



Strategic report

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Information key



Case studies



This icon is used throughout the document to indicate reporting against a key performance indicator (KPI)

Who we are

Royal Mail is the UK's pre-eminent delivery company, connecting people, customers and businesses. As the UK's sole designated Universal Service Provider¹, we are proud to deliver a 'one-price-goes-anywhere' service on a range of letters and parcels to more than 29 million addresses, across the UK, six-days-a-week.

Through UK Parcels, International & Letters (UKPIL), we make a very significant contribution to the wider UK economy. In 2014-15, our impact totalled £11.1 billion in terms of value added. This includes our contribution through employment, procurement and taxation. We made the 6th largest contribution to the UK economy of all UK corporations².

Through our European parcels delivery business, General Logistics Systems (GLS), we operate one of the largest, ground-based, deferred³ parcel delivery networks in Europe.

Our people

We employ more than 160,000 people across our Group. UKPIL employs around 143,000 people. On average, one in 180 employed people in the UK works for Royal Mail⁴. Approximately 3,200 people work in our UK partially-owned subsidiaries.

GLS employs around 14,000⁵ people across a range of frontline, operational and support roles.

Our shareholders

Following our flotation on the London Stock Exchange in October 2013, we continue to have a large retail shareholder base. Approximately 150,000 eligible Royal Mail employees in the UK received free a ten per cent stake in our Company in total on privatisation. HM Government retained 29.9 per cent of Royal Mail's shares at 29 March 2015.

Our transformation

We are transforming as we handle fewer letters and manage increasing parcel volumes.

UK addressed letter volumes have fallen on average by around five per cent per annum in the last four years. Alongside these declines, there is not a level playing field for competition in the UK postal market. The UK postal market is fully-liberalised. No other EU country has experienced the same degree of mandated⁶ and price controlled access as the UK.

We continue to believe that Ofcom should set out a comprehensive regulatory framework that safeguards the future financial sustainability of the Universal Service, with clear guidelines around the commercial freedoms afforded to Royal Mail, which are necessary to respond to market conditions.

We are the UK's leading parcels delivery company. Growth in UK parcel volumes continues to be driven by e-retailing. But overcapacity has combined with the reduced rate of growth in the addressable market⁷ to create pricing pressure.

In the medium term, the fastest areas of growth in the parcels market are expected to be clothing and footwear and toys and sports equipment. We are transforming our core UK network so we can handle a greater number of these larger parcels. We are being more flexible to accommodate the increasing demands of e-retailers and online shoppers.

Combined with the disciplines of being a public company, these competitive dynamics mean that we face strong efficiency incentives. We are seeking to introduce sustainable change, in partnership with our unions. We are driving a cost-conscious culture through a combination of cost actions, optimising our network and standardising our processes.

➔ See page 12 for more information about the changes in our marketplace.

Revenue by business and market (£m) (adjusted 52 weeks 2015)⁸

Business/ market	Letters & other Marketing mail			Total
	Parcels	mail	mail	
UKPIL	3,190	3,400	1,167	7,757
GLS	1,653			1,653
Other		14		14
Group	4,843	3,414	1,167	9,424

Percentage of Group revenue by market (adjusted 52 weeks 2015)⁸

Parcels	51
Letters and other mail	36
Marketing mail	13
Group	100

¹ Under the Postal Services Act 2011 (the 'Act'), Ofcom is the regulator for postal services in the UK. Ofcom's primary regulatory duty for postal services is to secure the provision of the Universal Postal Service. Ofcom has designated Royal Mail as the Universal Postal Service Provider. Subject to the special administration regime, and as set out in the Act, this designation is not time-limited

² Comprising direct and indirect contributions. Cebr research, conducted for Royal Mail in May 2015

³ The least time-sensitive type of delivery

⁴ Cebr research, conducted for Royal Mail in May 2015

⁵ Includes discontinued operations

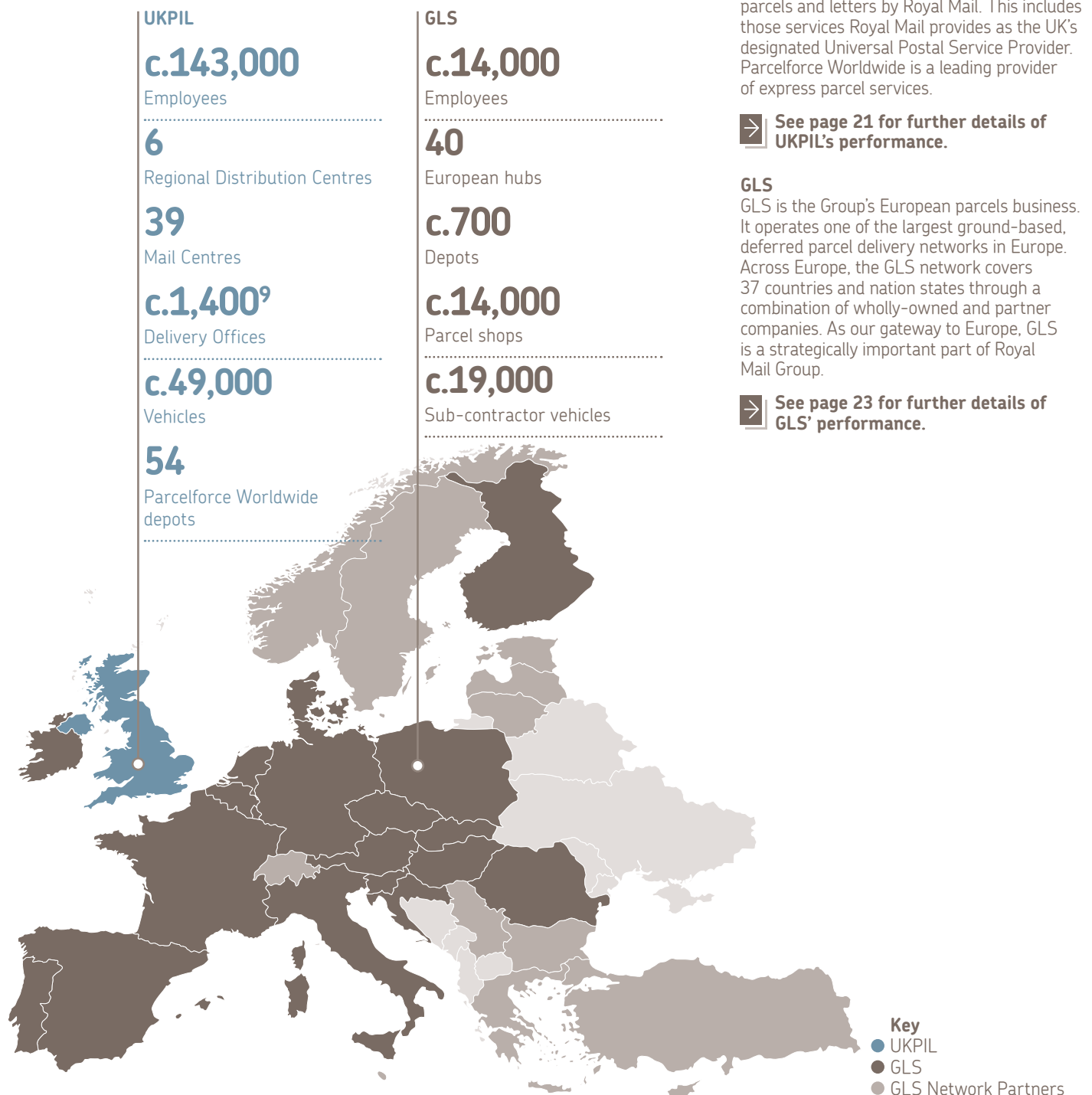
⁶ Royal Mail is obligated to provide access to its inward mail centres by our Regulator, Ofcom. This means that competitors to Royal Mail can collect and sort mail posted by business and hand it to Royal Mail for final mile delivery

⁷ Defined as individually addressed parcels and packets weighing up to 30kg, that do not require special handling and comprise goods that have been ordered based on Triangle Management Services/RMG Fulfilment Market Measure. Excluding International

⁸ Adjusted results exclude specific items, including the difference between the income statement pension charge and the total cost of pensions including deficit payments. The figures include the results of DPD Systemlogistik (DPD SL), a subsidiary of GLS Germany, which was owned by the Group for the full reporting period, and was sold following the year end and is identified as discontinued operations

Our operations and networks

The Group operates through: UK Parcels, International & Letters and General Logistics Systems.



UKPIL

UKPIL comprises Royal Mail's core UK and international parcels and letter delivery businesses under the 'Royal Mail' and 'Parcelforce Worldwide' brands. Royal Mail's network is unparalleled in the UK in its scale and scope. It supports the provision of services for the collection, sorting and delivery of parcels and letters by Royal Mail. This includes those services Royal Mail provides as the UK's designated Universal Postal Service Provider. Parcelforce Worldwide is a leading provider of express parcel services.

➤ See page 21 for further details of UKPIL's performance.

GLS

GLS is the Group's European parcels business. It operates one of the largest ground-based, deferred parcel delivery networks in Europe. Across Europe, the GLS network covers 37 countries and nation states through a combination of wholly-owned and partner companies. As our gateway to Europe, GLS is a strategically important part of Royal Mail Group.

➤ See page 23 for further details of GLS' performance.

