

WH SMITH PLC

TERMS OF REFERENCE – REMUNERATION COMMITTEE

1. COMPOSITION

- 1.1 The Remuneration Committee shall be a Committee of the Board and its members appointed by the Board on the recommendation of the Nominations Committee and in consultation with the Chair of the Remuneration Committee.
- 1.2 The Committee shall comprise not less than three independent non-executive directors. The Chair of the Board may serve on the Committee as a member if he or she was considered independent on appointment as Chair of the Board.
- 1.3 The Board shall appoint the Chair of the Committee who shall be an independent non-executive director. In the absence of the Committee Chair the remaining members present shall elect one of themselves to chair the meeting (who would qualify under these Terms of Reference to be appointed to that position by the Board). The Chair of the Board shall not be eligible to be appointed as Chair of the Committee.
- 1.4 The Committee may invite such persons as it considers appropriate to attend for all or part of any meeting, as and when appropriate.
- 1.5 The Committee shall have at its disposal the services of a specialist in the field of executive benefits and remuneration.
- 1.6 The Company Secretary or his or her nominee shall be the Secretary to the Committee.
- 1.7 Each member shall hold office as a committee member for a period of up to three years, which may be extended, so long as the member continues to be an independent non-executive director.
- 1.8 The Chair and members shall be listed each year in the Company's Annual Report.

2. MEETINGS

- 2.1 The quorum for any meeting shall be two of the Committee members present throughout the meeting or by telephone. A member of the Committee shall not be counted in the quorum where decisions are made or discussions are to take place concerning such member's remuneration.
- 2.2 The Committee shall normally meet at least four times a year and additionally as and when required. The Chair of the Committee may convene meetings at his or her discretion. A meeting of the Committee may be called by any member of the Committee or by the Secretary, but in any event, the Committee shall meet prior to the Company's salary review date.
- 2.3 Notice of each meeting confirming the venue, date and time together with an agenda of items to be discussed and supporting papers where appropriate shall be forwarded to each member of the Committee and to each other person invited to attend, not less than three working days prior to the date of the meeting. All reasonable efforts shall be made to give notice of meetings of the Committee to all members of it and to arrange such meetings so that members are able to attend them.
- 2.4 A member of the Committee may participate in a Committee meeting by telephone.

- 2.5 In the event of equality of votes, the Chair of the Committee shall have a casting vote.
- 2.6 If any member of the Committee is unable to act for any reason, the Chair of the Committee may appoint another non-executive director of the Company agreed by other members of the Committee to act as that member's alternate.
- 2.7 The members of the Committee shall serve on the Committee at the discretion of the Board and may be removed by the Board.

3. **RESPONSIBILITIES**

The responsibilities of the Committee are:

- (a) to determine and agree with the Board the framework or broad policy for the remuneration of the Company's Chief Executive, Chair, executive directors, Company Secretary and such other members of the senior executive group as it is designated to consider ("Senior Executives"). The remuneration of non-executive directors shall be a matter for the Chair and the executive members of the Board. No director or manager shall be involved in any decisions as to their own remuneration;
- (b) to submit for approval by the Board and shareholders a directors' remuneration policy (to be included in the directors' remuneration report as appropriate):
- (i) every three years, or
 - (ii) in any year in which there is a change relative to the prior year, or
 - (iii) if shareholder approval was not achieved when last submitted; or
 - (iv) if majority shareholder approval was not achieved on the last submitted Annual Remuneration Report;

in determining such policy, to take into account all factors which it deems necessary including the interests of shareholders. The objective of such policy shall be to attract, retain and motivate executive management of the quality required to run the Company successfully and to encourage enhanced performance without, in the view of the Committee, paying more than is necessary, having due regard to views of shareholders and other stakeholders. The directors' remuneration policy should have regard to the risk appetite of the Company and alignment to the Company's long-term strategic goals. A significant proportion of remuneration should be structured so as to link rewards to performance and designed to promote the long-term success of the Company;

- (c) to ensure that the directors' remuneration policy includes the information on directors' remuneration required to be disclosed by the Companies Act 2006 (including regulations made thereunder), the Code, the Listing Rules, any other relevant statutory or regulatory codes and take due account of any relevant governance codes;
- (d) to submit for approval by the Board and shareholders an annual report on remuneration to be included in the directors' remuneration report, which should include the information on directors' remuneration required to be disclosed by the Companies Act 2006 (including regulations made thereunder), the Code, the Listing Rules, any other relevant statutory or regulatory codes and take due account of any relevant governance codes;

