# Directors' remuneration report

Dear Shareholder

I am pleased to report that, during 2015-16, the Company continued to make progress in several important areas. We delivered an increase in adjusted operating profit (before transformation costs), while continuing to manage our ongoing and complex transformation in a rapidly changing industry.

This year the Committee is proposing changes to the Company's Directors' Remuneration Policy, to reflect our fast-changing marketplace. I will make some brief comments on both of these themes here – the report on the following pages gives more detail on each.

## Performance and remuneration in 2015-16

The year was one of continued steady progress, despite intensifying competition in a rapidly changing market. Highlights included:

- Adjusted operating profit, before transformation costs, of £738 million at the budgeted foreign exchange rate;
- A one per cent reduction in UKPIL underlying operating costs;
- A productivity improvement in collections, processing and delivery of 2.4 per cent, within our 2.0 – 3.0 per cent target range; and
- Rolling out new products and services at pace.

The performance achieved resulted in payouts to our executive team on both our annual bonus and our Long Term Incentive Plan (LTIP), in accordance with our Remuneration Policy. Their total compensation remained broadly flat year on year.

### Annual bonus

Our performance in 2015-16 resulted in the achievement of a good score against many of the financial, people, efficiency and customer targets in our Corporate Balanced Scorecard. This scorecard, along with a series of Strategic Objectives, made up 80 per cent of the potential annual bonus for Executive Directors. Performance against personal objectives, which were set by the Committee and represented 20 per cent each of the potential bonus, was also good.

This resulted in a bonus of almost 82 per cent of salary for our Chief Executive Officer (CEO), Moya Greene; and 81 per cent of salary for our Chief Finance Officer (CFO), Matthew Lester. More detail about the annual bonus targets and performance against specific KPIs is given on page 75.

### Long Term Incentive Plan

During 2015-16, the Company partly met the stretching performance targets that were set in 2013 for Operating Profit and Return on Total Assets (ROTA). The gateway for ROTA was achieved, Operating Profit performance was between threshold and a very challenging target. As a result, 83 per cent of the 2013 LTIP target award vested for both Executive Directors. This award had originally been made in cash and was converted to shares two weeks after flotation, in October 2013, at a share price of £5.29. The Committee had no reason to use its discretion to reduce the award. More details of the LTIP payout can be found on pages 76-77.

### Annual salary review

The Committee also considered the Executive Directors' salaries. The CFO's salary was last increased in April 2014. The Committee approved an increase of 4.6 per cent, taking his salary to £475,000 per annum, with effect from 1 April 2016. As we said in last year's Report, no change was made to the CEO's salary in 2015-16.

## Designing a policy to match our market context

Last year, I mentioned to shareholders in this letter that we were considering making changes to our Remuneration Policy because of the fast-changing market environment in which Royal Mail operates. Since then we have studied our options carefully. We have consulted with many of our largest shareholders in the course of designing these changes. We have taken their comments and suggestions into account in finalising the proposed policy. We are now recommending these changes for shareholder approval. If approved, the new policy would apply from 2016-17.

The factors which have shaped our proposals include the following:

- The market in which Royal Mail operates is intensely competitive and very dynamic. To thrive and grow in this market requires our Management to maintain an intensity of pace in improving productivity and efficiency month by month and year by year. This is an increasingly challenging task. This hard won, short-term success is essential to support our long-term performance. Accordingly, increasing our relative focus on short-term performance is appropriate, provided it supports enduring performance.
- We want to create a reward structure that appropriately balances the importance of short-term delivery with the creation of long-term sustainable value.

- We are keen to ensure that our reward is more closely aligned with the interests of long-term shareholders, i.e. more of the potential reward should be in shares, and shares should be held by our executives for longer periods.
- Our aim and intention is to deliver sustainable shareholder value. The amount of change that is occurring both in the parcels market, and in Royal Mail's cost base, makes specific targets, such as EPS, complex to measure. We are keen to avoid complexity.

Our proposed new policy seeks to address these issues and contains **three** proposed, substantive changes:

1. Increase the maximum incentive opportunity available based on annual performance through the **introduction of a deferred share element**, which would vest three years after award, subject to continued employment and malus provisions. This maximum deferred element would be equal to the current maximum cash bonus opportunity (100 per cent of salary), creating a combined maximum annual incentive opportunity of 200 per cent of salary. This change coincides with a careful review of the performance metrics, increasing the quantitative operational and financial targets significantly. We believe that this will focus attention on delivery of key objectives consistently and at pace, while aiding retention and recruitment. It will also increase the speed at which executives are likely to accumulate shares. Therefore, we are proposing to increase the **shareholding guideline** for our Executive Directors to 200 per cent of salary.
2. Introduce a **two year holding period** on shares vesting under the LTIP for the CEC and Executive Directors, to achieve greater alignment between the interests of Management and shareholders. We propose to increase the maximum LTIP opportunity by two per cent to 100 per cent. This remains relatively low for a company of our size and complexity but we do not believe it is appropriate to introduce further leverage into our executive incentive plans at this stage.
3. Use **relative Total Shareholder Return (TSR) as the only performance measure for the LTIP**, as this is a measure of the success in delivering our strategy. In a competitive environment that is changing as rapidly as ours, this measure, which is focused on shareholder alignment, will still be as relevant at the end of the period as it is at the start of the performance period. It is also aligned with our commitment to a progressive dividend policy, which is an important element of TSR. We are proposing to keep the level of vesting threshold at 50% of the award, as is the case for the current LTIP. This is a high percentage of *maximum LTIP award* compared to companies of similar size and complexity, but as our maximum LTIP award is half that of our peers, and our salaries are also lower, it is a similar percentage of salary vesting for threshold performance; and a lower overall value than that of most comparable companies.

These proposed changes are more fully explained in the following pages. Taken in the round, we believe that they will provide a coherent framework that will reward delivery at pace on the objectives required to achieve sustainable success, while maintaining appropriate flexibility in target setting from year to year:

- More aligned with our fast-changing market place and with what our senior managers need to focus on year by year;
- Incentivises sustained year on year improvements with the aim of delivering long-term value for shareholders;
- Increased proportion of remuneration which is delivered in the form of deferred equity, from around 25 per cent to 40 per cent of the total; and
- Reduces complexity and is more transparent to shareholders.

We believe that this new policy will continue to help us attract and retain the right people, who are incentivised to drive the creation of sustainable, long-term shareholder value. However, the total package for our CEO remains below the lower quartile level of our FTSE 100 peers, and we continue to retain our commitment to avoid any pay for failure.

I hope that you agree with our proposed changes and that you will support our proposed Remuneration Policy and Annual Report on Remuneration this year.

**Orna Ni-Chionna**
Chair, Remuneration Committee
18 May 2016

# Our current and proposed Remuneration Policy

## What is our proposed Remuneration Policy for Executive Directors?

The following tables outline our current and proposed Remuneration Policy. We intend to apply the new policy to our Executive Directors, subject to shareholder approval, from 21 July 2016 (the date of the AGM), for a period of three years.

Over the past year, the Remuneration Committee has carried out an extensive review of the current Remuneration Policy. We believe there are opportunities to improve the current remuneration structure, adhering to the remuneration principles agreed by the Committee:

| | Remuneration Principles | Implications for Remuneration Policy |
|---|---|---|
| **Overall package** | The overall remuneration package should take account of the dynamics of the market in which we operate. Our incentive arrangements are evolving to ensure that we can reward performance appropriately | There is scope to better align Remuneration Policy with Group strategy, ensuring that Management is appropriately incentivised and rewarded to deliver sustainable shareholder value |
| **Incentive levels & structure** | Incentive payouts should be based primarily on the achievement of relevant operational, financial and strategic goals, as well as the creation of long-term shareholder value | Design incentives to take into account the challenges that exist in relation to setting long-term financial, operational and strategic goals whilst the Company continues to go through significant transformation |
| **Alignment with shareholders** | Management interests should be aligned to the interests of shareholders, including through building a significant Royal Mail shareholding | Increase the equity based components of the total package in order to create a stronger alignment with shareholder interests |

We are proposing a number of key changes to the structure of our remuneration:

1. **Introduce a deferred share component to the existing annual bonus opportunity:** as outlined above, a deferred share award of up to 100 per cent of salary, based on annual performance in the previous financial year, would be introduced subject to a three-year vesting period, continued employment and malus provisions. In parallel, the Committee is proposing some simplification of our KPIs to ensure the annual bonus rewards delivery against the most critical financial, operational and strategic goals.

   This change will give the Committee flexibility to incentivise and reward financial and operational success during our ongoing transformation, while making the remuneration package more competitive in the market to attract and retain key talent. In addition, it provides a route for the Executive Directors to increase their shareholding more quickly. Accordingly, we are proposing to increase the **shareholding guideline** to 200 per cent of salary (from 100 per cent of salary).

2. **Restructure the current LTIP:**

   a) **Introduce a holding period following the end of the performance period**
   We are proposing the addition of a two-year holding period on LTIP shares, following vesting, to increase alignment between the interests of executives and long-term shareholders and further balance the shorter-term focus of the annual bonus; and

   b) **Simplify the performance measures**
   We propose to focus the award on the Group's TSR performance relative to the FTSE 100 (excluding mining and financial companies) over three years.