⁹ Including satellite Delivery Offices

Financial and operating performance highlights

Group financial highlights

	52 weeks 2015	52 weeks 2014	Underlying change ¹
Adjusted results (including discontinued operations)²			
Revenue (£m)	9,424	9,456	1%
Operating profit before transformation costs (£m)	740	729	6%
Operating profit margin before transformation costs (%)	7.9	7.7	40 bps
Operating profit after transformation costs (£m)	595	488	5%
Operating profit margin after transformation costs (%)	6.3	5.2	20 bps
Profit before taxation (£m)	569	421	
Earnings per share (pence)	42.8	30.8	
Reported results (continuing operations)			
			Change
Revenue (£m)	9,328	9,357	
Operating profit before transformation costs (£m)	611	669	
Operating profit after transformation costs (£m)	466	428	
Profit before taxation (£m)	400	1,664	
Earnings per share (pence)	32.5	127.5	
Free cash flow (£m) ³	453	398	
Net debt (£m)	(275)	(555)	
Full year proposed dividend per share (pence)	21.0	20.0 ⁴	5%

Business units

(£m)	Revenue			Operating profit before transformation costs	
	52 weeks 2015	52 weeks 2014	Underlying change ¹	52 weeks 2015	52 weeks 2014
UKPIL	7,757	7,787	Flat	615	608
GLS	1,653	1,651	7%	115	108
Other businesses	14	18	n/m	10	13
Group	9,424	9,456	1%	740	729

Group financial performance

- Revenue increased by one per cent. This was due to parcel revenue growth in UKPIL and revenue growth in GLS which was ahead of our expectations.
- In UKPIL, operating costs before transformation costs were down one per cent, better than expected. People costs increased by one per cent and non-people costs reduced by four per cent.
- Tight cost control drove operating profit margin before transformation costs improvement of 40 basis points.
- Free cash inflow increased to £453 million, benefiting from £100 million of net cash flows from the London property portfolio.

- As expected, cumulative net investment for 2013-14 and 2014-15 was £1.2 billion. Total investment increased from £617 million to £658 million.
- Net debt reduced from £555 million to £275 million, mainly due to cash flow generated, offset by dividend payments of £200 million.
- Adjusted earnings per share was 42.8 pence.
- The Board is recommending a final dividend of 14.3 pence per ordinary share. Including the interim dividend of 6.7 pence per ordinary share, this represents a total dividend of 21.0 pence per share for 2014-15, up five per cent over the notional 2013-14 full year dividend of 20.0 pence.

Operating performance

- UKPIL revenue was flat at £7,757 million. A one per cent decline in total letter revenue was offset by parcel revenue growth of one per cent, reflecting the competitive market.
- UKPIL parcel volumes increased by three per cent, with a better performance in the second half. Addressed letter volumes declined by four per cent, at the better end of our forecast range.
- GLS revenue grew to £1,653 million, up seven per cent, with revenue growth in all its markets. Volumes were up eight per cent.
- Collections, processing and delivery productivity in UKPIL improved by 2.5 per cent, within our target range of a 2-3 per cent improvement per annum.
- We have seen a net reduction in the number of employees of over 5,500 this year in UKPIL.
- The management reorganisation programme delivered cost benefits of £42 million. It is now expected to deliver cost savings of around £80 million per annum from 2015-16.
- We have introduced around 30 new projects, including new services, products and promotions to improve our customer offering.
- We exceeded our regulatory Quality of Service target for Second Class mail, with a performance of 98.9 per cent against a target of 98.5 per cent. We met our regulatory target for the delivery of First Class mail, with a performance of 93.0 per cent.

Outlook

- The parcels and letters markets in the UK remain highly competitive.
- Trading is in line with our expectations at this early stage of the financial year.
- Our performance will be weighted to the second half and will be dependent on our important Christmas period.
- We continue to target flat or better UKPIL underlying costs for 2015-16.
- The combined impact of German minimum wage legislation and the disposal of DPD SL could reduce GLS margins by around 50-100 basis points in 2015-16.
- We remain committed to growing dividends.

¹ All movements are on an underlying basis unless otherwise stated. Underlying change is calculated after adjusting for movements in foreign exchange in GLS, working days in UKPIL and other one-off items that distort the Group's underlying performance. For volumes, underlying movements are adjusted for working days in UKPIL and exclude elections in letter volumes

² Adjusted results exclude specific items, including the difference between the income statement pension charge and the total cash cost of pensions, including deficit payments. The figures include the results of DPD Systemlogistik (DPD SL), a subsidiary of GLS Germany, which was owned by the Group for the full reporting period, and sold following the year end and has been reclassified as discontinued operations

³ For more information on free cash flow, please see note 7 on page 92

⁴ Notional 2013-14 full year dividend

Chairman's statement



Donald Brydon, CBE
Chairman

“Royal Mail is responding quickly to changes in our core markets.”

With intense focus on our efficiency, we have continued to improve our customer offering in a challenging operating environment. We are investing in improving our efficiency, growth and innovation to deliver a high-quality service for our customers and sustainable returns for our shareholders.

A landmark year

After almost 500 years in public ownership, 2014-15 was Royal Mail's first, full financial year as a listed Company.

Reflecting the improved operating profits and increased margins, and our commitment to growing the dividend, the Board recommends the payment of a final dividend of 14.3 pence per ordinary share on 31 July 2015, subject to approval by our shareholders at our 2015 Annual General Meeting (AGM). The proposed total dividend of 21.0 pence per ordinary share is a five per cent increase on the notional dividend of 20.0 pence per ordinary share for 2013-14.

Since our flotation on the London Stock Exchange in October 2013, and including our proposed final dividend, full-time employees who received an allocation of 729 Free Shares will have received around £250 in dividend payments. This helps to create alignment between the interests of our hard-working employees and our broad shareholder base.

Changing at pace

Royal Mail is responding quickly to changes in our core markets. We are seeking new ways to extend the reach of our core offering. We are putting the customer and our efficiency at the heart of everything we do.

I am grateful for the co-operation of both our people and our trade unions as we seek to deliver essential improvements in the way we work. In this Report, you will read about the many different programmes, innovations and practices – both established and in train – that will change the shape of this business for the better, for years to come.

A responsible employer

We are proud to deliver the Universal Service to over 29 million addresses across the UK, six-days-a-week. Our contribution to the UK, as an employer and a delivery company, continues to be significant. In 2014-15, we made the 6th largest contribution to the wider UK economy of all UK corporations¹. We will continue to take action to secure the financial future of the Universal Service, and protect as

many good quality jobs as possible for our people.

The safety of our employees is paramount. We want to be recognised as an industry leader in this important area. Once again, we have delivered a reduction in lost time accidents – one of our 12 Key Performance Indicators (see pages 18 – 19 for more information on KPIs). In addition to supporting a safer and more engaged workforce, the reduction in working days lost is estimated to have saved the business £431,000 in 2014-15.

While we have also seen a reduction in the number of serious accidents, there is more to do. In our **Corporate Responsibility Report 2014-15**², you will be able to read about new initiatives – particularly across our vehicle fleet – which we hope will continue to deliver reductions in serious accidents across our workforce.

We recognise the need to drive efficiency within our organisation. Yet, I believe the public's trust in the Universal Service can only be maintained if we offer our people the quality of employment that reflects their significant contribution to UK communities.

A responsible company

2013-14 saw the completion of our successful partnership with Prostate Cancer UK, for whom we raised £2.34 million. This money will be used to fund 36 specialist prostate cancer nurses.

In September 2014, almost 40,000 employees voted for the Stroke Association to become our new charity partner for the next two years. During this time, we hope to raise £2 million to help the charity provide Life After Stroke grants of up to £300 to help 10,000 stroke survivors. Our employees always go the extra mile to help our charity partners. Every penny they earn is matched by our Company.

We continue to support the viability and long-term sustainability of the British Postal Museum and Archive (BPMA). In June 2014, the BPMA-held Royal Mail Archive was added

¹ Cebr research, conducted for Royal Mail in May 2015

² To be published in June 2015

Chairman's statement (continued)

to the list of inscriptions on the UNESCO Memories of the World register. Together with the BPMA, we are marking two major anniversaries this year: the 200th birthday of Anthony Trollope, the father of the pillar box, and the 175th anniversary of the one-price-goes-anywhere service and the iconic Penny Black, the world's first adhesive postage stamp.

In last year's Report, I mentioned the BPMA's funding campaign for a new Postal Museum and Mail Rail project. Demolitions at the site of The Postal Museum are scheduled to begin in second quarter 2015 – the first phase in building the new museum and attraction. Later in the year, construction at both The Postal Museum and Mail Rail will begin in earnest as the experience starts to take shape.

Our Board

In March 2015, we confirmed that John Allan would be stepping down from the Board on 30 April 2015, following his appointment as Chairman of Tesco PLC. John has been a valued member of the Board. On behalf of all members, I wish to thank him for his dedication during one of the most critical periods in Royal Mail's history.

As I mentioned in last year's Report, we undertook a more detailed Board evaluation in 2014, involving an independent external consultancy. As a result of the evaluation, a comprehensive action plan has been set in place. The plan focuses on three key areas: culture and dynamics; strategy and operations; composition and tenure.

We have developed a number of specific, measureable action points, both short and longer term, which have been drawn from the findings of the evaluation. **More details can be found in the Governance section on page 49.**

Thank you

In January 2015, I announced my intention to step down from the Board. I am pleased to say that the succession process is well under way, led by our Senior Independent Director, Orna Ni-Chionna. With the Board's agreement, I will continue to chair the Board until at least the 2015 AGM.

In my six years as Chairman of Royal Mail, I have been fortunate to enjoy the support of a highly-accomplished Board. I would like to extend my heartfelt thanks to Board members – past and present – for their direction and guidance during this time of unprecedented change for our Company. I am sure that Royal Mail's new Chairman will benefit, as I have done, from such sound counsel.

In particular, I would like to thank Royal Mail's Chief Executive Officer, Moya Greene. During our five year partnership, Moya has provided

unstinting dedication, sage advice and the energy and force of will that has driven our Company forward in the most testing of circumstances. She has built an excellent team and without their contribution, Royal Mail would not be so well positioned to weather the challenges to come.

Looking back, there has been an extraordinary transformation at Royal Mail, with unprecedented shifts in the mix of the items we deliver. Royal Mail behaves increasingly as a customer-centric business. It is innovating and driving for increased efficiency. Its finances have been transformed and it is free to raise capital where it chooses. It is particularly pleasing that relations with our unions are today on a different level to that of the first part of the century. Very many challenges remain, but my successor's inheritance will be very different to my initial experience.

Finally, I offer my thanks to our people. I am humbled by their unwavering commitment to Royal Mail and the communities we serve. I wish my successor and all our employees great success.

Donald Brydon, CBE
Chairman
20 May 2015

Case study SAYE case study



In September 2014, we launched our inaugural Save As You Earn (SAYE) scheme.

