

POST OFFICE LIMITED

BOARD TERMS OF REFERENCE

Including the Schedule of Matters reserved for Board decision

The Board of Post Office Limited is collectively responsible for setting the Company's primary business objectives, for establishing a proper governance framework to manage and monitor risk and for ensuring that the Company has the resources and leadership required to achieve its stated objectives. Directors' statutory duties are set out in the Companies Act 2006. The primary duty of the directors is to promote the success of Post Office Limited as a Company for the benefit of its Government shareholder and the wider stakeholder community.

The Board remains accountable for performance to the Shareholder Executive within the Department for Business, Innovation & Skills ("ShEx"). The Board is required to notify ShEx of certain activities and capital commitments and to seek the consent of ShEx, as Shareholder, for certain actions, as set out in the Articles of Association.

A. BOARD COMPOSITION

1. The Board is made up of two executive directors and five non-executive directors, including the Chairman.

ROLE	INCUMBENT
Chairman (Chairman of Nominations Committee)	Alice Perkins CB
Senior Independent Director (Chairman of Remuneration Committee)	Neil McCausland (retail expertise)
Non-Executive Director (Chairman of Pension Committee)	Virginia Holmes (pensions expertise)
Non-Executive Director (Chairman of Audit, Risk & Compliance Committee)	Alasdair Marnoch (financial expertise)
Non-Executive Director	Tim Franklin (financial services expertise)
Non-Executive Director	Susannah Storey (Government appointee)
Chief Executive	Paula Vennells
CFO	Chris Day

2. The Company Secretary (Alwen Lyons) will act as Secretary to the Board.
3. The composition of the Board will be monitored by the Nominations Committee, which will make recommendations to the Board for the appointment or retirement of directors, taking into account the need for a diverse board membership with a range of appropriate skills and experience. All appointments will be subject to the consent of the Shareholder.

4. Non-Executive directors will form the majority of the Board. The term of office of each Non-Executive Director will be set by the Shareholder. Non-executive Directors will usually be appointed for a minimum period of three years. The initial term of office may be renewed for a further period but no Non-Executive Director shall serve for longer than [6] years.

B. BOARD MEETINGS

1. The Board shall meet as often as required. At least 8 Board meetings will be held each year.
2. In addition to regular Board meetings, separate Strategy sessions will be held twice a year.
3. The quorum for the transaction of business at a Board meeting shall be two directors (one Executive, one Non-Executive).
4. The Board 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.
5. Meetings may be convened by the Secretary, at the request of the Chairman, or by any director, at any time.
6. Notice of each meeting shall be given to all directors and, unless there are special circumstances, shall be given at least 3 working days before each meeting.
7. The Secretary (or a nominated deputy) shall attend all Board meetings and keep minutes and records of all decisions and actions.
8. Other Post Office employees and/or external consultants may attend for part or the whole of any Board meeting at the invitation of the Chairman.
9. The Secretary will be accountable to the Chairman for the provision of relevant and timely information to the Board and for ensuring regular reporting from Board Committees and the Executive Committee to the full Board.
10. The Non-Executive Directors will meet twice at least once each year without the executive directors being present.

C. DUTIES AND RESPONSIBILITIES

1. In addition to its legal duties, the Board has the following specific responsibilities:
 - Establishment of the Post Office's vision and values
 - Setting the Company's risk appetite and ensuring a proper framework exists for the management of risk
 - Maintenance of proper accounting and tax records, as required by the Companies Act 2006
 - Maintenance of a sound system of internal control so that the Company can meet its statutory and regulatory obligations

- Maintenance of the reputation of the Post Office as a public institution, including consideration of new products and activities which may attract public interest or have an impact on the value of the Post Office brand
 - Ensuring regular and active communications with the Shareholder, particularly on the Company's performance against the Strategic Plan and other key indicators
 - Delegation of authority to Board Committees and to the Post Office Executive Committee, according to their respective Terms of Reference
 - Formal evaluation of the performance of the Board, Board Committees and individual directors
2. The Board may delegate authority to the Executive Committee or to any Board Sub-Committee to deal with any particular matter or to complete a project or task on behalf of the Board. A Board Sub-Committee shall include both standing committees such as the Audit, Risk and Compliance Committee (ARC), the Nominations, Pension and Remuneration Committees and any ad-hoc sub-committees. The Board shall set out clearly the terms of reference of all such committees and shall receive reports on their activities, including copies of the minutes of committee meetings. Directors of the Board shall constitute the majority of members of any Board Sub-Committee.

D. SCHEDULE OF MATTERS RESERVED FOR BOARD DECISION

The following matters are reserved specifically for Board decision. Where indicated (*), the Board may delegate authority to a Board sub-committee to bring forward a recommendation for approval or to complete a project or task on behalf of the Board.