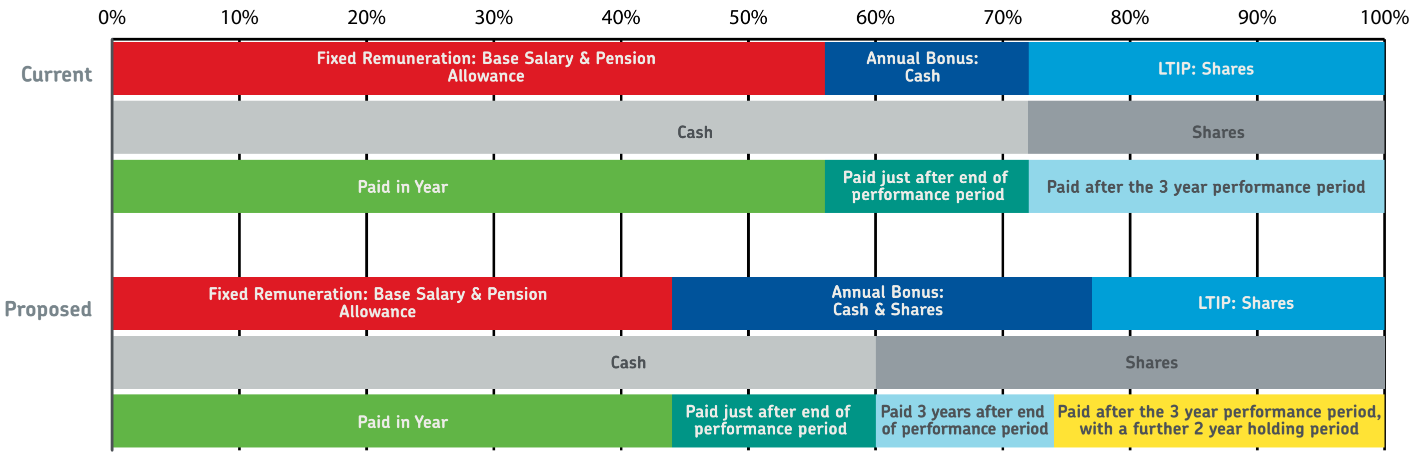
Taken together, we believe that these changes will create a simpler and more direct linkage to the mind-set that our executives need to have to achieve the changes that the Board is seeking and as such, are an important element in driving the continued success of the Company in its current competitive context. We believe that by executing our strategy and delivering against our annual KPIs, the Company will be able to pursue a progressive dividend policy and create long-term value for shareholders.

We are mindful of the need to ensure that having a single performance measure does not lead to an inappropriate vesting outcome. We are committed to completing a thorough review of underlying business performance at the end of each three year performance period to ensure that our TSR result is reflective of Company performance over that time. We are also aware of the need to create an appropriate balance between short-term and long-term incentives. For this reason:

- all of the increase in the maximum incentive opportunity based on annual performance is delivered in deferred shares, which only vest after three years;
- we have doubled our executive shareholding guideline to 200 per cent of salary; and
- we are proposing a new two year holding period for the LTIP following vesting.

The annual bonus and LTIP are also underpinned by malus and clawback provisions.

Under the proposed policy, a larger proportion of the overall package will be linked to performance, more will be delivered in shares and the payout will be over a longer timeline:




## Policy table

The following tables set out the key elements of our remuneration, its purpose and link to strategy and the maximum opportunity. In addition, where relevant, we have set out the changes proposed to the policy for each element of remuneration and the rationale behind these changes.

The Committee has discretion in several areas of the policy. The Committee may also exercise operational and administrative discretions under relevant incentive plan rules approved by shareholders as set out in those rules. In addition, the Committee has the discretion to amend policy with regard to minor or administrative matters where it would be, in the opinion of the Committee, disproportionate to seek or await shareholder approval.

In setting the Remuneration Policy for Directors, the pay and conditions of other employees of the Company are taken into account, including any base salary increases awarded.

It is the Committee's intention that commitments made in line with its policies prior to the approval of the new policy will be honoured. This will be the case even if meeting such commitments is made after the approval of the new policy and may be inconsistent with the new policy.

The approach outlined here will be reviewed in three years' time. Amongst other factors, the balance between short and long-term elements in the package will be reviewed and may change in favour of the long-term. In addition, the measure used to assess this performance may change, reflecting the pace of change and the challenges facing the Company at the time.

## Fixed remuneration

| Operation | Maximum Opportunity | Performance Measures | Change from current policy and rationale |
|---|---|---|---|
| **Base salary** | | | |
| **Purpose & Link To Strategy**<br>Reflects the scope and responsibility of the role, while taking account of the skills and experience of the individual.<br>Used to attract and retain talented executives to deliver the business strategy. | | | |
| Salary levels for the Executive Directors are normally reviewed annually.<br>The Committee takes into account factors such as the performance of the Company, the performance of the Executive Director, any changes in role and responsibility, assessment against relevant comparator groups, internal relativities and the level of increase being offered to our frontline employees. | Increases will normally be in line with the broader employee population.<br>Increases may be made above this level to take account of changing circumstances such as a change in responsibility, progression in the role, individual performance or a significant increase in the scale or size of the role. | Not applicable | No change |
| **Benefits** | | | |
| **Purpose & Link To Strategy**<br>To support the attraction and retention of talented executives by providing a competitive offering. | | | |
| Benefits currently include the provision of a company car and health insurance, or the cash equivalent of these benefits. Life assurance and health screening are also provided. Additional benefits may be offered such as relocation allowances on recruitment.<br>Moya Greene is entitled to financial advice, use of a driver for business-related travel and two return flights to Canada each year.<br>Executive Directors are entitled to participate in the SAYE scheme, with monthly deductions being taken for a period of three or five years. The savings can be used to purchase shares at a discounted price set at the start of each plan.<br>Executive Directors are eligible to receive Free Shares when released by the Government. They participate in any Free Share allocations on the same basis as all other eligible full-time employees. | The maximum value of the benefits is the cost to the Company. | Not applicable | No change |
| **Pension** | | | |
| **Purpose & Link To Strategy**<br>To provide a competitive post-retirement income. | | | |
| Company contribution to a defined contribution pension scheme and/or a cash supplement (in lieu of pension). | £200,000 per annum cash allowance for the CEO.<br>40% of salary paid as a cash allowance for the CFO. | Not applicable | The Committee maintains contractual historical pension supplements for existing Executive Directors; however it recognises that the pension provision is high. It would adopt a lower percentage for newly appointed Executive Directors, up to median FTSE100 levels. |