The tax-efficient cash savings scheme enables those who take part to save a fixed amount from their salary every time they are paid, for three years. After this time, they can either opt to buy Royal Mail shares at a discounted price set at the beginning of the scheme; or have their savings repaid in full.

More than 36,000 employees decided to take part. This was significantly more than expected.

Employees who are taking part in SAYE will continue to save until December 2017, when they will be able to use their SAYE savings to buy Royal Mail shares at the option price, if they want to.

Chief Executive Officer's review



Moya Greene
Chief Executive Officer

This has been a challenging year. Through a continued focus on efficiency and tight cost control, we have offset the impact of lower than anticipated UK parcel revenue this year, so that operating profit before transformation costs is in line with our expectations. It has also been a year of innovation, with a range of new initiatives delivered at pace. We have introduced around 30 new projects, including services, products and promotions, to improve our customer offering.

“We have introduced around 30 new projects, including new services, products and promotions to improve our customer offering.”

Group revenue increased by one per cent. UKPIL revenue of £7,757 million was flat, as a one per cent decline in letter revenue was offset by a one per cent increase in parcel revenue. GLS delivered good revenue growth of seven per cent, with revenue increases in all of its markets.

Adjusted Group operating profit before transformation costs increased to £740 million, a 40 basis point expansion in the margin on an underlying basis. Short-term cost actions have delivered a better than expected UK cost performance. Adjusted UKPIL costs were down one per cent on an underlying basis.

Net cumulative investment for 2013-14 and 2014-15 was £1.2 billion, as we expected. This year, we saw a net reduction in the number of our UKPIL employees of over 5,500. I am grateful to them for their contribution. We have worked very closely with our unions to make these very difficult changes.

Outlook

The parcels and letters markets in the UK remain highly competitive. We continue to estimate that volume growth in the addressable parcels market will be reduced to around 1-2 per cent per annum in the short term¹. However, this will be dependent on the speed and extent of rollout of Amazon's own delivery network. We continue to expect that UK addressed letter market volumes, excluding elections, will decline by 4-6 per cent per annum in the medium term. We note the recent statement by PostNL about its UK end-to-end delivery activities and await the outcome of its review.

GLS has performed well in 2014-15 but the combined impact of German minimum wage legislation and the disposal of its subsidiary, DPD Systemlogistik, could reduce GLS margins by around 50-100 basis points in 2015-16. However, we are at the early stages of implementing mitigation strategies and need to see how the market reacts.

The investments made over the past three years in our technology, our network and our people position us well to address the challenges we see. We are now poised to step up the pace of change to drive efficiency, growth and innovation. We are maintaining a tight focus on costs and continue to target flat or better UKPIL underlying costs for 2015-16. We continue to expect ongoing transformation costs of around £120-140 million per annum depending on the level of voluntary redundancies announced in-year. Reported profit numbers will be impacted by the difference between the income statement pension charge and the cash cost of pensions which is expected to increase to around £255 million in 2015-16.

Total cash investment, net of operating asset disposals, is expected to be in the range £550-600 million going forward. We continue to evaluate our options in relation to our larger London properties. These larger sites will require further investment in order to optimise value, which will be mainly met by the disposal proceeds from the Paddington site.

At this early stage of the financial year trading is in line with our expectations but as in previous years, our performance will be weighted to the second half and will be dependent on our important Christmas period.

¹ Internal estimate based on historic growth trends (Triangle Management Services/RMG Fulfilment market measure, December 2014) and forecast data (Verdict UK E-retail Survey 2015)

Chief Executive Officer's review (continued)

We remain committed to growing our dividend. The Board is recommending a final dividend of 14.3 pence per ordinary share giving a total dividend for the full year of 21.0 pence per share, up five per cent over the notional 2013-14 full year dividend of 20.0 pence per share.

Our strategy

Our strategic priorities are:

- i) Being a successful **parcels** business;
- ii) Managing the decline in **letters**; and
- iii) Being **customer** focused.

These priorities are underpinned by a range of people, customer and financial measures to ensure we are **managing our business successfully**.

See pages 16 – 17 for more information.

We are the pre-eminent delivery company in the UK. Through GLS, we operate one of the largest, ground-based, deferred delivery networks in Europe. We are investing in change to drive further efficiency improvements, generate growth in new areas and extend the reach of our core offering.

Parcels

We continue to estimate that the total volume of parcel deliveries in the UK – across business-to-consumer (B2C), consumer-to-any-recipient (C2X) and business-to-business (B2B) – will grow at approximately four per cent per annum in the medium term². However, we estimate that the impact of Amazon delivering an increasing number of parcels using its own delivery network will reduce the annual rate of growth in our addressable market to around 1-2 per cent in the short term. Overcapacity has combined with the reduced rate of growth in the addressable market to create pricing pressure in all segments.

More than 90 per cent of the parcels we handle in the UK pass through the Royal Mail core network, which delivers the Universal Service. Heavier, bulkier items tend to be carried by Parcelforce Worldwide. Primarily through these two nationwide networks, we offer a range of services, including Universal Service Obligation (USO) letter and parcel delivery, express and courier services.

We benefit from a broad customer base. Nearly three quarters of our domestic parcel revenue is generated by consumers, micro-SMEs and SMEs. This reduces our exposure to the actions of larger customers.

Our parcels strategy: key points

- Maintaining our pre-eminent position, while seeking new areas of growth. Pursuing faster growing parts of the UK market and growing international markets
- Adding value by continually improving our products and services. Ensuring customers of all sizes can connect with our systems quickly and easily; significantly increasing the number of parcels we barcode and scan; launching Parcelforce Select
- Expanding and automating our networks. We will begin rolling out automated parcel sorting to around 20 of our busiest Mail Centres; continuing to expand our European network through organic growth and selective, strategic acquisitions

Maintaining our pre-eminent position

In the medium term, we expect the fastest areas of growth in UK parcels will be clothing and footwear, and toys and sports equipment. We are building our presence from a modest base. We have won new contracts with a number of high street and e-retailers. We will seek to secure further volumes by being more flexible about the size and shape of parcels we will deliver.

We now offer large business customers later weekday, and extended weekend, access to the Royal Mail core network. Twelve months ago, it was open to these customers five and

a half days a week. Today, we are open seven days a week and later into the evening. As a result, we have attracted more traffic.

Our performance at Christmas is key to our service proposition. In December 2014, we delivered one of our highest ever quality of service performances for parcel delivery. By Christmas 2015, we are aiming to barcode significantly more parcels and scan them in the Mail Centre and on the doorstep.

In March 2015, we launched a shop front on Alibaba's Tmall Global e-marketplace. This platform will offer over 300 million Chinese consumers the opportunity to buy distinctive British products, using Parcelforce Worldwide to ship the products to China.

Adding value by continually improving our products and services

In November 2014, we announced that Amazon would offer its online customers access to our Local Collect click-and-collect network. Amazon customers can choose the most convenient of around 10,500 Post Offices for their parcel delivery. This is supported by the extension of opening hours across 3,000 branches – an additional 85,000 hours per week – and the opening of around 2,000 branches on Sundays. Local Collect traffic with Amazon is growing.

In January 2015, Parcelforce Worldwide launched a new interactive service, Parcelforce Select, to improve the end-customer's control of their parcel delivery. Unlike other carriers, the pre-delivery

Innovation



Over the past year, we have launched or piloted a large range of new services designed to provide a greater choice of parcel delivery options. Local Collect – the largest single click-and-collect network, available through Post Office – and Sunday opening at our busiest Delivery Offices are two such services to help online shoppers not at home during the day to receive their parcels.

Investments in new technologies are an important part of our strategy to offer an ever-improving quality of service. We aim to transform our parcels offering by providing tracking as standard for as many parcels as we can.

New or emerging technologies offer the potential to transform the way we will work in the future. We continue to monitor and, where appropriate, test and pilot how these can improve our business and benefit customers. For example, through Parcelforce Select, we are improving the control our customers have over their parcel delivery. We also engage with partners to explore how emerging areas, such as wearable technologies, may be deployed in the future.

² Internal estimate based on historic growth trends and market insight

notification is triggered by the delivery driver. This ensures that the actual delivery is based on local driver experience, rather than a centrally-generated time window. We have won new business as a result of this initiative. Customer feedback has been very positive.

We are extending the support we offer to key customers. We offer eBay buyers the opportunity to track returned items back to the seller. Our new Click & Drop tool enables eBay sellers to integrate their accounts and buy and print postage labels without manually inputting the address of each individual buyer, providing a simple, three-step journey from purchase to print. In February 2015, we announced the acquisition of StoreFeeder, an IT software company. We plan to use its expertise to develop more tools to enable customers of all sizes to connect and ship parcels easily.

In March 2015, we launched a new portal to help online retailers better manage returns. 72 per cent of online shoppers said they would be unlikely to shop with a retailer if they had a difficult returns experience³. The returns portal gives retailers full visibility of returned items – exactly which items are being returned, from which customer and for what reason, improving stock management. A number of our retailer customers are already using the service.

Our core proposition is to provide high quality, value-for-money products for our core customer base, and to win new business in the process. When we announced our consumer tariffs for 2015-16, the average price rise across domestic parcels, USO letters and international letters and parcels was the lowest for at least five years. We have simplified our parcel specifications and cut the price of our medium-sized Second Class parcels. We have embedded our price promotion for small parcels into our 2014-15 price changes.

To enable us to track significantly more parcels, we are working with our customers to put information-rich, 2D barcodes on as many of our parcels as possible. Our largest customers are already beginning to make the switch. From summer 2015, we will begin a process to deliver the technology we need to scan significantly more parcels at the Mail Centre and on the doorstep. Over time, this will give us greater visibility of traffic in our network, which will allow us to tackle any quality of service issues in real time. Tracking will drive the uptake of higher value services.

Expanding and automating our networks

We will begin rolling out automated parcel sortation at around 20 of our busiest Mail Centres across the UK. Parcels sortation will help us to improve our efficiency.

Our European parcels carrier, GLS, delivered revenue growth in all of its markets. It continues to perform well, despite a weak economic backdrop in the Eurozone. We have delivered growth in international and domestic parcels.