Section 1: Strategy and management

- Approval of the annual operating plan and budget
- Approval of the Strategic Plan to be submitted to Government and any changes to it
- Approval of the Funding Agreement with Government and monitoring of the achievement of milestones contained within the plan
- Approval of the criteria for measurement of performance (Key Performance Indicators) and annual review of such criteria
- Ensuring that any necessary corrective action is taken in the light of reviews of performance against budget and against the Strategic Plan and Funding Agreement
- Setting the policy for diversity, talent management and succession planning within Post Office
- Approval of any extension of the Group's activities into new business areas or outside the UK
- Any decision to cease to operate all or any material part of the Group's business

Section 2: Ownership, capital structure and constitution

- Consideration of any recommendations for major changes to the Group's ownership and/or control structure* (*Mutualisation Committee*)
- Approval of changes to the Group's capital structure including any proposal to issue new classes of shares, to redeem, consolidate or redesignate existing shares or to reduce the share capital,

- Proposals for changes to the Articles of Association or other constitutional documents applicable to the Post Office from time to time
- Approval of the incorporation of any new Group company, partnership or joint venture entity, including any subscription or application for allotment of shares
- Approval for the dissolution of any Group company, partnership or joint venture entity.

Section 3: Financial reporting and controls

- Approval of the annual report and accounts, including any corporate governance statement and any specific reports required by Company law* (*Board-appointed sub-committee*)
- Approval of any half year financial report or trading statement for publication* (*Board-appointed sub-committee*)
- Approval and declaration of any dividends or other proposed distributions, subject to the Articles of Association and confirmation of the sufficiency of distributable reserves
- Approval of any significant changes in accounting policies or practices* (*ARC*)
- Approval of treasury and banking policies, including methods of mitigating against foreign currency exposure and any use of financial derivatives* (*ARC*)
- Monitoring of the independence of internal and external auditors* (*ARC*)
- Approval of the appointment or removal of the external auditor* (*ARC*)
- Ensuring that an effective risk management system is maintained as part of a sound system of internal controls and internal risk management* (*ARC*)

Section 4: Financial commitments

- Approval of major capital projects (above £3m)
- Approval of material contracts in the ordinary course of business and included in the operating plan (above £20m) and those arising which are not included in the operating plan (above £10m)
- Approval of all material contracts not in the ordinary course of business, including all strategic acquisitions and disposals
- Proposals to enter into financial instruments, bank borrowings and any proposed loan facility (above £20m).
- Any commitment involving the registration of a debenture, mortgage or charge against Post Office Limited assets (above £3m).
- Approval of major asset disposals (above £1m)
- Consideration of any material changes to pension arrangements for Post Office employees, in particular affecting the rate of contributions required to be made* (*Pension Committee*)
- Determination of the appropriate investment strategy for Post Office pension funds and monitoring of performance by the investment managers* (*Pension Committee*)

Section 5: Appointments and Senior Remuneration

- Recommendation of the appointment of any person as a Director * (*Nominations Committee*)
- Following receipt of consent from the Shareholder, formal appointment of any person as a Director, including the designation of an individual to serve as Chairman, Senior Independent Director, Chief Executive, CFO or Chair of any Board Sub-Committee
- Confirmation of the division of responsibilities between the Chairman and the Chief Executive
- Appointment and any termination of appointment of the Company Secretary
- Recommendations to the Shareholder on changes to remuneration policy and packages for Executive Directors * (*Remuneration Committee*)
- Recommendations to the Shareholder on fees to be paid to Non-Executive Directors
- Introduction of any long term incentive scheme and approval of the performance criteria and the amount of any awards to be made under any long term incentive scheme * (*Remuneration Committee*)
- Approval of any annual bonus schemes involving participation by Directors* (*Remuneration Committee*)
- Confirmation of the terms of any suspension or termination of service of an Executive Director as an employee of the Company, subject to the law and their Director's contract * (*Remuneration Committee*)
- Appointments to the Boards of subsidiary and joint venture companies
- Appointment of specified individuals to authenticate the Post Office Limited seal
- Appointment of the Group's principal professional advisers

Section 6: Governance

- Ensuring delivery of the obligations on the Post Office set by the Postal Services Act 2011, including the publication of an annual Network Report and Postal Heritage Report
- Approval of the Group's overall corporate governance arrangements
- Performance evaluation of the Board, Board Sub-Committees and individual Board members (or confirmation of why this has not occurred).
- Approval of Group policies including, but not limited to, the Health and Safety Policy, Anti-Money Laundering Policy, Freedom of Information Policy, Whistle-Blowing policy and/or Code of Conduct and Anti-Corruption Policy
- Approval of the overall levels of insurance for the Group, including directors' and officers' liability insurance and any arrangements for indemnity of directors
- Decisions on the potential prosecution, defence or settlement of litigation involving potential costs of more than £1m or being otherwise material to the interests of the Group
- Any proposal to make political donations
- Changes to the Schedule of Matters Reserved for Board decision.

January 2013