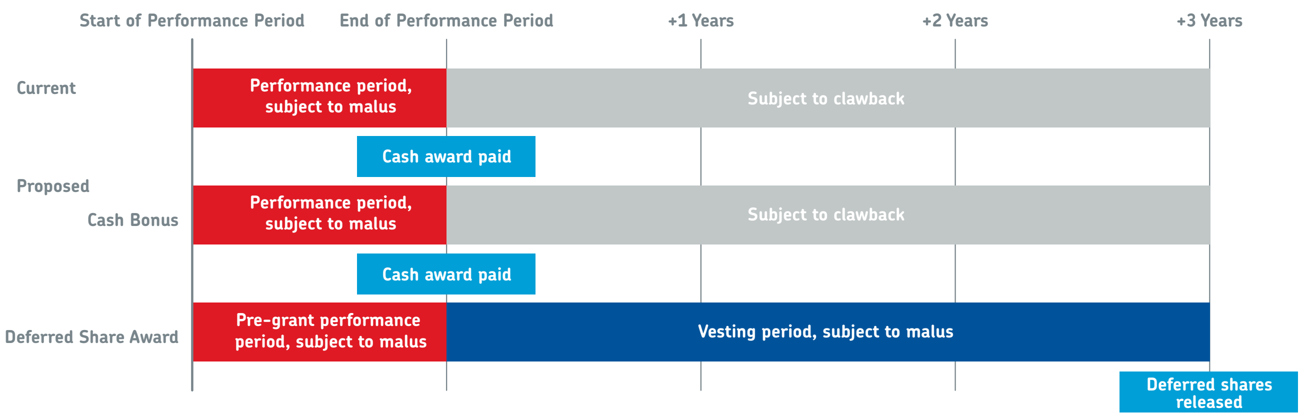
## Variable remuneration

| Operation | Maximum Opportunity | Performance Measures | Change from current policy and rationale |
|---|---|---|---|
| **Annual bonus** | | | |
| **Purpose & Link To Strategy**<br>**Current policy:** Designed to reward achievement of key strategic, financial and operational priorities for the year, to deliver strong performance in service of longer term strategic goals and creation of long-term shareholder value.<br>**Proposed policy:** As the current policy, with the addition of the provision of part of the total annual incentive opportunity being a deferred share award encouraging a long-term view, providing alignment with shareholders' interests. | | | |
| **Current policy**<br>The bonus is paid in cash.<br>Best practice clawback provisions are included in the annual bonus. | Maximum bonus opportunity of 100% of salary. | Aligned to the Corporate Balanced Scorecard for the Executive Directors each year. | The proposed changes increase the proportion of the package weighted on short-term performance, allowing the Company to set annual KPIs which more significantly incentivise the successful delivery of the Company's transformation agenda, alongside its operational, financial and strategic goals. This allows the Company some flexibility to respond to a rapidly evolving market and ensure that KPIs remain relevant and focused on the business stage of transformation. |
| **Proposed policy**<br>The total annual incentive opportunity is provided as follows:<br>• one half is payable in cash, paid at the end of the annual performance period<br>• one half is granted as a deferred share award, after the end of the performance period and subject to continued employment over the three year vesting period.<br>Deferred share awards will be granted to Executive Directors in the form of a conditional share award.<br>Malus provisions would apply to the deferred share award over the three year vesting period.<br>A clawback mechanism would apply to the cash bonus for a period of three years following the bonus determination. | Maximum total annual incentive opportunity of 200% of salary, with two thirds earned for target performance split equally between cash and deferred shares.<br>The Committee will normally award dividend equivalents on deferred shares to plan participants to the extent that they vest. | Annual performance measures and weightings will be selected at the start of each financial year to align with the key strategic, financial and operational priorities of the business.<br>The measures themselves may change on an annual basis as the key strategic, financial and operational priorities of the business change.<br>For 2016, 80% of the annual bonus will be based on the scorecard targets, and 20% will be based on the achievement against strategic objectives.<br>A minimum of 50% of the scorecard targets shall be financial, with the remainder robust operational, customer and people KPIs.<br>A minimum level of operating profit must be achieved before any bonus is payable to an Executive Director. | The increase to bonus quantum aims to improve the competitiveness of the Company's annual bonus versus the market. The proposed maximum total annual incentive opportunity of 200% of salary would go some way to addressing this.<br>However, the increase in maximum bonus is delivered in the form of a deferred share award. Bonus deferral and the malus provisions act as a balance to the increase in quantum and ensure that Executive Directors continue to be exposed to the long-term share-based performance of the Company.<br>Combined with the LTIP of 100% of salary, the total package remains relatively low compared to other FTSE 100 companies. |

The Committee may use its discretion to:

- change the performance measures and targets and the weighting attached to the performance measures and targets part-way through a performance year if there is a significant and material event which causes the Committee to believe the original measures, weightings and targets are no longer appropriate; and
- to make downward or upward movements to the amount of bonus earned resulting from the application of the performance measures, if the Committee believes that the bonus outcomes are not a fair and accurate reflection of business performance.

### Annual bonus: current policy vs proposed policy

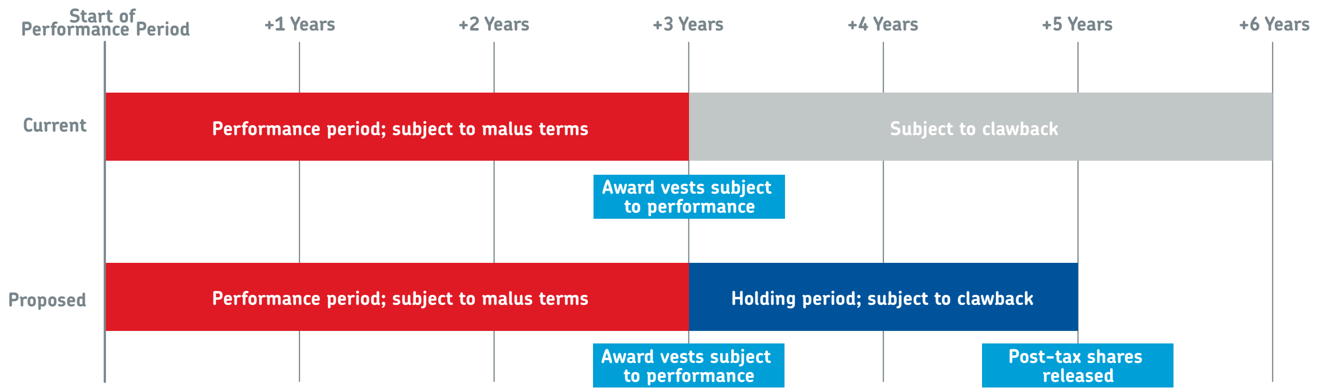


## Long term incentive plan

| Operation | Maximum Opportunity | Performance Measures | Change from current policy and rationale |
|---|---|---|---|
| **Purpose & Link To Strategy**<br>**Current policy:** Supports executive recruitment and retention, with an appropriate balance between short-term performance and the creation of long-term, sustainable shareholder value.<br>**Proposed policy:** As the current policy, with greater emphasis on the creation of shareholder value. | | | |
| **Current policy**<br>Awards are granted annually to Executive Directors in the form of a conditional share award.<br>These will vest at the end of a three year period subject to:<br>• the Executive Director's continued employment at the date of vesting; and<br>• satisfaction of the performance conditions.<br>Malus and clawback provisions are included in the LTIP. | Maximum award level of 98% of salary.<br>The Committee may award dividend equivalents on those shares to the extent that they vest. | The performance conditions for the 2015 awards were measured over a three year performance period as follows:<br>• 50% of the award assessed against Earnings Per Share, with 12.5% of the award vesting at threshold and 50% vesting at maximum.<br>• 35% of the award dependent on Operating profit margin (before transformation costs), with 8.75% of the award vesting at threshold performance and 35% vesting at maximum.<br>• 15% of the award dependent on TSR against the FTSE 100 (excluding mining and financial companies). If the Group's TSR performance is ranked at median, 7.5% of the award will vest, increasing to full vesting (15% of the award) if performance is in the top quartile of the group.<br>Different performance measures and/or weightings may be used for each award. | For 2016, vesting will be based on a single measure, TSR. The rationale for this measure is set out in more detail on page 61.<br>The Committee decided to retain the existing vesting schedule that applies to the TSR measure within the current LTIP, with 50% of the TSR element of the award vesting for median TSR performance.<br>The Committee recognises that the threshold vesting level of 50% of the award may seem high compared to a threshold vesting level of 25% in a typical FTSE 100 company. However most of these organisations have an LTIP maximum award of 200% of salary or more, whereas ours remains at 100% of salary. Therefore the actual percentage of salary vesting for threshold performance of 50% is similar to typical practice. The Committee does not feel it is appropriate to operate a highly leveraged package at this stage in Royal Mail's development and therefore does not want to increase the LTIP opportunity in order to correspondingly reduce the level of vesting at threshold. Any future change in LTIP maximum award would of course be put to shareholders for approval. |
| **Proposed policy**<br>Awards are granted annually to Executive Directors in the form of a conditional share award.<br>These will vest at the end of a three year period subject to:<br>• the Executive Director's continued employment at the date of vesting; and<br>• satisfaction of the performance conditions.<br>Following the vesting, there is a holding period of two years when Executive Directors hold vested shares net of tax.<br>Malus provisions apply over the performance period.<br>Clawback will apply over the holding period. | Maximum award level of 100% of salary.<br>The Committee will normally award dividend equivalents on those shares to the extent that they vest. | Performance measures and/or weightings reflect the business strategy at the time, and are measured over three years.<br>The Committee may change the balance of the measures, or use different measures for subsequent awards, as appropriate.<br>For the 2016 award, 100% of the award will be dependent on TSR against the FTSE 100 (excluding mining and financial companies). If the Group's relative TSR performance is ranked at median, 50% of the award will vest, increasing to full vesting if performance is in the top quartile of the group. | The addition of a two year holding period to the terms of the LTIP award further aligns the interests of Management with those of long-term shareholders.<br>The Committee will retain the discretion to make adjustments to the vesting of the LTIP resulting from the application of the performance measures if the Committee believes that the outcomes are not a fair and accurate reflection of underlying business performance. The Committee will consider its discretion very carefully taking account of underlying business performance during the three year vesting period and explain in full in the relevant Remuneration Committee Report the basis of its determination. |

In exceptional circumstances the Committee retains the discretion to:
- vary or waive the performance conditions applying to LTIP awards if the Board considers it appropriate and that the new performance conditions are deemed reasonable and are not materially more or less difficult to satisfy than the original conditions;

### LTIP: current policy vs proposed policy:



## Shareholding guideline

| Operation | Maximum Opportunity | Performance Measures | Change from current policy and rationale |
|---|---|---|---|
| **Purpose & Link To Strategy**<br>To ensure alignment between remuneration and long-term shareholder value creation. | | | |
| **Current policy**<br>Directors are expected to keep any shares they already own and 50% of any shares released under the LTIP (after selling sufficient shares to meet any associated tax obligation) until this is achieved. | Shareholding guideline of 100% of salary | Not applicable | Shareholders have recently raised their expectations of the level of minimum shareholdings held by Executive Directors of listed companies.<br>Part of the rationale behind the new policy proposed by the Committee is to provide a larger element of the potential remuneration for the Company's Executive Directors in equity. |
| **Proposed policy**<br>Directors are expected to keep any shares they already own and any shares released under the LTIP and the Deferred Share Bonus Plan (except for those sold to cover any tax and social security obligations) until this is achieved. | Shareholding requirement of 200% of salary | Not applicable | The Committee has therefore determined to increase the minimum shareholding requirement to 200% for the Executive Directors.<br>Due to the restrictions on share purchase at the IPO, and the fact that LTIPs have not previously vested in shares, the shareholding requirements for the Executive Directors will take a while to fulfil.<br>Now that Executive Directors can increase their shareholding requirement through both the LTIP and the deferred share award, it is intended that they will not sell any shares (other than to cover tax and social security) until they build up the required shareholding guideline. |

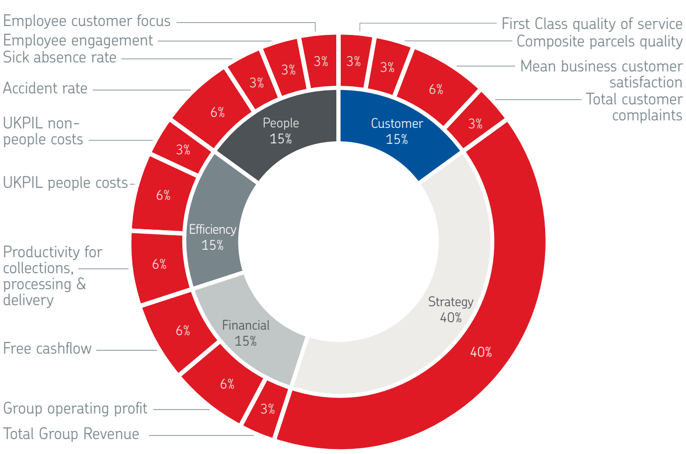
## How do the KPIs for our annual bonus and LTIP link to the Group strategy?