We have already seen some impact in Germany, GLS' biggest market by revenue, from minimum wage legislation, introduced on 1 January 2015. We are introducing operational and commercial responses to help mitigate the impact of this change. In France, our recovery plan is ahead of schedule for the year. We are growing our business with existing customers and continue to target new customers. GLS Italy continues to deliver strong revenue growth.

Consumers in Luxembourg became the latest to benefit from GLS' FlexDeliveryService, which launched in the country in April 2015. Already available in 12 other European countries, FlexDeliveryService notifies parcel recipients via email or text when a package is on the way to them, and enables them to change the delivery time to suit them. Saturday and evening delivery options are now available in eight cities in Germany, meaning consumers can choose to receive parcels between 5pm and 8pm on weekdays or 8am and 1pm on Saturdays.

Letters

Our letters strategy: key points

- Managing the structural decline in addressed letter volumes by promoting the value of mail
- Securing the promise of commercial freedom in a regulatory model that effectively supports the future sustainability of the Universal Service in the UK
- Optimising mail handling to accommodate a changing letters mix and increase efficiency

Addressed letter volumes decreased by four per cent – at the better end of our forecast range. Marketing mail revenue increased by five per cent to £1,167 million. In January 2015, MarketReach launched a campaign demonstrating the value of marketing mail as part of an integrated advertising campaign. Using five of the UK's top advertising

executives and research conducted over an 18 month period, the Mailmen campaign looks at the true value of mail. It found that people value something they can see and touch 24 per cent more than things they can only see. More than half (57 per cent) say that receiving a communication by mail makes them feel more valued.

The rollout of Mailmark®, which provides barcode technology and online-reporting for machine-readable business, advertising and publishing mail, is progressing. Over 17 per cent of machine-readable mail currently carries the Mailmark® barcode. Existing customers, including home-shopping, energy providers and high street retailers, benefit from price incentives and more accurate mailing data.

In August 2014, we started the process of moving low-volume postboxes to collection on delivery. Declining letter volumes have been reflected in a fall in the number of items posted in postboxes. Rather than decommission uneconomic postboxes, postmen or women will empty the box on their round, instead of providing a dedicated collection by van. Once our new collection on delivery approach is fully rolled out, we expect it to reduce our mileage by 14.2 million miles per annum, with an associated saving of over 2.1 million litres of diesel. As part of this programme, we have sought to improve the level of public access to postboxes in areas of under-provision, with the addition of around 2,000 new postboxes by March 2016.

In February 2015, we announced price increases of one penny for First Class and Second Class consumer stamps. We thought very carefully about the impact of these price increases on our customers. A one penny increase is the smallest possible price rise that we could implement. Across all letter products, average price increases were broadly in line with RPI.

Regulation

We welcome the competition that is an integral part of operating in a fully-liberalised postal market. The ongoing decline in letter volumes means that the incentives on Royal Mail to reduce costs are already strong. The intensely competitive parcels market adds to these efficiency drivers. The sustainability of the Universal Service depends on Royal Mail being able to use revenue from easy-to-serve urban areas to cover the cost of a nationwide network capable of serving all addresses at a uniform price. In June 2014, Royal Mail made a detailed regulatory submission to Ofcom highlighting the risk that direct delivery poses to the financial sustainability of the USO.

³ Hall and Partners, Delivery Matters 2014

Chief Executive Officer's review (continued)

Customers

Our customer strategy: key points

- Providing a consistently high quality service through the consistent execution of standards such as Delivery to Neighbour
- Being as flexible as we can to provide the services our customers want
- Driving down customer complaints through the rollout of best practice, such as Nominate a Neighbour, which aims to improve rates of first time delivery

Our brand is a key element of our customer proposition. In February 2015, Royal Mail was ranked as one of the top 15 Business Superbrands in the UK⁴. *Our own research indicates that our mean business customer satisfaction score – across large and medium sized businesses, SMEs and micro-SMEs – is 76. This is an increase on 75 last year, 74 in 2012-13 and 70 in 2011-12.*

 See KPIs pages 18 – 19.

In September 2014, Royal Mail Group achieved the top ranking in both the Dow Jones Sustainability World Index and Dow Jones Sustainability Europe Index for the Transportation and Transportation Infrastructure Industry.

Royal Mail is the only postal operator that is required to meet regulatory Quality of Service targets for First Class and Second Class mail, and to publish those targets. These regulatory targets are amongst the highest of any major European country.

I am delighted to report that we have again exceeded our regulatory Quality of Service targets for Second Class mail in 2014-15. 98.9 per cent of Second Class mail (target: 98.5 per cent) arrived within three days of posting. *We met our regulatory target for First Class mail, delivering 93.0 per cent of First Class mail on the following day⁵. This compares with First Class performance of 93.2 per cent and a Second Class performance of 98.9 per cent in 2013-14.*

 See KPIs pages 18 – 19.

⁴ Business Superbrands 2015

⁵ We achieved 93.2 per cent against our First Class regulatory target when adjusted for force majeure

Becoming more efficient

This table is a snapshot of our transformation programme, which began in 2007-08. It sets out some of the key metrics through which we measure our progress.

	2007-08	2014-15
Mail Centres	69	39
Delivery Offices that have undergone modernisation	-	1,333
Letters sequenced to delivery point	1%	82%
Headcount in Operations	158,900	130,100
	2008-09	2014-15
Collections, processing and delivery productivity improvement (year-on-year) (%)	(1.1)	2.5
	2009-10	2014-15
Lost Time Accidents per 100,000 hours in Operations	2.36	0.67

Delivery to Neighbour is a Royal Mail standard. From March 2015, customers visiting an Enquiry Office to pick up a parcel have been able to 'Nominate a Neighbour' as their first delivery choice if they are not at home.

We have maintained our internal performance against our composite parcels measure, an internal measure for all retail parcel products in the Royal Mail core network. This year, we delivered a performance of 95.0 per cent, compared with 95.1 per cent in 2013-14 (target: 95.3 per cent).

 See KPIs pages 18 – 19.

Transformation and cost control

Combined with the disciplines of being a public company, the competitive nature of our core markets means that we face strong efficiency incentives. We are driving a cost-conscious culture through a combination of cost actions, optimising our networks and standardising our processes.

We have continued to deliver productivity improvements across collections, processing and delivery. Productivity improved by 2.5 per cent in 2014-15, within our target of a 2-3 per cent improvement per annum.

Case study Tonbridge delivery office



A new initiative to improve the customer experience was developed at Tonbridge delivery office in Kent. Originally called the booking in tool, now known as the Service Point System (SPS), the initiative helps identify walks that bring back the most items. It allows managers to work with duty holders to find ways of delivering more items first time. It also helps to improve the customer experience at Enquiry Offices.

Colleagues in Tonbridge worked closely with IT and those who created the concept and software for the tool to develop it further, making more than 100 small alterations throughout the process. It was their feedback that helped shape the end product.

One of the first units to properly use the tool, the team in Tonbridge quickly saw fantastic results, including a reduction in related customer complaints.

The SPS is currently in more than 200 offices, and there are plans to implement it in up to a further 160 units by this summer.

This compares with an improvement of 1.7 per cent in 2013-14 and 2012-13.

 **See KPIs pages 18 – 19.**

The management reorganisation programme, announced in March 2014, is now expected to deliver cost savings of around £80 million per annum from 2015-16 – more than the £50 million annual savings we originally anticipated.

We have agreed a streamlined revisions process across some of our Delivery Offices that have been impacted by direct delivery and overcapacity in UK parcels. As part of a joint agreement with the Communication Workers' Union (CWU), Delivery Offices that have seen a significant change in their workload are also taking steps to structure their units to manage this volatility.

There are significant non-people cost opportunities in our Logistics division. Improved fleet management, including fuel efficiency and reducing wear and tear, represents a cost-saving opportunity. We have already rolled out our fleet management programme for our large heavy goods vehicles. From May 2015, we will be introducing telemetry and advanced driver training to our 7.5 tonne fleet.

Our people

Eligible full-time employees who received an allocation of 729 Free Shares will, subject to shareholder approval at our 2015 AGM, have received around £250 in dividend payments by 31 July 2015. In September 2014, we launched our first Save As You Earn scheme. More than 36,000 employees – approximately one quarter of those who were eligible to apply – applied to join.

Our Agenda for Growth agreement with the CWU includes terms covering employee pay, legally-binding terms covering protections and industrial stability as well as a programme of work to deliver change at pace in operations. In the short time since the existence of this agreement, we have seen a meaningful change in the way in which differences and disputes are resolved. Our unions are more committed than ever to mechanisms like mediation to resolve disputes in ways that guarantee our continued operations and uninterrupted customer services.

In March 2015, we confirmed a 2.8 per cent pay increase for our frontline employees. The 2015-16 award represents the final year of the three year pay deal agreed through the Agenda for Growth. During the year, we have launched 60 joint projects with the CWU. Our Together for Growth programme, which will train approximately 6,500 managers and union representatives by October 2015, represents the UK's largest ever investment in this form of joint training.

Thank you

Following our first AGM in July 2014, Mark Higson, Managing Director, Operations, stepped down from the Board. During the year, we have also announced the departure of John Allan and our Chairman, Donald Brydon. While John stepped down at the end of April 2015, Donald will remain with us until at least our 2015 AGM. I have experienced first-hand the many ways in which our Company has benefited from the counsel and dedication of these colleagues. I wish them all the best in their future endeavours. I would also like to extend special thanks to Donald Brydon, for sharing his wisdom and experience as we have sought to transform our Company.

I remain incredibly proud of the good work we do. Royal Mail is nothing without its people. We must continue to deliver difficult change. But, working together with our people and our unions, I am confident that we can continue to deliver the services our customers want and sustainable value for our shareholders.

Moya Greene

Chief Executive Officer
20 May 2015

Market overview

This section sets out some of the relevant market dynamics for the UK parcels and letters markets.

We know parcel customers want convenience and flexibility. This is driving innovations in the market. At the same time, alternative delivery points are increasing in popularity. In letters, the combination of structural declines in addressed letter volumes, mandated access and direct delivery continues to be a threat to the fundamental economics of the Universal Service.

