALARY	ACTUAL ACHIEVED	COMMENT
Group Profit	7.2%	-	
POL Cash Generation	4.8%	5.39%	Exceeded target
POL Profit	12%	13.48%	Exceeded target
Quality	12%	12.0%	On target
Personal Objectives:			
• Complete and agree refresh of 2011-16 strategic plan	3.0%	2.4%	20/25 points
• Establish management team with clear and identifiable accountabilities	2.4%	1.44%	12/20 points
• Complete a full review (gap-analysis) to achieve planned sales	1.8%	0.84%	7/15 points
• Establish an agreed e-strategy with clear deliverables	2.4%	1.2%	10/20 points
• Win major government contracts	1.2%	1.2%	10/20 points
Total Personal Objectives	12.0%	7.08%	
TOTAL		37.95% of salary but reduces to 33.52% of salary	For the first 7 months Paula's responsibility was lower and we have therefore applied a discretionary reduction of 20% to 7/12 of the bonus, reflecting her lower

			responsibility
Salary		£225,000	
PROPOSED PAYMENT		£75,426	

Dave Smith

As noted above Dave Smith's target letter was based on his new appointment as MD POL. In October 2010 he was appointed Chief Customer Officer. It seems appropriate to use the same criteria as for Paula Vennells for the first six months, i.e. 37.95% of salary.

For the remaining 6 months he has operated on the basis of a letter from the CEO which specifies focus on the following personal objectives:

- Growing our non-regulated business
- Provision of true customer-service excellence
- Reviewing our sales channels to ensure segmented customer groups are served appropriately
- Smooth introduction of the special price increase delivering £80m and develop strategies to minimise volume decline
- Taking a full and active role as a Chief Executive Committee member to influence the wider RMG's profit maximising strategies.

These accounted for 12% of salary for on-target performance. The CEO has recommended that his performance against these objectives deserves a 75% award.

Accordingly, the table below sets out his performance against various objectives for the last six months of the year:

ITEM	TARGET % OF SALARY	ACTUAL ACHIEVED	COMMENT
Group Profit	12.0%	-	Performance did not hit threshold
Group cash generation	12.0%	-	Performance did not hit threshold
Quality	12%	7.25%	Independent measures of quality result in this calculation
Personal Objectives as above	12%	9%	CEO has recommended 75% achievement
TOTAL ANNUALISED		16.25% of salary	

In addition, the CEO raised the issue of an increase in Dave Smith's salary to reflect his considerable increase in responsibilities, with the Minister in October 2010. We are still awaiting confirmation of this and believe that we should assign the increased salary from 1 January 2011. Accordingly the following table applies

the bonus percentages in three different tranches to arrive at the total figure for Dave Smith:

PERIOD	BONUS AS % OF SALARY	SALARY	BONUS PAYABLE
Months 1 - 6	37.95%	£250,000	£47,437
Months 7 - 9	16.25%	£250,000	£10,156
Months 10 - 12	16.25%	£315,000	£12,797
TOTAL			£70,390

Moya Greene

Moya joined on 15 July 2010, thus she is eligible for bonus for 75% of the year. Exceptionally she was given personal objectives only, with a maximum potential bonus of 100% of salary for just over 9 months.

ITEM	TARGET % OF SALARY	ACTUAL ACHIEVED	COMMENT
Personal Objectives:			
• Restructure the management of the Group to align responsibilities more clearly	10.0%	9.0%	9/10 points
• Complete the senior team	10.0%	7.0%	7/10 points
• Establish a clear plan for the relationship between POL and the rest of the Group	15.0%	10.0%	10/15 points
• Achieve the quality targets as set for other Executive Directors	20.0%	12.0%	12/20 points
• Decrease the annual run-rate cost base below that in the current budget for 2010-11 subject to the financeability of this task; otherwise achieve budgeted run-rate at the year-end	45.0%	0.0%	0/45 points
Total Personal Objectives	100.0%	38.0%	
TOTAL		38.0%	
Salary		£498,000	

PROPOSED PAYMENT		£141,893	After adjustment to 75% of the year
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Matthew Lester

Matthew Lester joined on 24th November 2010. He is therefore entitled to bonus of one third of the year. His objectives derived from Moya Greene's objectives; additionally he agreed to the following:

- Follow through on the Maxxim study to ensure a more efficient structure for the finance function.
- Ensure an emphasis on cash generation throughout the business.
- Lead the development of the business plans required for the various processes associated with the strategic intention to obtain relief from the historic pension liabilities and the introduction of private capital.

We believe that the most appropriate treatment given the short tenure is to award the same level of achievement as the CEO, i.e. achieving an overall figure of 38% of salary, which when adjusted to one third of the year gives a figure of 12.67% of salary. Matthew Lester's salary is £428,400 and his proposed bonus is therefore £54,264.

SUMMARY TABLE SHOWING PROPOSED BONUSES

	2010-11	2009-10
Moya Greene	£141,893	£438,256 ¹
Mark Higson	£ 71,757	£221,000
Matthew Lester	£ 54,264	£184,000 ²
Dave Smith	£ 70,390	
Paula Vennells	£ 75,426	£149,000 ³
TOTAL	£413,730 (5 executives)	£992,256 (4 executives)

¹ Adam Crozier; ² Ian Duncan; ³ Alan Cook

May 25th, 2011