### Annual bonus

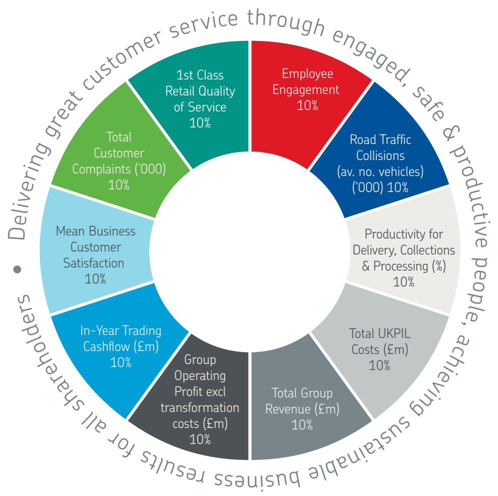
A significant proportion of the performance in the annual bonus is measured through the Corporate Balanced Scorecard. This scorecard tracks a range of short-term measures that are critical to the creation of long-term, sustainable shareholder value and the delivery of our strategy. The Committee is proposing to simplify the number of metrics that comprise the scorecard to sharpen Management focus on the most important targets. Specific quadrants are removed under this new approach. However, the metrics continue to focus on our people, customer, efficiency and financial performance. All Executive Directors and CEC members participating in this plan are also set strategic and/or personal objectives that reflect the priorities of their respective roles.

The current scorecard is shown below, with the proposed policy shown on the right hand side:

#### Current policy




#### Proposed policy



The Executive Directors will be assessed against a series of strategic objectives, in line with the Group Strategy described in pages 16-17 earlier in the Report. In summary, they are:

- Articulate the ambition for the Company for the next five years and define the route to achieving that vision.
- Defend the Letters business by managing the cost base of the core network effectively, continuing to transform the business to become more efficient, and stemming letters decline through initiatives.
- Continuing to evolve the Parcels business both in the UK and internationally to win more profitable business in a dynamic and highly competitive market place.
- Growing in new areas through acquisitions as well as leveraging our existing assets.
- Continue to refresh our approach to technology, defining a digital strategy which identifies and embraces technology relevant for our business' future.

## LTIP

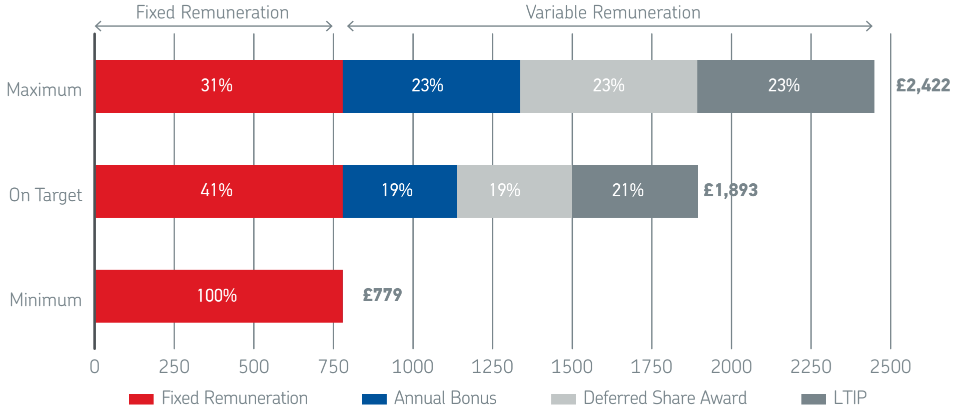
Under the proposed policy we are simplifying our LTIP by having a single metric directly reflecting shareholder value achieved, including dividends, relative to other large quoted companies.

The Committee believes relative TSR is an appropriate measure of strategy implementation over the next three years. It rewards the creation of value for shareholders through the successful execution of our strategy. TSR also reflects the importance of dividend yield to the Group's shareholders and the Company's commitment to a progressive dividend policy. In the event that the underlying financial performance of the Group is not reflected in the TSR performance, the Committee would retain discretion to adjust the award.

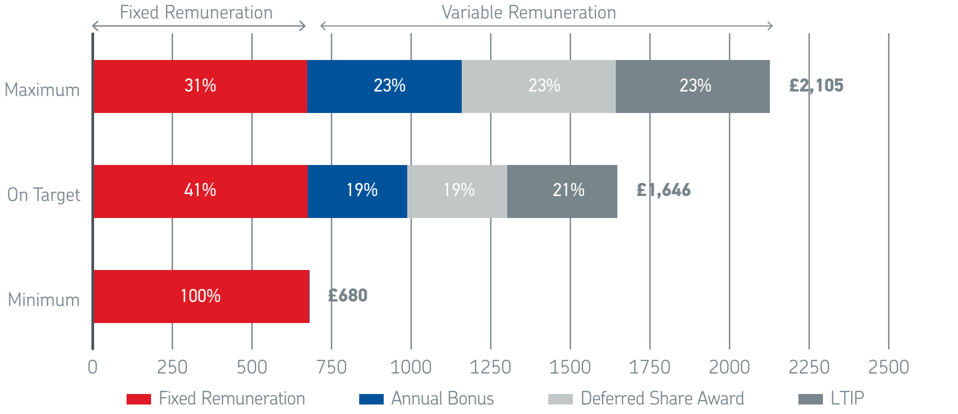
## What is the remuneration opportunity under the proposed policy?

The following charts set out the remuneration scenarios under the proposed policy for the Executive Directors.

**CEO** (£000s)




**CFO** (£000s)




**Assumptions**

*Minimum/fixed remuneration*: This includes salary (2016-17 salaries – CEO: £547,800, CFO: £475,000), pension (CEO: £200,000, CFO: 40% of salary) and benefits (CEO: £31,000, CFO: £15,000).
*On-target*:
Bonus: For the proposed bonus, on-target is taken as two-thirds of maximum (and the same value is used for the deferred share award)
LTIP: The expected value is taken as 70% of maximum.
*Maximum*:
Bonus: For the cash bonus and deferred share award this is 100% of salary
LTIP: For the proposed LTIP this is 100% of salary.
No assumptions have been made in relation to future share price movements or dividend reinvestments.

| Element | Implementation of policy in 2016-17 |
|---|---|
| **Base salary** | Increase in base salary for the CFO from £454,065 to £475,000 with effect from 1 April 2016. This is the first increase the CFO has received since April 2014.<br>As the Committee said in last year's Report, there is no change to the salary of the CEO. |
| **Benefits** | No change to benefit provision for 2016-17 |
| **Pension** | No change to pension provision for 2016-17 |
| **Annual bonus** | The maximum total annual incentive opportunity for the Executive Directors will be 200% of salary, per proposed policy, half delivered in cash and half in deferred shares.<br>For the 2016-17 annual bonus, 80% of the award will be based on the achievement against the scorecard, of which at least 50% of the measures will be financial, with the remainder focused on operational, customer and people-related targets. 20% of the award will be based on achievement against strategic objectives.<br>The Committee is of the opinion that given the commercial sensitivity arising in relation to the detailed financial targets used for the annual bonus, disclosing precise targets for the annual bonus in advance would not be in shareholder interests. Actual targets, performance achieved and awards made will be published at the end of the performance periods so shareholders can fully assess the basis for any pay-outs under the Plan. |
| **LTIP** | The Executive Directors will be eligible for an award equivalent to 100% of salary, which is relatively low compared to the external market.<br>100% of the award will be based on the Group's relative TSR performance against the FTSE 100 (excluding mining and financial companies).<br>The vesting schedule will measure the Group's performance over three years as follows:<br>• 50% of salary will vest if TSR performance is equal to the median TSR of the companies in the comparator group;<br>• Maximum vesting will occur if TSR is equal to, or greater than, the upper quartile TSR of the comparator group;<br>The award is subject to straight line vesting between these two points.<br>In the event that the underlying financial performance of the Group is not reflected in the TSR performance, the Committee would retain discretion to adjust the award. |
| **Shareholding guidelines** | 200% of salary for Executive Directors. |

## Have shareholders been engaged in the design of this proposed policy?

The Chair of the Committee has engaged with many of our larger shareholders to explain the proposed changes to the Remuneration Policy, the reasons for those changes and the desired outcomes. Shareholders were generally positive in their comments and made constructive suggestions for improving the proposals. We have taken this feedback into account in arriving at our final proposal.