UK parcels market

E-retail continues to drive growth in UK parcels. The UK is one of the most developed e-retail markets in the world, with approximately 13 per cent of all retail sales conducted online. The market is expected to continue growing to an estimated 16 per cent by 2019¹.

B2C (business-to-consumer) and C2X (consumer-to-all parties) deliveries currently account for nearly two-thirds of UK parcel volume². We expect aggregated parcel volumes within these two segments to grow at approximately 4.5 to 5.5 per cent in the medium term³.

Parcels sent from business-to-business (B2B) represent around a third of overall UK parcel volume⁴. We expect volume growth in this segment of the UK market to track or be slightly above GDP growth in the medium term⁵.

We estimate that the total number of parcel deliveries in the UK – across B2C, C2X and B2B – will grow at approximately four per cent per annum in the medium term⁶.

Within the B2C segment there are three key categories of parcels: clothing and footwear; media; and toys and sports. In the medium term, we expect clothing and footwear and toys and sports categories to continue to grow strongly driven by online retailing⁷. We expect the rate of growth to slow in media, due to continued digitisation and streaming of music and films.

Customers and competition

The competitive environment is shifting. Parcel carriers who historically focused solely on B2B parcels are increasingly moving into the B2C space. Other B2X carriers are shifting into C2X and developing international export services.

Competing parcel carriers are improving their service performance, with more convenient delivery options, increased geographic coverage and leading edge technology. Organisations such as Amazon have entered the market with their own delivery offering for their customers. Consumers expect a range of convenient and reliable delivery and easy returns options, with tracking.

Home delivery remains the most attractive fulfilment option for customers⁸. However, collection from a pick up point is growing in popularity with consumers – whether directly from a retailer's store (in store click-and-collect) or from a third party location such as a parcel shop or locker bank (Pick Up/Drop Off or PUDDO points). Demand for alternate pick up points is currently small, but we expect it to increase in the future as consumers look for more flexibility and convenience.

In store click-and-collect tends to impact purchases that would otherwise have been made in store, rather than delivery traffic. However, various market research studies, as well as internal estimates, suggest that both forms of click-and-collect are growing fast, albeit from a low base. 96 per cent of retailers that offer in-store click-and-collect do not charge for the service, but delivery to PUDDO points often incurs an extra fee⁹.

Mobile commerce (m-commerce)¹⁰ is growing. Overall, 40 per cent of UK e-retail sales from November 2014 to January 2015 were completed through tablets and smartphones, with the smartphone channel seeing increasing growth as customers become more comfortable with the platform and retailers invest to improve the smartphone shopping experience¹¹.

UK letters market

A structural shift away from paper-based communication to electronic communication has been under way for a number of years. Different types of letters are experiencing different rates of decline due to this structural shift. We estimate addressed mail¹² declines of four to six per cent per annum in the medium term.

Business letters are declining as businesses take advantage of mature technologies to offer services such as online banking. Businesses perceive cost savings from mail reduction. However, a significant proportion of the population would like a choice as to how they receive household bills and statements without a penalty.

A major behavioural study on the value of mail, published in early 2015, revealed that people are able to manage and improve their finances better when they receive bank statements through the post rather than online. 75 per cent of those who received a paper statement were able to assess correctly the financial health of their account, compared to 48 per cent who received an online statement¹³.

Direct mail in the UK is worth £1.8 billion, accounting for approximately 10.1 per cent of UK advertising spend¹⁴. This reflects the value that it delivers for businesses. Seven out of ten people say they have opened a letter promotion or special offer. Eight in ten can remember advertising mail they have received in the past four weeks¹⁵. Advertising spend in the UK is expected to grow 5.4 per cent in 2015-16¹⁶.

Following market liberalisation in 2004, competition for upstream letter collection and processing has matured. The proportion of upstream¹⁷ letters handled by competitors has been relatively stable since 2010-11.

¹ Verdict UK E-retail Survey, 2014

² Triangle Management Services/RMG Fulfilment Market Measure, December 2014

³ Internal estimate based on historic growth trends (Triangle Management Services/RMG Fulfilment Market Measure, December 2014) and forecast data (Verdict UK E-retail Survey, 2015)

⁴ Triangle Management Services/RMG Fulfilment Market Measure, December 2014

⁵ Internal estimate based on historic growth trends and market insight

⁶ Internal estimate based on historic growth trends and market insight

⁷ Verdict UK E-retail Survey, 2015

⁸ IMRG UK Consumer Home Delivery Review 2014

⁹ Micros Multi-Channel Retail Delivery Report 2014

¹⁰ Sales made from mobile devices such as smartphones and tablets

¹¹ IMRG Capgemini e-Retail Sales Index Quarterly Benchmarking February 2015

¹² Excluding election mail

¹³ Keep Me Posted Campaign, www.keepmeposteduk.com

¹⁴ WARC (2015) including production costs

¹⁵ The Private Life of Mail, www.mailmen.co.uk

¹⁶ WARC (2015)

¹⁷ Upstream refers to the collection of letters from a customer or collection point and initial sortation. After this, sorted mail is delivered to Royal Mail 'inward' Mail Centres for final mile delivery

No.1

Number 1 ranking in both the Dow Jones Sustainability World Index and Dow Jones Sustainability Europe Index.



Dow Jones, 2014, Transport and Infrastructure sector

Most trusted

Most trusted and preferred UK delivery company.



Ipsos MORI, consumer CSI tracker.
Measured 12 delivery companies

Most admired

Included in the Most Admired Companies list.



Fortune, 2015

75%

Three quarters of people in the UK are more likely to use a particular online retailer again if they deliver through Royal Mail.



Hall & Partners, 2014

Our business model

Our business model leverages our key strengths to maintain our pre-eminent position in the UK letters and parcels markets. It demonstrates how our resources and relationships contribute to our business activities to deliver sustainable shareholder value and support the financial sustainability of the Universal Service.

We are transforming as we handle fewer letters and manage increasing parcel volumes.

Combined with the disciplines of being a public company, these dynamics mean that we face strong efficiency incentives. We are embedding a cost-conscious culture through a combination of cost actions, optimising our network and standardising our processes.

Updating our IT systems underpins the development of more flexible, customer focused services. In turn, these drive a high quality of service and underpin public trust in our postmen and women, and the Royal Mail brand.

Our resources and relationships

1 Networks and customers

UKPIL

Royal Mail Core Network

Key products and services



USO letters and parcels

- Stamped and meter mail
- Airmail
- Redirections
- USO on Account
- Special Delivery Guaranteed by 1pm



Non USO letters and parcels

- Royal Mail Tracked
- Royal Mail 24/48
- Business and Advertising Mail
- International Business Tracked and Signed
- Network Access Mail
- Special Delivery Guaranteed by 9am

Customer points



c.115,000
pillar boxes



c.1,400¹
Delivery Offices



c.12,000 branches
(Partnership with Post Office)



60,000
delivery routes

Parcelforce Worldwide



Key products and services

- Domestic and International express parcels



54
depots



c.12,000 branches
(Partnership with Post Office)

GLS



Key products and services

- Deferred parcels
- Express parcels



c.700²
depots



c.14,000
Parcel shops

2 People and brand

We are the UK's most trusted and preferred delivery company³. The trust that our stakeholders place in us and the Universal Service is the result of the dedication and commitment of our 143,000 employees in the UK, in particular our postmen and women. GLS Germany came first in an undercover survey of nine parcel and shipping services conducted by the German Society for Consumer Studies.

3 Continued investment in change, growth and innovation

We have invested a net £1.2 billion over two years. In future, investment is planned to fund growth initiatives, such as parcels automation and tracking, maintain our operations, products and services and deliver further efficiency improvements.

¹ Including satellite Delivery Offices

² GLS and partners

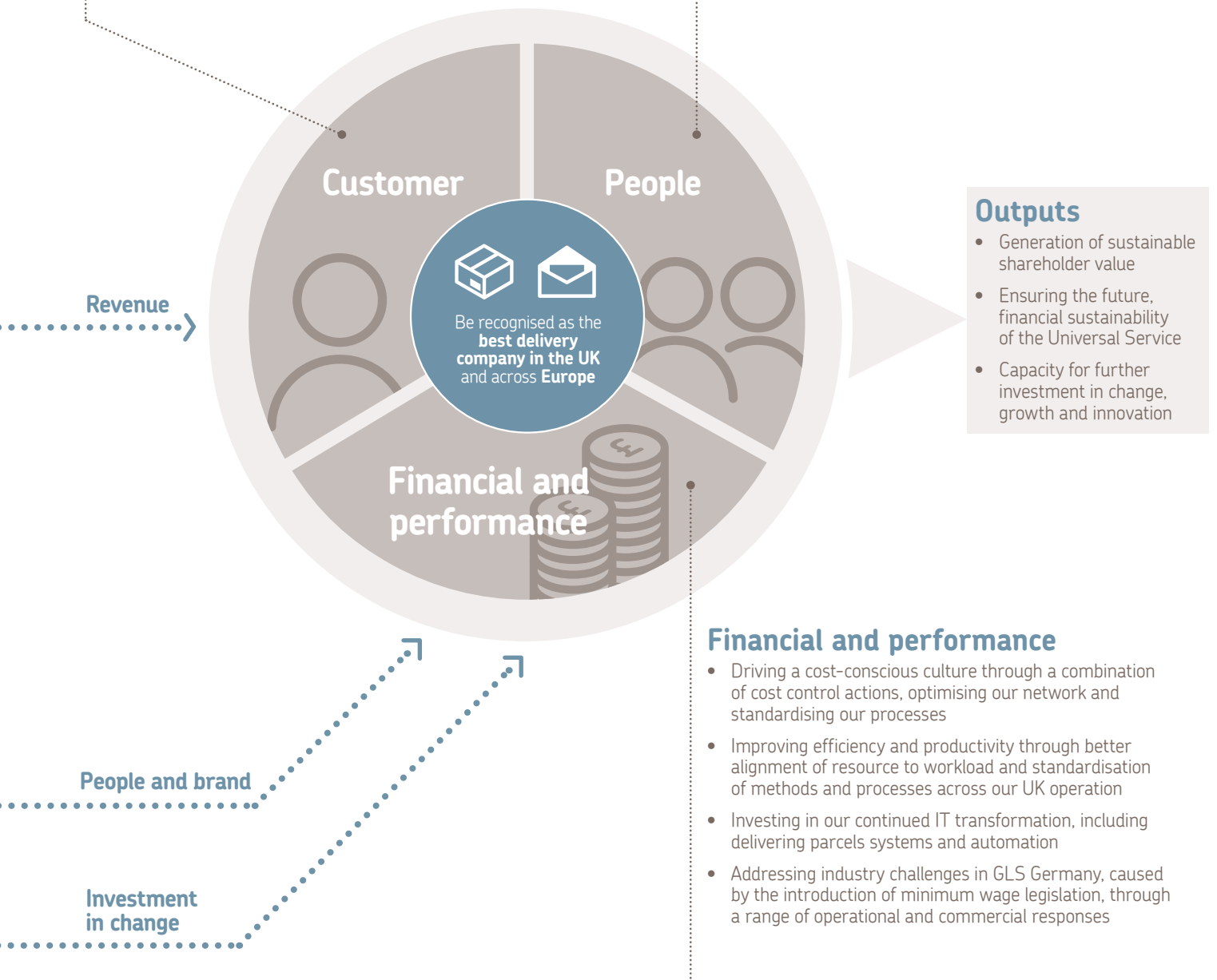
³ Ipsos MORI, consumer CSI tracker. Measured 12 delivery companies