- (e) to approve appropriate remuneration packages for any new Senior Executive appointments and termination packages including contractual terms and pension benefit entitlements, ensuring where relevant that any packages and components thereof are permitted under the latest shareholder approved directors' remuneration policy and if not, that either a revised directors' remuneration policy or the proposed payment are submitted for shareholder approval;
- (f) to review the ongoing appropriateness and relevance of the directors' remuneration policy;
- (g) to approve the design of, and determine targets for, all Senior Executive performance related pay schemes operated by the Company and approve the total annual payments made under such schemes (in accordance with the provisions in Schedule A of the Code);
- (h) to note a periodic report from management as to pay and employment conditions across the Company or Group and, when setting the remuneration policy for directors, review and have regard to pay and employment conditions across the Company or Group, especially when determining annual salary increases;
- (i) to review the design of all existing and new cash bonus and employee share incentive plans for approval by the Board and, if appropriate, shareholders:
 - (i) determine policy for the grant of awards/options to executive directors and Senior Executives of the Company, to ensure that they are provided with appropriate incentives consistent with the Company's policy as stated in the directors' remuneration report for the Company's last audited financial year;
 - (ii) set appropriate performance targets in connection with the awards and options;
 - (iii) approve all and any awards/options to employees, including consideration of the quantum of grants and vesting schedules;
 - (iv) determine with the Committee's independent remuneration consultants and Auditors, whether such performance targets have been satisfied;
 - (v) any amendments to the awards and plans prior to obtaining any necessary shareholder approval;
 - (vi) exercise discretion specified in the rules of the plans and within the parameters permitted in the Directors' Remuneration policy when:
 - determining, notwithstanding performance against targets, whether any adjustment upwards or downwards be made to payouts under annual or long-term incentive arrangements due to other considerations;
 - determining when and explaining why exceptional circumstances apply which would lead to payments or increases above a normal maximum level; and
 - (vii) include provisions to enable the Company to recover sums paid or withhold the payment of any sum, and specify the circumstances in which it would be appropriate to do so;
- (j) to determine the policy for, and scope of, pension arrangements for each executive director and other Senior Executives;

- (k) to ensure that contractual terms on termination, and any payments made to Senior Executives, are fair to the individual, and the Company, that failure is not rewarded and that the duty to mitigate loss is fully recognised;
- (l) within the terms of the agreed policy determine the total individual remuneration package of each executive director and other Senior Executives including fees and expenses, bonuses, incentive payments and share options or other share awards;
- (m) in determining such packages and arrangements, to give due regard to any relevant legal requirements, the provisions and recommendations in the Code and the UK Listing Authority's Listing Rules and associated guidance;
- (n) to review and note annually the remuneration trends across the Company, including the Company's Gender Pay Gap Report;
- (o) to oversee any major changes in employee benefits structures in the Company;
- (p) to agree the policy for authorising claims for expenses from the Chief Executive and Chair;
- (q) to appoint consultants in respect of executive director remuneration and make a statement in the Company's Annual Report and Accounts identifying such consultants and whether they have any other connection with the Company;
- (r) to be exclusively responsible for establishing the selection criteria, selecting, appointing and setting the terms of reference for any remuneration consultants who advise the Committee and to obtain reliable, up-to-date information about remuneration in other companies. The Committee shall have full authority to commission any reports or surveys which it deems necessary to help it fulfil its obligations;
- (s) through the Chair of the Board and/or the Chair of the Committee, ensure that the Company maintains contact as required with its principal shareholders about remuneration; and
- (t) to make available these Terms of Reference, setting out the role and authority delegated to it by the Board.

4. ANNUAL GENERAL MEETING

- 4.1 The Chair of the Committee shall attend the Annual General Meeting and be prepared to respond to any shareholder questions on the Committee's activities.
- 4.2 All members of the Committee shall also attend the Annual General Meeting.

5. REPORTING PROCEDURE

- 5.1 The Chair of the Committee shall make a verbal report to the next meeting of the Board of matters considered by the Committee.
- 5.2 The Chair of the Committee shall make whatever recommendations to the Board the Chair deems appropriate on any area within the Committee's remit where action or improvement is needed.
- 5.3 The Secretary shall circulate to all members of the Board and invited attendees the minutes of the meetings of the Committee after the approval by the Chair unless the Chair determines that it is appropriate to redact certain information for members of the Board.

- 5.4 The Committee shall produce an Annual Report of the Company's remuneration policy and practices which will form part of the Company's Annual Report and ensure each year that it is put to shareholders for approval at the Annual General Meeting.

6. TERMS OF REFERENCE - REVIEW

The Committee shall, at least once a year, review its own performance together with that of its advisers, constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.

7. AUTHORITY

- 7.1 The Committee is authorised to investigate any activity within its terms of reference and seek any information it requires from any employee of the Company in order to perform its duties. All employees are directed to co-operate with any request made by the Committee.
- 7.2 The Committee is authorised to obtain, at the Company's expense, outside legal or other professional advice on any matters within its terms of reference including the advice of independent remuneration consultants, as well as information about remuneration practices elsewhere. The Committee may, if it thinks fit, secure the attendance at meetings of outsiders with relevant experience and expertise at the Company's expense.

8. OTHER MATTERS

The Committee shall:

- 8.1 Have access to sufficient resources in order to carry out its duties, including access to the company secretariat as required.
- 8.2 Be provided with appropriate and timely training, both in the form of an induction programme for new members and on an on-going basis for all members.
- 8.3 Give due consideration to laws, regulations and any published guidelines or recommendations regarding the remuneration of directors of listed/non listed companies and formation and operation of share schemes including but not limited to the provisions of the Code, the requirements of the UK Listing Authority's Listing, Prospectus and Disclosure and Transparency Rules as well as guidelines published by the Investment Association, Institutional Shareholder Services and the Pensions and Lifetime Savings Association and any other applicable rules as appropriate.