## What would the remuneration arrangements be for a new Executive Director?

Salaries for new Executive Directors appointed to the Board will be set in accordance with the terms of the approved Remuneration Policy in force at the time of appointment. In particular, they will take account of the appointee's skills and experience as well as the scope and market rate for the role.

Benefits consistent with those offered to other Executive Directors under the approved Remuneration Policy in force at the time of appointment will be offered, including the discretion to offer additional benefits such as relocation allowance on recruitment. Pensions for new Executive Directors appointed to the Board will be set in accordance with the terms of the approved Remuneration Policy in force at the time of appointment, and will typically be up to the median of the market and will be lower than the pension provision for our existing Executive Directors.

Incentive arrangements for new Executive Directors will be in accordance with the approved Remuneration Policy in force at the time of appointment. This means the maximum total annual incentive opportunity award in any year would be 200 per cent of salary and the maximum LTIP award would be 100 per cent of salary, (with the ability to offer up to 200 per cent of salary for the year of recruitment) if the proposed policy is approved.

For an externally appointed Executive Director, the Company may offer additional cash or share-based payments that it considers necessary to buy out current entitlements from the former employer that will be forfeited on recruitment. Any such arrangements would reflect the type of award e.g. cash or shares, time horizons and levels of conditionality of the remuneration lost. In order to facilitate buy-out arrangements, existing incentive schemes will be used to the extent possible, and the Committee will retain discretion on the application of holding periods, performance conditions and performance periods.

For an internally appointed Executive Director, any outstanding variable pay element, such as a long-term incentive plan awarded in respect of the prior role will continue on its original terms.

The fees for Non-Executive Directors appointed will be set in accordance with the terms of the approved Remuneration Policy in force at the time of appointment.

The Committee always seeks to ensure that any remuneration package is set such that the Company is able to attract the right calibre of individual required, whilst taking account of affordability, and therefore must be allowed to exercise its judgement.

## What are the Executive Directors' terms of employment?

The Executive Directors are employed under service contracts. The dates of these contracts are:

| | Date of Contract | Unexpired Term (months) |
|---|---|---|
| **Moya Greene** | 15 July 2010 | 12 |
| **Matthew Lester** | 24 November 2010 | 12 |

The contracts have an indefinite term that may be terminated by the Executive Directors with six months' written notice. The Company can terminate contracts with 12 months' notice. Copies of the Executive Directors' service contracts are available for inspection at the Company's AGM.

## What happens when an Executive Director leaves?

Moya Greene's contract dates from her appointment to the Company in 2010. As disclosed in the Prospectus, her contract may be terminated immediately by the Company. Unless the Company terminates the contract due to gross misconduct or a material breach of the obligations under the service contract, it would be required to make a payment equalling 12 months' base salary and an annual cash bonus referable to the 12 month period in which the termination occurs. The assessment of the annual bonus award would be made in line with normal practice for determining bonuses. The bonus provision is not replicated in any other contracts and would not be part of the terms of appointment of a new Executive Director.

Under Matthew Lester's service contract and the policy for future hires, the Company may terminate the contract by making a payment in lieu of any unexpired notice period. The payment in lieu of notice is limited to a maximum of 12 months' base salary.

Payment in lieu of accrued holiday, incidental expenses and outplacement services may be paid/provided for as appropriate. Any statutory entitlements or sums to settle or compromise claims in connection with a termination (including, at the discretion of the Committee, reimbursement for legal advice) would be paid as the Committee considers necessary.

The Company has an explicit policy on mitigation. Future service contracts for Executive Directors will include express provisions for the use of monthly phased payments, a requirement for the departing executive to seek to mitigate any loss and a reduction in amounts paid if the executive obtains alternative paid employment.

The following table sets out the position under the incentive plans on cessation of employment:

| | Good Leaver Reason[1] | Other Reasons[2] | Committee Discretion |
|---|---|---|---|
| **Annual bonus: cash awards** | Performance conditions will be measured at the bonus measurement date. Bonus will normally be pro-rated. | No bonus payable for year of cessation. | • to determine that an executive is a good leaver; and<br>• to determine whether to pro-rate the bonus to time. The normal policy is that bonus will be pro-rated; provided that where any discretion is exercised, there is an appropriate business case which will be explained in full to shareholders. |
| **Annual bonus: deferred share awards** | All subsisting deferred share awards will normally vest on the normal vesting date. | Lapse of any unvested deferred share awards. | • to determine that an executive is a good leaver;<br>• to vest deferred shares at the date of cessation of employment;<br>• to determine whether to pro-rate the award to time. The normal policy for existing awards is that they will not be pro-rated; provided that where any discretion is exercised, there is an appropriate business case which will be explained in full to shareholders; and<br>• In respect of the year of cessation, discretion may be exercised to provide a pro-rated deferred share award based on achievement of performance conditions as measured at the bonus measurement date. |
| **LTIP** | Pro-rated to time and performance in respect of each LTIP award. Awards will vest on the normal vesting date and the holding period will apply, except in the case of death when awards will vest on date of cessation of employment (and no holding period will apply). | Lapse of any unvested LTIP awards. | • to determine that an executive is a good leaver;<br>• to measure performance over the original performance period or at the date of cessation of employment;<br>• to vest the shares on date of cessation of employment;<br>• to determine whether to pro-rate the award to time. The normal policy is that awards will be pro-rated; and<br>• to disapply the holding period; provided that where any discretion is exercised, there is an appropriate business case which will be explained in full to shareholders. |

1 A good leaver reason is defined as cessation in the following circumstances: death; injury, ill-health or disability, as established to the satisfaction of the Committee, redundancy with the agreement of the Committee, retirement with the agreement of the Committee, the company employing the executive ceasing to be a member of the Group, the business or part of the business to which the executive's office or employment relates being transferred to a person who is not a member of the Group, or any other reason where the Committee in its discretion so permit

2 Cessation of employment in circumstances other than those set out above is cessation for other reasons

## What happens in the case of a takeover?

The Committee's policy on the vesting of incentives on a change of control is summarised below:

| Name of Incentive Plan | Takeover | Discretion |
|---|---|---|
| **Annual bonus: cash awards** | Pro-rated to time and performance to the date of the takeover. | The Committee's normal policy is that it will pro-rate the bonus for time. It is the Committee's intention to use its discretion to not pro-rate in circumstances only where there is an appropriate business case which will be explained in full to shareholders. |
| **Annual bonus: deferred share awards** | Subsisting deferred share awards may vest on a takeover. | The Committee has discretion regarding whether to pro-rate the award to time. The Committee's normal policy is that it will not pro-rate awards for time. The Committee will make this determination depending on the circumstances of the takeover. |
| **LTIP** | Subsisting LTIP awards may vest on a takeover, pro-rated to time and performance. | The Committee will determine the proportion of the LTIP Award which vests taking into account, among other factors, the period of time the LTIP Award has been held by the participant and the extent to which any applicable performance conditions have been satisfied at that time. |

In the event of a demerger, the Committee has wide flexibility as to what should happen to awards, including whether all or part of an award should vest and on what terms, or whether an award should continue on amended terms.

## How do the remuneration arrangements for Executive Directors compare with arrangements for employees across the Company?

When making decisions on the levels of remuneration for Executive Directors, the Committee takes account of pay increases and incentive awards for all employees. The Company does not use remuneration comparison measurements, such as pay ratios, nor have employees been consulted directly on the policy.

A number of different incentive schemes operate across the Company; as far as possible the metrics used for the Executive Directors to assess performance for those schemes are cascaded through the Company.

## What is the Company's policy on Directors holding external positions?

It is the Company's policy to allow each Director to accept one Non-Executive Director position on the board of another company. The fees for such appointments are retained by the Executive Directors and are disclosed on page 78.

## What is the Remuneration Policy for the Chairman and Non-Executive Directors?

| Operation | Opportunity | Performance metrics |
|---|---|---|
| **Chairman and Non-Executive Directors Policy** | | |
| **Purpose & Link To Strategy**<br>Provides a level of fees to support recruitment and retention of Non-Executive Directors and a Chairman with the necessary experience to fulfil the leadership role required of them. | | |
| The Board is responsible for setting the remuneration of the Non-Executive Directors. The Remuneration Committee is responsible for setting the Chairman's fees.<br>Non-Executive Directors are paid an annual fee and additional fees for chairmanship of committees. The Chairman does not receive any additional fees for membership of committees.<br>Fees are reviewed annually based on equivalent roles in the comparator group used to review salaries paid to the Executive Directors. Fees are set at broadly the median of the comparator group.<br>Non-Executive Directors and the Chairman do not participate in any variable remuneration or benefits arrangements. | The fees for Non-Executive Directors and the Chairman are set at broadly the median of the comparator group.<br>In general, the level of fee increase for the Non-Executive Directors and the Chairman will be set taking account of any change in responsibility and will take into account the general rise in salaries across the UK workforce.<br>The Company will pay reasonable expenses incurred by the Non-Executive Directors and Chairman and may settle any tax incurred in relation to these. | None |

## What are the terms of appointment for the Chairman and Non-Executive Directors?

The Non-Executive Directors (including the Chairman) are appointed by rolling letters of appointment. The Non-Executive Directors are appointed for up to three years, subject to annual review and re-election. One month's notice is required by either party (four months' notice in the case of the Chairman). The dates of the Chairman's and Non-Executive Directors' letters of appointment are set out in the following table.

| | Date of Contract | Unexpired Term (months) |
|---|---|---|
| Peter Long | 18 June 2015 | 26 |
| Donald Brydon | 20 September 2013 | Resigned 31 August 2015 |
| John Allan | 20 September 2013 | Resigned 30 April 2015 |
| Nick Horler | 20 September 2013 | 4 |
| Cath Keers | 20 September 2013 | 4 |
| Paul Murray | 20 September 2013 | 4 |
| Orna Ni-Chionna | 20 September 2013 | 4 |
| Les Owen | 20 September 2013 | 4 |

The Company follows the Code's recommendation that all directors of FTSE 350 companies be subject to annual re-appointment by shareholders.