Customer

- Providing a high quality service, including high levels of first time delivery, everywhere in the UK and Europe
- Adapting our products and services to meet customer needs in the e-retailing market (i.e. opening up our network to retailers seven days a week)
- Expanding the rollout of successful propositions, such as FlexDeliveryService, across our European network
- Demonstrating the value of letters through the delivery of campaigns like Mailmen, and our support for the Keep Me Posted campaign
- Continuing to develop IT-led services, like Parcelforce Select, to improve end-customers' control of parcel delivery

People

- Embedding a collaborative, can-do culture with our unions as we seek new areas of growth
- Supporting our managers to deliver an even better safety and wellbeing performance, including in key areas like attendance management
- Rolling out new technology and working practices at pace to allow us to track significantly more barcoded parcels
- Increasing employee engagement and alignment through a comprehensive face-to-face programme and share schemes like Save As You Earn



Our strategy

We have a clear vision to be recognised as the best delivery company in the UK and across Europe. Our three-part strategy aims to deliver our vision, while generating sustainable shareholder value and supporting the continued provision of the Universal Service.

Our three strategic priorities are underpinned by a focus on managing our business successfully, which is assessed on a range of financial and non-financial measures. We will continue to keep a tight grip on costs, as we drive up efficiency and improve productivity across our operation. We are investing in training our people, through training programmes like Together for Growth and the Management Acceleration Programme. Continued rollout of improved IT solutions will provide the service levels our customers expect in an increasingly competitive marketplace.

Strategic priorities

Strategic priority 1



Being a successful **parcels** business.

In the UK, we will seek to maintain our pre-eminent position by retaining and growing existing business relationships and increasing our presence in growth areas. We are delivering significant IT upgrades, and accelerating the migration of parcel customers to information-rich, 2D barcodes. In time, we will significantly increase the number of parcels we scan at the Mail Centre and on the doorstep. We will continue to flex our offering to meet the changing demands of e-retailers and consumers. In Europe, we will continue to deliver growth organically and through selective acquisitions. We will roll out new products, such as FlexDeliveryService, to other international markets to meet increasing demands.

Strategic priority 2



Managing the decline in **letters**.

We aim to mitigate the impact of e-substitution by demonstrating the value of letters to UK consumers and large businesses. We will seek to protect and improve revenue generation through initiatives like Mailmark® and by rolling out revenue protection processes. We will continue to make the case to Ofcom for a level playing field for all letter delivery operators in the UK. At the same time, we will seek opportunities for further efficiencies across our pipeline, to reduce the hours required to process and sort letters.

Strategic priority 3



Being **customer** focused.

We will continue to be flexible to meet changing customer demands. The rollout of improved IT capability will offer business customers improved access to products and services, better visibility of their mailings and improved customer data. Consistent deployment of delivery standards across our UK operation aims to drive up average first time delivery rates for parcels. We will continue to deliver an improved customer experience through investment in our Delivery Offices.

Key initiatives

- Seeking to grow our presence in faster-growing areas of the UK parcels market, such as clothing and footwear;
- Enhancing our ability to handle larger parcels by being more flexible with e-retailers;
- Rolling out handheld devices and supporting IT systems to support the tracking of significantly more parcels;
- Introducing automated parcel sorting to around 20 of our busiest Mail Centres;
- Continuing to develop IT-led services, like Parcelforce Select, to improve end-customers' control of parcel delivery;
- Targeting new markets, including through selective acquisitions in Europe; and
- Rolling out FlexDeliveryService to more European markets.



- Maintaining a high Quality of Service;
- Promoting the value of marketing mail through targeted new-business campaigns, like Mailmen;
- Driving revenue protection through the cancellation of stamps and other initiatives;
- Providing information-rich customer mailing data through further uptake of Mailmark®; and
- Continuing to make the case to our regulator, Ofcom, for a level playing field for the delivery of letters in the UK, including the development of a comprehensive regulatory framework for the Universal Service.




















- Driving improvements in first-time delivery rates through the consistent deployment of standards like Delivery to Neighbour and Nominate a Neighbour;
- Using standardised processes, training and employee engagement to close the gap between our best and worst performing units;
- Investing in our Enquiry Offices to provide an improved customer experience;
- Continuing to drive down complaints, with a focus on the four most common categories;
- Improving access to our products and services, including Sunday opening; and
- Providing improved online platforms for sole-traders, micro-SMEs and SMEs.



Key performance indicators

Our Key Performance Indicators (KPIs) are divided into People, Customer, Performance and Financial segments, as represented in our business model and our Corporate Balanced Scorecard. Further details relating to the link between our KPIs and Executive Remuneration can be found in the Directors' remuneration report on page 70.

KPI and strategic link(s)	Measured by	Key activities in the year
People		
Safety   More information: see Corporate Responsibility, page 38	Lost Time Accident Frequency Rate: the number of work-related accidents resulting in an absence on the next day or shift per 100,000 hours worked.	We have delivered a further reduction in the amount of time lost to accidents. We continue to focus on improving road safety. We have deployed advanced driver training to employee-drivers. We ran our annual Road Safety Week campaign in November 2014, raising safety awareness through videos, posters, our internal television programme and manager's briefings. Dog attacks have reduced in the performance period. We ran our annual Dangerous Dog Awareness Week in June 2014. Thanks to the independent report, commissioned in 2012, legislation was changed in May 2014 to protect our postmen and women beyond the garden gate.
Employee engagement    More information: see Corporate Responsibility, page 37	An annual survey by Ipsos MORI measuring involvement, alignment and loyalty of colleagues through a number of questions, including: what our people think about Royal Mail, their job, supporting our strategy and their place in contributing to Royal Mail Group's success.	In September 2014, we launched a Save As You Earn share scheme for eligible UK employees. More than 36,000 eligible UK employees opted to take part – around a quarter of those who were eligible to apply. As part of our ground-breaking Agenda for Growth agreement with the CWU, we have launched 60 joint projects. These include our Together for Growth training programme for more than 6,500 managers and CWU representatives. Through our ongoing face-to-face communications programme, we have held approximately 350 on-site engagement sessions.
Customer focus    More information: see Corporate Responsibility, page 37	An annual survey by Ipsos MORI measuring how focused our people are on delivering improvements in customer service.	Christmas is a key trading period for us. Planning began early, which meant that we delivered one of our highest ever quality of service performances for parcel deliveries in December ¹ . We recruited around 19,000 seasonal workers to support our postmen and women. Ten parcel sort centres were opened to manage increasing volumes over the period.
Customer		
First Class Quality of Service    More information: see CEO Review, page 10	An independent, audited measure of Quality of Service for First Class retail products delivered by the next working day, which may be adjusted for force majeure ² .	Our regulatory Quality of Service targets are amongst the highest of any major European country. We delivered a strong performance at both the national and local level. This included meeting or exceeding the minimum target of 91.5 per cent for First Class delivery in 109 out of 118 postcode areas ³ . Our programme to embed our Operations Standards will support continued high Quality of Service delivery.
Mean business customer satisfaction    More information: see CEO Review, page 10	Mean business customer satisfaction scores include the impact of a number of issues including price, service quality and customer experience.	We maintained very good levels of customer satisfaction amongst our business customers. A customer satisfaction questionnaire is completed by a sample of business customers every month. We have extended e-retailers' access to our network from five and a half days a week to seven. We are being more flexible about the size and shape of parcels we can deliver.
Customer complaints    More information: see Corporate Responsibility, page 37	Number of complaints (not claims) opened by our Customer Service team.	For the first time in four years, we have delivered a reduction in customer complaints across all of our major categories: redirections, redeliveries, misdeliveries and 'Something for You' cards. In March 2015, we launched Nominate a Neighbour as a Royal Mail standard, which will support Delivery to Neighbour to ensure as many parcels as possible reach our customers on the first attempt.

 This icon is used throughout this document to indicate reporting against a KPI.







Strategic links key

 Being a successful parcels business
  Managing the decline in letters
  Being customer focused

¹ Based on records from 2002 for stamped and meter first class parcels. Types and sizes of parcels sampled have changed over time and reflect our live traffic profile

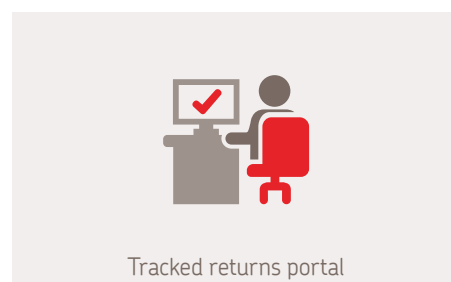
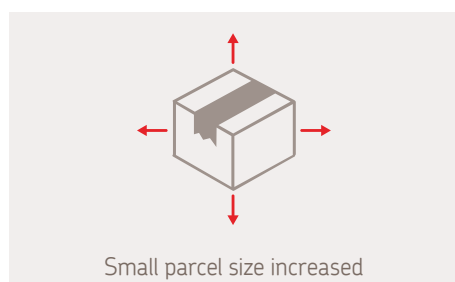
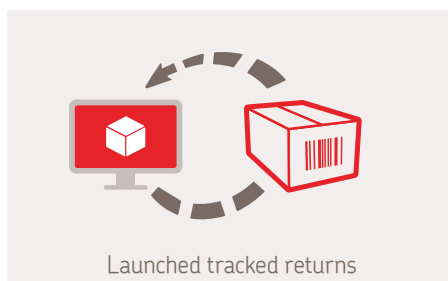
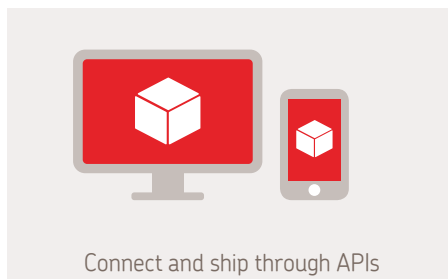
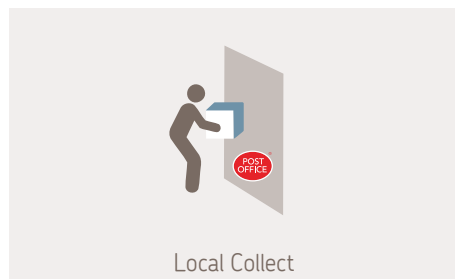
² This accounts for the impact of factors which are beyond Royal Mail's control, such as weather

³ 113 postcode areas reached the minimum floor target when adjusted for force majeure

KPI and strategic link(s)	Measured by	Key activities in the year
Performance		
Group revenue  More information: see Financial Review, page 24	Group revenue adjusted for foreign exchange movements.	Revenue, including discontinued operations, increased in the year through parcel revenue growth in UKPIL and revenue growth in GLS, which offset a decline in UKPIL letter revenue.
Productivity for collections, processing and delivery  More information: see CEO Review, pages 10-11	Percentage change year-on-year in the number of weighted items per gross hour paid in Delivery Units and Mail Centre Units (delivery and processing including regional logistics and collections).	We reduced hours in the core network at a faster rate than workload, which was broadly flat.
Composite parcels quality of service  More information: see CEO Review, page 10	A measure of the overall Quality of Service performance of core network parcels delivered by their service specification, weighted by traffic volume.	Our composite parcels KPI looks at Parcel Quality of Service for regulated and non-regulated products across our entire portfolio. We saw further progress in our performance this year, delivering one of our best ever parcel quality performances in December 2014. We are driving improvements in first time delivery rates through standardisation of best practice, especially for key initiatives like Delivery to Neighbour. We are closing the gap between our best and worst performing offices.
Financial		
Total UK costs  More information: see UKPIL, page 22	Total reported costs for UK businesses (UKPIL and Other) before transformation costs.	Total reported UK costs before transformation costs were broadly flat. In UKPIL, people costs increased due to the three per cent pay award and increase in the pension service charge. This was offset by non-people costs reducing due to cost control activities.
Group operating profit before transformation costs  More information: see Financial Review, page 25	Reported Group operating profit before transformation costs, adjusted for foreign exchange movements.	Reported Group operating profit before transformation costs reduced, mainly as a result of the increase in the pension service charge.
Free cash flow  More information: see Financial Review, page 26	Free cash flow.	Free cash flow excluding net cash flows from the London property portfolio reduced in the year due to increased investment and one-off benefits to working capital in the prior year.

UK parcels: adding value and convenient services

The journey so far...



What's in our plan...



UK Parcels, International & Letters (UKPIL)

Summary trading results

(£m)	Adjusted ¹ 52 weeks 2015	Adjusted 52 weeks 2014	Underlying change ²
Letters & other mail	3,400	3,514	(3%)
Marketing mail	1,167	1,111	5%
Total letters	4,567	4,625	(1%)
Parcels	3,190	3,162	1%
Revenue ³	7,757	7,787	Flat
Operating costs before transformation costs	(7,142)	(7,179)	(1%)
Operating profit before transformation costs	615	608	
Operating profit margin before transformation costs	7.9%	7.8%	40 bps
Transformation costs	(145)	(241)	
Operating profit after transformation costs	470	367	
Operating profit margin after transformation costs	6.1%	4.7%	20 bps
Volumes (m)			
Letters			
Addressed letters	13,009	13,342	(4%)
Unaddressed letters	3,157	3,143	1%
Parcels			
Royal Mail core network	1,015	991	3%
Parcelforce Worldwide	86	77	12%
Total	1,101	1,068	3%

Trading performance

The increasing challenges in the UK parcels market meant that our parcel revenue for the year was lower than we had originally anticipated. As a result, UKPIL revenue was flat at £7,757 million, as the one per cent decline in total letter revenue was offset by a one per cent increase in parcel revenue.

Parcel volumes were up three per cent, with growth in low average unit revenue (AUR) import parcels and the impact of our initiatives in account parcels more than offsetting the decline in higher AUR consumer/SME volumes. Parcel revenue grew by one per cent to £3,190 million, reflecting this change in mix and the impact of the competitive environment on pricing. Parcelforce Worldwide had strong volume growth of 12 per cent, driven by growth in the existing customer base and new business wins, including customers from the former City Link business. However it has seen downward pressure on pricing as a result of overcapacity in the market such that its revenue growth has been impacted.

Addressed letter volumes declined by four per cent (excluding the impact of election mailings), at the better end of our forecast range of a 4-6 per cent decline per annum in the medium term. This was mainly due to the improvement in UK economic conditions this year as we had anticipated. Overall letter revenue (including marketing mail) of £4,567 million decreased by one per cent. The impact of elections more than offset the estimated impact of direct delivery in

the year of around £20 million. Marketing mail revenue of £1,167 million, which includes addressed and unaddressed marketing mail as well as revenue from our data businesses of £82 million, was up five per cent as a result of the improvement in UK economic conditions and the impact of MarketReach.

On a reported basis revenue reduced by £30 million to £7,757 million.

Operating costs

Total adjusted operating costs before transformation costs were down one per cent, better than our expectation of a flat performance.

People costs increased by one per cent as a result of increased pay costs, due to the three per cent frontline pay award and incentives, headcount expansion in Parcelforce Worldwide and IT, and the additional cost of delivering election mail. These increases were partially offset by a 2.5 per cent improvement in collections, processing and delivery productivity in the core network and savings achieved from the management reorganisation programme, announced in March 2014, of £42 million. We now expect this programme to deliver savings of around £80 million per annum from 2015-16. In accordance with the 2013 pay agreement, the frontline pay award for 2015-16 is 2.8 per cent. We continue to target annual productivity improvements of 2-3 per cent per annum. As a result of the new single-tier state pension scheme to be

introduced in April 2016, the Group expects to see an increase in its employer National Insurance contributions for employees participating in the Royal Mail Pension Plan (RMPP) of up to £75 million, which would impact the 2016-17 financial year.

Non-people costs declined by four per cent. Distribution and conveyance costs reduced by five per cent partly due to a reduction in terminal dues as a result of a change in the geographic mix of export parcels in the period. Savings were also achieved on vehicle costs through improved fleet management and on fuel costs. Diesel and jet fuel costs were £186 million in the year, compared with £195 million in the prior year. We buy forward a large part of our fuel requirements, therefore we are not materially exposed to short-term fluctuations in oil prices. We expect fuel costs to be around £171 million in 2015-16. Infrastructure costs were four per cent lower mainly due to cost savings on property, with reduced spend in relation to facilities management. Depreciation and amortisation of £242 million was broadly in line with the prior year. Other operating costs decreased by one per cent.

Becoming more sustainable



Royal Mail Group's approach to waste management follows the waste hierarchy to avoid landfill: reduce, re-use, recycle and recover (through energy from waste). Reducing the amount of waste sent to landfill reduces costs, while some waste streams present opportunities for revenue generation. For example, we collect cardboard packaging we receive from customers and suppliers, and bale and recycle this through our waste contractor. We also arrange for collection of hazardous waste materials and used tyres from our vehicle workshops. During 2014-15 we received rebates totalling £291,000 in return for waste oil, used batteries, large tyres and cardboard.

¹ Adjusted results exclude specific items, including the difference between the income statement pension charge and the total cash cost of pensions, including deficit payments

² All movements are on an underlying basis unless otherwise stated. Underlying change is calculated after adjusting for movements in foreign exchange in GLS, working days in UKPIL and other one-off items that distort the Group's underlying performance. For volumes, underlying movements are adjusted for working days in UKPIL and exclude elections in letter volumes

³ Stamped, metered and other prepaid revenue channels are subject to statistical sampling surveys to derive the revenue relating to parcels, marketing mail and letters. These surveys are subject to continuous refinement, which may over time reallocate revenue between the products above, and which may occasionally lead to a consequent change to this estimate

UK Parcels, International & Letters (UKPIL) (continued)

For 2015-16 we continue to target flat or better UKPIL costs on an underlying basis.

Adjusted operating profit before transformation costs was £615 million, giving a margin of 7.9 per cent, up 40 basis points on an underlying basis.

Reported total costs before transformation costs for UK businesses (UKPIL and Other) were broadly flat at £7,275 million (2013-14 £7,242 million).

 See KPIs pages 18 – 19.

On a reported basis, UKPIL operating costs before transformation costs increased by £34 million to £7,271 million. Reported pension costs increased by £73 million over the prior year, mainly due to the increase in the IAS 19 non-cash pension service charge, caused by a decrease in AA corporate bond yields.

Transformation costs

Total transformation costs of £145 million were marginally above our expectations due to an increased number of people leaving the business in the second half of the year. The prior year included a £104 million provision for the management reorganisation programme announced in March 2014 of which £6 million reversed in 2014-15. We continue to expect ongoing transformation costs of around £120-140 million per annum, depending on the level of voluntary redundancies announced in-year.