## Which of the Board members sit on the Remuneration Committee, and how frequently do they meet?

| | Number of meetings eligible to attend | Number of meetings attended |
|---|---|---|
| **Total number of meetings** | 6 | |
| **Chair** | | |
| Orna Ni-Chionna | 6 | 6 |
| **Members** | | |
| Donald Brydon | 2 | 2 |
| Peter Long | 4 | 4 |
| Paul Murray | 6 | 6 |
| Les Owen | 6 | 5[1] |

[1] Les Owen was unable to attend the Committee meeting on 16 December 2015 due to a prior engagement

Meetings of the Committee were also attended, where relevant, by the Chief Executive Officer, Group HR Director, Company Secretary, the Group Reward and Recognition Director, and other members of senior management and representatives from the executive remuneration consultants PwC.

No individual was present when matters regarding their own remuneration were discussed.

**What is the role of the Remuneration Committee?**

- To determine and recommend for the Board's approval the framework for the remuneration of the senior executives of the Group;
- To determine the individual remuneration arrangements for the Chairman, the Executive Directors and the Company Secretary; and
- To agree the targets for any performance-related incentive schemes applicable to senior executives.

The full Terms of Reference for the Committee can be found on our website:
http://www.royalmailgroup.com/about-us/management-and-committees/remuneration-committee.

# Annual report on Directors' remuneration

This part of the Directors' Remuneration Report sets out details of how the current Remuneration Policy has been applied for the Financial Year 2015-16. This detailed information, set out below and on the following pages, has been audited by the Company's independent auditors, KPMG LLP.

## Single figure for total remuneration

| £'000 | Salary/ Fees[1] | | Benefits[2] | | Annual Bonus Plan[3] | | Long Term Incentive Plan[4] | | Pension[5] | | Other | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| **Chairman** | | | | | | | | | | | | | | |
| Peter Long[6] | 185 | – | – | – | – | – | – | – | – | – | – | – | 185 | – |
| Donald Brydon[7] | 96 | 210 | – | – | – | – | – | – | – | – | – | – | 96 | 210 |
| **Executive Directors** | | | | | | | | | | | | | | |
| Moya Greene | 548 | 510 | 31 | 29 | 448 | 433 | 302 | 350 | 200 | 200 | – | – | 1,529 | 1,522 |
| Mark Higson | – | 135 | – | 5 | – | 80 | 115 | 226 | – | 54 | – | 316 | 115 | 816 |
| Matthew Lester | 454 | 454 | 15 | 15 | 367 | 359 | 259 | 301 | 182 | 182 | – | – | 1,277 | 1,311 |
| **Non-Executive Directors** | | | | | | | | | | | | | | |
| John Allan[8] | 4 | 45 | – | – | – | – | – | – | – | – | – | – | 4 | 45 |
| Jan Babiak[9] | – | 3 | – | – | – | – | – | – | – | – | – | – | – | 3 |
| Nick Horler | 50 | 45 | – | – | – | – | – | – | – | – | – | – | 50 | 45 |
| Cath Keers | 50 | 45 | – | – | – | – | – | – | – | – | – | – | 50 | 45 |
| Paul Murray | 65 | 60 | – | – | – | – | – | – | – | – | – | – | 65 | 60 |
| Orna Ni-Chionna | 75 | 70 | – | – | – | – | – | – | – | – | – | – | 75 | 70 |
| Les Owen | 60 | 55 | – | – | – | – | – | – | – | – | – | – | 60 | 55 |
| **TOTAL** | **1,587** | 1,632 | **46** | 49 | **815** | 872 | **676** | 877 | **382** | 436 | **–** | 316 | **3,506** | 4,182 |

1 Moya Greene's salary was increased on 1 January 2015 from £498,000 to £547,800. The 2014-15 salary above is 9/12ths of £498,000 (her previous salary) and 3/12ths of £547,800. Moya Greene has received no further increase in her base salary since 1 January 2015
2 Benefits include medical insurance and car allowance. The figure for Moya Greene also includes return flights to Canada
3 Bonuses are determined based on the salary as at 1 January 2016 in line with the Company's policy for all staff. All bonus payments are made in cash
4 The current year figure relates to the 2013 LTIP award. The prior year figure relates to the 2012 LTIP award, which was based on performance to 29 March 2015
5 For Moya Greene, £40,000 is paid into the Royal Mail Defined Contribution Plan and the remaining £160,000 is paid as an allowance. The full amount for Matthew Lester is paid as an allowance
6 Peter Long was appointed to the Board as a Non- Executive Director on 18 June 2015 and became Chairman on 1 September 2015
7 Donald Brydon resigned from the Board on 31 August 2015
8 John Allan resigned from the Board on 30 April 2015
9 Jan Babiak resigned from the Board on 29 April 2014

The following sections outline how the data in the table above was determined, with regard to base salary and incentives.

# Were base salaries reviewed in the year?

During the course of our Remuneration Policy review, the Committee considered the relative competitiveness of the current packages for our Executive Directors. Although no change was made during 2015-16, it was agreed that Matthew Lester's salary should be increased from 1 April 2016. The Committee agreed to apply an increase of £20,935 (4.6 per cent), taking his salary to £475,000. This is the first salary increase that Matthew Lester has been awarded since April 2014. Moya Greene's salary was left unchanged since January 2015.

This compares to salary increases for frontline staff over the last four years as shown below:

| % increase in salary | 2016-17 | 2015-16 | 2014-15 | 2013-14 | 2012-13 |
|---|---|---|---|---|---|
| **Moya Greene** | 0% | 10% | 0% | 0% | 0% |
| **Matthew Lester** | 4.6% | 0% | 6% | 0% | 0% |
| **Average frontline employee** | Under negotiation | 2.8% | 3% | 3% | 3.5% |

With this most recent change, Matthew Lester's total salary increases since joining Royal Mail in 2012 amount to 10.6 per cent. Our frontline employees have received an increase of 12.3 per cent up to 2015-16, with a further salary increase for the coming year still under negotiation.

## What was the outcome of the annual bonus?

The performance period for the annual bonus is the same as the financial year, with achievement being assessed against a range of financial and non-financial targets, as set out in the Corporate Balanced Scorecard, and against a set of personal objectives. The maximum bonus opportunity for the CEO and CFO was 100 per cent of salary.

The table below contains a summary of the performance metrics which are used to determine the annual bonus award for the CEO and CFO.

## Corporate Balanced Scorecard

| | Weighting | Measure | Threshold | Target | Max | Actual | Outcome | Segment Outcome |
|---|---|---|---|---|---|---|---|---|
| Financial | 3% | Total Group revenue (£m) | 8,708 | 8,886 | 9,067 | 9,191 | 5.0% | 25.0% |
| | 6% | Group operating profit before transformation costs (£m) | 482 | 567 | 667 | 738 | 10.0% | |
| | 6% | Free cashflow (£m) | 165 | 206 | 258 | 315 | 10.0% | |
| Efficiency | 6% | Productivity for delivery, collections & processing (%) | 1.7 | 2.1 | 2.5 | 2.4 | 9.0% | 22.2% |
| | 6% | UKPIL people costs (£m) | (4,928) | (4,829) | (4,733) | (4,764) | 8.7% | |
| | 3% | UKPIL non-people costs (£m) | (2,377) | (2,329) | (2,282) | (2,294) | 4.5% | |
| Customer | 3% | First Class Quality of Service (%) | 92 | 93.0 | 93.5 | 92.6 | 2.4% | 9.9% |
| | 3% | Composite parcels Quality of Service (%) | 94.4 | 95.4 | 95.9 | 94.4 | 1.5% | |
| | 6% | Mean business customer satisfaction | 75 | 76 | 77 | 76 | 6.0% | |
| | 3% | Complaints ('000) | 451 | 430 | 411 | 476 | 0.0% | |
| People | 6% | Lost time accident rate frequency rate reduction (%) | 0 | 7 | 12 | 30 | 10.0% | 15.9% |
| | 3% | Sick absence rate (%) | 4.70 | 4.50 | 4.30 | 4.51 | 2.9% | |
| | 3% | Employee engagement | 55 | 57 | 58 | 57 | 3.0% | |
| | 3% | Employee customer focus (%) | 68 | 69 | 70 | 67 | 0.0% | |
| Strategic Objectives | 40% | See below for key highlights (for more details on our progress against our strategic priorities. Please see pages 16-17) | 50% | 100% | 167% | 150% | | 60.0% |
| % of the Scorecard | 100% | | | | | | | 133.0% of target |
| As a % of the bonus | 80% | | | | | | | 63.8% of salary |

**Strategic objectives:** for the 2015-16 bonus, we placed a strong focus on incentivising delivery against our strategic priorities, accounting for 40 per cent of our corporate scorecard. Summarised below are some of the key achievements that demonstrate the progress made during the year:

**Winning in parcels:** in the UK we have maintained our pre-eminent position in parcels, with a three per cent increase in parcel volume and one per cent revenue growth. We also have revenue growth of nine per cent in GLS. Key points include:

- Opening our network for longer by pushing back our latest acceptance times;
- Winning major new retail accounts including John Lewis, M&S, Urban Group and Waterstones and growing our business with existing customers, such as ASOS;
- Extending our tracked products services: e.g. Royal Mail International Tracked & Signed is now available to 54 destinations; and
- Extending our strategic service with Alibaba, linking Chinese exporters with UK online shoppers, allowing them to supply goods for UK delivery much more quickly.

**Defending letters:** over the year, addressed letter volumes decreased by three per cent – better than our forecast range of a four to six per cent decline per annum due to:

- Promoting the value of marketing mail through MarketReach's MAILMEN campaign; and
- Implementing processes ensuring mail is handled efficiently e.g. improved large letter sorting machines and upgraded Optical Character Reading technology to sort more mail automatically.

**Growing in new areas:** this has seen us exploit our existing assets e.g. offering fleet maintenance services to third parties and make targeted acquisitions to explore opportunities for expansion in growing sectors of the market and/or to further develop organisational capability in digital/e-commerce space. Acquisitions include Intersoft, NetDespatch and a stake in Market Engine.

This commercial activity is enabled by:

**A strategic focus on costs:** we have scoped over 70 projects to target to avoid over £500 million of additional annualised costs by 2017-18 in UKPIL.

**Investing in technology to support our transformation:** we have commenced the roll out of new sorting machines for small parcels and 76,000 PDAs across our operation in addition to 3,000 finger scanners. These investments will help to transform management and customer information e.g. with better tracking.

**An engaged and motivated workforce:** continued to promote culture change through many initiatives including joint training for over 6,000 managers and union representatives in our Together for Growth programme promoting better dialogue and collaborative working. Through this and other initiatives, only 325 days were lost due to unballoted strikes in 2015-16, a reduction of 37 per cent compared to the previous year.

**Personal objectives (20% of the bonus):** both the CEO's and CFO's personal objectives are linked to their specific roles in the implementation of the strategy. For the CEO:

- Seeking ways to mitigate increasingly competitive market place (see above for evidence);
- Develop and implement workforce strategy including continue to deliver initiatives which support cultural change, enhancing managerial capability through a more effective talent pipeline and promoting diversity;
- Seeking new revenue sources: focusing on winning new customers in existing markets and looking to grow new revenue opportunities in new adjacent market; and
- Channel strategy: including expanding customer products and services including expanding our Local Collect network – the largest UK network of click and collect locations and working with Post Office Limited, to improve our customers' experience.

For the CFO:

- Increasing efficiency and a wholesale review of all costs (see above for evidence);
- Driving transformation initiatives including parcel automation (see above for evidence);
- Channel strategy in partnership with the CEO; and
- Develop new revenue sources in partnership with the CEO.

Performance against these personal objectives has been assessed by the Committee and the following level of satisfaction determined:

| Personal objectives | Max % of salary | Actual % of salary | | Max % of salary | Actual % of salary |
|---|---|---|---|---|---|
| **CEO** | 20% | 18% | **CFO** | 20% | 17% |

When added to the outcome of the Corporate Balanced Scorecard, the total bonus value, and the percentage of salary, were as follows:

Moya Greene: £448,379, 81.9 per cent of salary

Matthew Lester: £367,116, 80.9 per cent of salary

## What was the outturn of the 2013 LTIP?

The 2013 LTIP was granted as a cash award as it was made just prior to the IPO. Following the IPO, the awards were converted into shares at a conversion rate of £5.29.

The award itself was based on achievement against two performance conditions to be achieved by 27 March 2016. The tables below show the performance conditions and the vesting of this plan:

### Performance conditions:

| Performance conditions | Definition | Target measurement period | Target | Vesting (% of award straight line sliding scale) |
|---|---|---|---|---|
| **Operating profit before transformation costs** | Operating profit of the Group before interest and taxation and before exceptional items as reported in the Annual Report and Accounts of the Company, adjusted for such other items or events as the Committee considers appropriate | Financial year 2015-16 | £573m – £654m | 0 – 80 |
| | | | £654m | 80 |
| | | | £654m – £818m | 80 – 100 |
| | | | £818m | 100 |
| | | | £818m – £982m | 100 – 140 |
| | | | £982m | 140 |
| **ROTA** | Return (Adjusted Operating Profit[1]) on total net operating assets of the Group as reported in the Annual Report and Accounts of the Company expressed as a percentage as determined by the Committee | Financial year 2015-16[2] | <17.55% | 0 |
| | | | 17.55% – 21.06% | Restriction on vesting to 50% |
| | | | >21.06% | No restriction on vesting |

1 The operating profit for ROTA purposes is adjusted for the interest cost charges embedded in the Group's operating leases
2 The average of 13 periods, being with the opening balance sheet plus 12 monthly periods

## Actual achievement:

| Measure | Threshold | Target | Outcome | 2013-14 LTIP vesting (as % of Target) | Resulting Share Awards Moya Greene | Resulting Share Awards Matthew Lester |
|---|---|---|---|---|---|---|
| **Operating profit before transformation costs** | £573m | £818m | £680m* | 83.1% | 60,509 | 52,003 |
| **ROTA** | 17.55% | 21.06% | 22.17% | | | |

*Operating profit before transformation costs, adjusted to reflect the pension service rate and foreign exchange rate assumed in the 2013 business plan

The resulting share awards also include the dividends that were paid during the performance period, since IPO, and have been reinvested.

## What previous LTIP awards remain outstanding at the year end?

The grant made for the 2014 LTIP remains outstanding. The performance conditions are:

| Measure | Weighting | Threshold | | Maximum | |
|---|---|---|---|---|---|
| | | Performance | Vesting (% of award) | Performance | Vesting (% of award) |
| **EPS** | 50% | 9% CAGR | 12.5% | 21% CAGR | 50% |
| **Operating profit margin before transformation costs*** | 35% | – | 8.75% | – | 35% |
| **TSR versus FTSE100 (excluding mining & financial companies)** | 15% | Median | 7.5% | Top Quartile | 15% |

*The precise figures are deemed to be commercially sensitive but will be disclosed on vesting of the award

The grant made for the 2015 LTIP remains outstanding. The performance conditions are:

| Measure | Weighting | Threshold | | Maximum | |
|---|---|---|---|---|---|
| | | Performance | Vesting (% of award) | Performance | Vesting (% of award) |
| **EPS** | 50% | 40.8 pence achieved in respect of 2017-18 financial year | 12.5% | 44.7 pence achieved in respect of 2017-18 financial year | 50% |
| **Operating profit margin before transformation costs*** | 35% | – | 8.75% | – | 35% |
| **TSR versus FTSE100 (excluding mining & financial companies)** | 15% | Median | 7.5% | Top Quartile | 15% |

*The precise figures are deemed to be commercially sensitive but will be disclosed on vesting of the award

The amount of the awards outstanding, for each of the Executive Directors, is shown in the following table, as at 27 March 2016:

| Measure | Year | Type | Maximum value of award at grant (% salary) | Maximum value of award at grant (£'000) | % vesting at threshold performance (% of salary) | Final year of performance period | Number of shares |
|---|---|---|---|---|---|---|---|
| **Moya Greene** | 2014 | LTIP shares | 98% | 488 | 28% | 2016-17 | 108,357 |
| | 2015 | LTIP shares | 98% | 537 | 28% | 2017-18 | 105,057 |
| **Matthew Lester** | 2014 | LTIP shares | 98% | 445 | 28% | 2016-17 | 98,797 |
| | 2015 | LTIP shares | 98% | 445 | 28% | 2017-18 | 87,080 |

## Following these LTIP awards, what are the current shareholding levels of the Board?

The table below sets out details of the shareholdings of the Executive and Non-Executive Directors at 27 March 2016. There has been no change in the Directors' interests in the ordinary share capital of the Company between 27 March 2016 and 27 May 2016, except as noted in (2) below.

| | Shareholding guideline | Number of shares owned outright on 27/03/16 | Number of shares owned outright on 29/03/15 | Value of shares owned outright on 27/03/16[1] | Number of options granted under SAYE plan | Conditional share awards subject to performance conditions (LTIP 2013, 2014, 2015)[2] |
|---|---|---|---|---|---|---|
| **Chairman** | | | | | | |
| Donald Brydon[3] | – | 15,530 | 15,530 | – | – | – |
| Peter Long | – | 50,000 | – | – | – | – |
| **Executive Directors** | | | | | | |
| Moya Greene | 100% | 3,862 | 3,759 | £18,333 | 590 | 279,294 |
| Matthew Lester | 100% | 3,862 | 3,759 | £18,333 | 590 | 242,497 |
| **Non-Executive Directors** | | | | | | |
| John Allan[4] | – | 3,257 | 3,257 | – | – | – |
| Nick Horler | – | 3,313 | 3,173 | – | – | – |
| Cath Keers | – | 3,030 | 3,030 | – | – | – |
| Paul Murray | – | 15,617 | 15,477 | – | – | – |
| Orna Ni-Chionna | – | 3,313 | 3,173 | – | – | – |
| Les Owen | – | 3,030 | 3,030 | – | – | – |

[1] Value based on closing share price on 27/03/16
[2] Shares include those which have subsequently vested following the end of the performance period
[3] Shareholding as at 31 August 2015
[4] Shareholding as at 30 April 2015

Data is reported prior to the sale of shares required to cover tax obligations.

The impact of LTIPs previously vesting in cash rather than shares means that it will take some time for the Executive Directors to achieve the minimum required level of shareholding guideline.

## Were any payments made for loss of office?

Donald Brydon resigned from his position as Non-Executive Director of the Board on 31 August 2015 and John Allan resigned from his position as a Non-Executive Director of the Board on 30 April 2015. No payments were made in respect of loss of office.

## Were any payments made to past Directors in the year?

Mark Higson left the Company on 24 July 2014; for the LTIPs that he participated in he was granted 'good leaver' status. The value of the 2013 award that he remained eligible for is based on the prior table outlining the vesting, and using a pro-rated calculation of 44 per cent, being the time served during the performance period.

His total vested award is 23,133 shares, including reinvested dividends. Using the closing share price on the day of vesting, this gives a value of £115,457.

## Did the Executive Directors receive fees from external appointments?

The Executive Directors are entitled to receive fees from external appointments. Moya Greene was a Director at Great-West Lifeco Inc. and received fees of £48,000 (sterling equivalent) for the last reported financial year. Moya Greene stepped down from her position on the Board of Great-West Lifeco in January 2016. Matthew Lester is a Non-Executive Director at Man Group plc and received fees of £95,000 for the last reported financial year.

## How does the change in the Chief Executive's pay compare to that for Royal Mail employees?

The table overleaf shows the percentage change in the Chief Executive's salary, benefits and annual bonus between 2014-15 and 2015-16, compared with the average for all employees across the Group.

| | Chief Executive Officer Moya Greene | | | Average Of All Employees | | |
|---|---|---|---|---|---|---|
| | 2015-16 | 2014-15 | % Change | 2015-16 | 2014-15 | % Change |
| Salary[1] | £547,800 | £547,800 | 0.0% | £28,988 | £28,690 | 1.0% |
| Benefits[2] | £31,000 | £29,000 | 6.9% | £49 | £48 | 0.9% |
| Annual bonus | £448,379 | £432,762 | 3.6% | £920 | £902 | 2.0% |

[1] Full time equivalent salary including overtime and shift allowances
[2] All taxable benefits

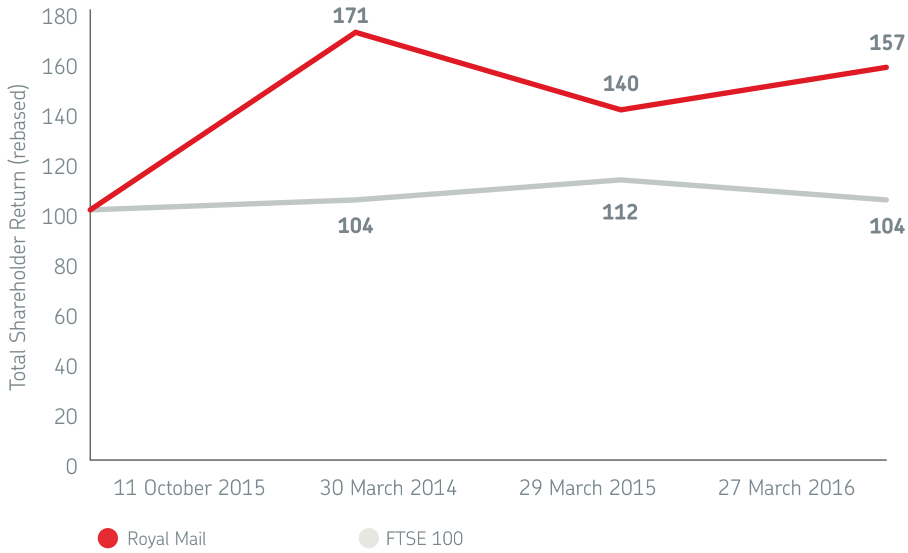
## What has the pay for the CEO been over the last seven years?

The total remuneration figure for the Chief Executive over the last seven years is shown in the table below. The annual bonus pay-out and LTIP vesting level as a percentage of the maximum opportunity is also shown.

| | 2009-10 | 2010-11 | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
|---|---|---|---|---|---|---|---|---|
| **Chief Executive Officer** | Adam Crozier | Adam Crozier | Moya Greene | Moya Greene | Moya Greene | Moya Greene | Moya Greene | Moya Greene |
| Total Remuneration (£'000) | 858 | 2,428 | 778 | 1,107 | 1,962 | 1,360 | 1,522 | 1,529 |
| Annual bonus award as % maximum | – | – | 41% | 74% | 80% | 77% | 85% | 82% |
| LTIP award as % maximum | – | 100% | – | – | 100% | 100% | 69% | 59% |

## How does TSR compare to that of other similar companies?

TSR is the measure of the returns that a company has generated for its shareholders, reflecting both movement in the share price and dividends, which are assumed to be reinvested, over a period of time. The following graph shows the TSR of the Company, since the date of the first day of trading, relative to the FTSE 100 Index. The FTSE 100 Index has been chosen for comparison as the Company has been a constituent of the Index for the majority of the period shown, and it provides a benchmark of the performance of other large UK listed companies.

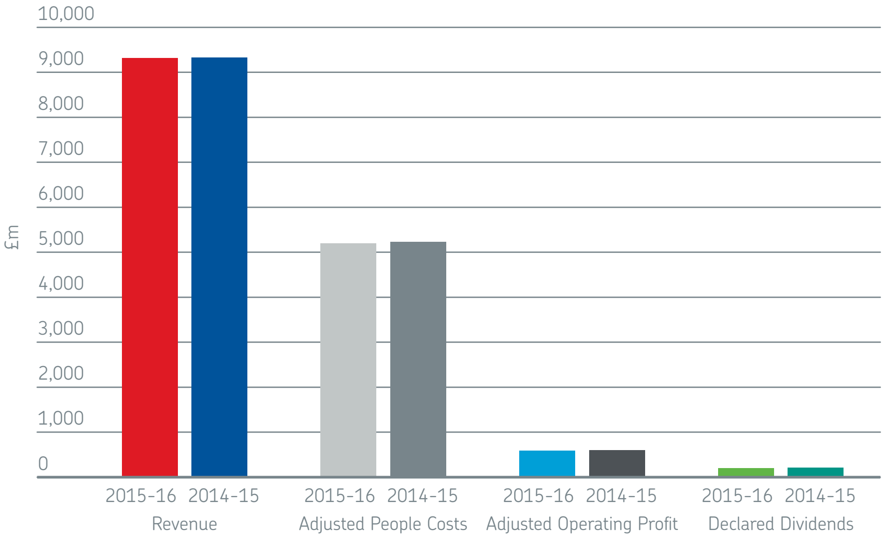



| TSR over the Financial Year | 2013-14* | 2014-15 | 2015-16 |
|---|---|---|---|
| Royal Mail plc | 71% | -18% | 12% |
| FTSE 100 | 4% | 7% | -7% |

* The chart and table show performance since the first day of conditional trading following the IPO (11 October 2013); in accordance with the Code, they will show an increasing timeframe in the coming years

## How much does Royal Mail spend on pay?

The following chart shows the Company's actual spend on pay (for all employees) relative to dividends, revenue and operating profit. Revenue has been included because this measure represents the amount of money the Company received during the year and provides a clear illustration of the ratio of people costs to income.




Note: the data used for Revenue and Adjusted Operating Profit in the chart is not adjusted for foreign exchange movement, which is included in the outturn for the Scorecard

## Does the Remuneration Committee seek advice from internal and external advisers?

The members of the Committee are Orna Ni-Chionna, Peter Long, Paul Murray and Les Owen.

The Committee takes information and advice from inside and outside the Company. Internal support was provided by Jon Millidge, the Group HR Director (supported by other members of the HR department as appropriate) and Kulbinder Dosanjh, the Company Secretary. No individual was present when matters relating to his or her own remuneration were discussed.

The Committee seeks advice from independent external advisers as appropriate. The appointed advisers, PwC, were selected through a competitive tendering process, led by the Chair of the Remuneration Committee, and appointed in October 2014. PwC provided information to the Committee regarding external market trends and advice on executive remuneration design. The total fees paid for advice to the Committee were £201,075.

PwC has provided tax, technology, finance, operations, regulatory and strategic consulting services to the Group in the financial year.

PwC are signatories to the Remuneration Consultants Code of Conduct and report directly to the Chair of the Committee. The Chair of the Committee meets regularly with its advisers without Management present. The Committee is satisfied that the advice it receives is objective and independent.

## 2015 Voting By Shareholders

The table below shows the advisory vote on the 2014-15 Remuneration Report at the AGM on 23 July 2015.

| Number of votes cast | For | Against | Withheld |
|---|---|---|---|
| **525,689,690** | 499,637,018 | 26,052,672 | 152,184,245 |
| | 95.04% | 4.96% | |

Approved by the Board on 18 May 2016 and signed by

**Orna Ni-Chionna**
Chair, Remuneration Committee