Project costs, including costs relating to Delivery Office revisions, have reduced from 2013-14.

The £9 million business transformation payments relate to the Business Transformation Agreement 2010. These payments are now largely complete and minimal payments are expected going forward.

Transformations costs are the same on a reported or adjusted basis.

Operating profit after transformation costs

Adjusted operating profit after transformation costs was £470 million, giving a margin of 6.1 per cent, up 20 basis points on an underlying basis.

Reported operating profit after transformation costs was £341 million, giving a margin of 4.4 per cent.

Operating costs

(£m)	Adjusted 52 weeks 2015	Adjusted 52 weeks 2014	Underlying change ²
People costs	(4,789)	(4,760)	1%
Distribution and conveyance costs	(821)	(855)	(5%)
Infrastructure costs	(919)	(946)	(4%)
Other operating costs	(613)	(618)	(1%)
Total non-people costs	(2,353)	(2,419)	(4%)
Total operating costs before transformation costs	(7,142)	(7,179)	(1%)

Transformation costs

(£m)	Adjusted 52 weeks 2015	Adjusted 52 weeks 2014
Voluntary redundancy – ongoing	(87)	(14)
Voluntary redundancy – management reorganisation programme	6	(102)
Project costs	(55)	(108)
Business transformation payments	(9)	(17)
Total	(145)	(241)

Case study Nominate a Neighbour



In March 2015, we launched Nominate a Neighbour, a new initiative designed to further increase convenience for customers and improve first time delivery.

The scheme was developed by frontline employees, trade union representatives and managers in a number of our delivery offices. A number of offices across the UK helped in the development stage and trialled the initiative.

Under the Nominate a Neighbour scheme, when customers pick up a parcel at a Delivery Office they are asked if they would like to nominate a preferred neighbour to receive parcels on their behalf in future, if they are not at home when we call. A simple form is completed so that identity and address information can be verified.

The postman or woman will try the designated address first, before trying other neighbours nearby.

This provides customers with further reassurance about the location of their parcel and helps our postmen and women on their delivery rounds.

General Logistics Systems (GLS)

Summary trading results (including discontinued operations)

(€m)	52 weeks 2015	52 weeks 2014	Change
Revenue	2,100	1,957	7%
Operating costs	(1,954)	(1,829)	7%
Operating profit	146	128	
Operating profit margin	7.0%	6.5%	50 bps
(£m)			
Revenue	1,653	1,651	
Operating costs	(1,538)	(1,543)	
Operating profit	115	108	
Volumes (m) ¹	436	404	8%

Operating costs

(€m)	52 weeks 2015	52 weeks 2014	Change
People costs	(470)	(435)	8%
Distribution and conveyance costs	(1,290)	(1,204)	7%
Infrastructure costs	(135)	(128)	6%
Other operating costs	(59)	(62)	(6%)
Total non-people costs	(1,484)	(1,394)	6%
Total operating costs	(1,954)	(1,829)	7%

Trading performance

GLS continues to perform well. The business delivered a better than expected revenue performance this year, with seven per cent growth driven by an eight per cent increase in parcel volumes. Revenue growth has been achieved in all our markets, with particularly strong growth in Italy, as well as growth in emerging European markets. Germany, France and Italy, GLS' core markets, in aggregate still account for around 70 per cent of GLS' revenue.

On a reported basis, revenue of £1,557 million was flat as the improvement in underlying Euro revenue was offset by the impact of foreign exchange movements.

Operating costs

Total operating costs were up seven per cent, broadly in line with volume growth.

People costs increased by eight per cent as a result of pay inflation and incentives, the impact of acquisitions, and semi-variable costs driven by volume. We have already seen some impact of the introduction of minimum wage legislation in Germany, which took effect from 1 January 2015. Non-people costs were up six per cent. Distribution and conveyance costs were up seven per cent, reflecting higher volumes. Infrastructure costs increased by six per cent due to higher depreciation and amortisation charges from IT investments. Other operating costs reduced by six per cent, mainly due to a non-recurring indirect tax charge and higher France restructuring costs in 2013-14.

On a reported basis, operating costs of £1,442 million were flat, as the increase in underlying Euro costs was offset by the impact of foreign exchange movements.

Operating profit

Reported operating profit increased to £115 million, representing a margin of 7.0 per cent.

Germany

The competitive environment, coupled with a challenging labour market, has had a continued impact on GLS Germany. It saw revenue growth of three per cent and remains the largest market for GLS by revenue. On 31 March 2015, GLS Germany sold its entire holding in its subsidiary DPD Systemlogistik (DPD SL) which had revenue of £96 million in the year, and has been reclassified as discontinued operations.

France

The turnaround programme in GLS France was ahead of plan this year. Operating losses reduced to €16 million (2013-14 €27 million) as the cost reduction element of the turnaround has progressed well and increased revenue growth was achieved. Revenue growth of seven per cent came from existing and new customers. We are targeting GLS France to be break-even in 2016-17.

Italy

Despite an unfavourable economic environment, GLS Italy has continued to deliver strong organic growth which, coupled with the benefit of acquisitions last year, drove a 16 per cent increase in revenue. GLS Italy continues to gain market share but this rate of growth is not expected to continue in 2015-16.

Other developed European markets (includes Austria, Belgium, Netherlands, Denmark, Ireland, Spain and Portugal)

Revenue increased across other developed European markets which represent 21 per cent (2013-14 21 per cent) of total GLS revenue. Whilst all countries saw revenue growth, the strongest was seen in Spain and Ireland, from a low base.

Developing/emerging European markets (includes Hungary, Slovenia, Slovakia, Czech Republic, Romania, Poland and Croatia)

Performance throughout the rest of Europe has been strong, with a good increase in revenue from developing/emerging European markets. The largest growth was in Croatia and Romania, from a low base.

¹ Includes volumes from DPD SL (2014-15 45 million; 2013-14 44 million)

Financial review



Matthew Lester
Chief Finance Officer

Reported results (continuing operations)

Group revenue was flat at £9,328 million (2013-14 £9,357 million). Operating costs before transformation costs of £8,717 million (2013-14 £8,688 million) were broadly flat. Group operating profit before transformation costs reduced to £611 million (2013-14 £669 million) and operating profit after transformation costs increased to £466 million (2013-14 £428 million). Profit before tax reduced from £1,664 million to £400 million. Earnings per share reduced from 127.5 pence to 32.5 pence.

Presentation of results

The remaining commentary in this financial review, unless otherwise indicated, focuses on the adjusted¹ results (including discontinued operations) and on movements in revenue, costs, profits and margins on an underlying basis². This is consistent with the way that financial performance is measured by Management and reported to the Board and assists in providing a meaningful analysis of the trading results of the Group. As indicated in our financial report for the half year ended 28 September 2014, and as outlined in our Significant accounting policies section on page 133, we have moved to presenting operating costs, operating profit and earnings with the difference between the income statement pension charge and the actual cash cost of pensions treated as a specific item.

Group revenue

(£m)	Adjusted 52 weeks 2015	Adjusted 52 weeks 2014	Underlying change ²
Letters	4,567	4,625	(1%)
Parcels	3,190	3,162	1%
UKPIL	7,757	7,787	Flat
GLS	1,653	1,651	7%
Other	14	18	
Group	9,424	9,456	1%

Group revenue increased by one per cent, due to parcel revenue growth in UKPIL and in GLS.

 See KPIs pages 18 – 19.

Parcel revenue accounted for 51 per cent of Group revenue (2013-14 51 per cent). The factors impacting revenue in the year are described in the sections entitled 'UK Parcels, International & Letters (UKPIL)' and 'General Logistics Systems (GLS)'.

Group operating costs

(£m)	Adjusted 52 weeks 2015	Adjusted 52 weeks 2014	Underlying change ²
People costs	(5,246)	(5,224)	1%
Distribution and conveyance costs	(1,836)	(1,869)	1%
Infrastructure costs	(1,023)	(1,051)	(3%)
Other operating costs	(579)	(583)	(1%)
Total non-people costs	(3,438)	(3,503)	Flat
Operating costs before transformation costs	(8,684)	(8,727)	1%
Transformation costs	(145)	(241)	
Operating costs after transformation costs	(8,829)	(8,968)	1%

Group operating costs before transformation costs were up one per cent as lower UKPIL costs as a result of cost actions were offset by increases in GLS, mainly due to higher volumes. The factors impacting operating costs in the year are described in the sections entitled 'UK Parcels, International & Letters (UKPIL)' and 'General Logistics Systems (GLS)'.

¹ Adjusted results exclude specific items, including the difference between the income statement pension charge and the total cash cost of pensions, including deficit payments. The figures include DPD Systemlogistik, a subsidiary of GLS Germany, which was owned by the Group for the full reporting period, and sold following the year end and has been reclassified as discontinued operations

² All movements are on an underlying basis unless otherwise stated. Underlying change is calculated after adjusting for movements in foreign exchange in GLS, working days in UKPIL and other one-off items that distort the Group's underlying performance. See reconciliation for underlying movements on pages 29 – 30

Group operating profit and margins

(£m)	Adjusted 52 weeks 2015	Adjusted 52 weeks 2014
UKPIL	615	608
GLS	115	108
Other	10	13
Group operating profit before transformation costs	740	729

Adjusted operating profit before transformation costs was £740 million, giving an operating profit margin before transformation costs of 7.9 per cent, an increase of 40 basis points on an underlying basis.

Reported operating profit before transformation costs adjusted for foreign exchange movements was £620 million.

 See KPIs pages 18 – 19.

Transformation costs are described in the section entitled 'UK Parcels, International & Letters (UKPIL)'

(£m)	Adjusted 52 weeks 2015	Adjusted 52 weeks 2014
UKPIL	470	367
GLS	115	108
Other	10	13
Group operating profit after transformation costs	595	488

Adjusted operating profit after transformation costs was £595 million, with UKPIL contributing 79 per cent (2013-14 75 per cent) to the Group total. The operating profit margin after transformation costs increased by 20 basis points on an underlying basis to 6.3 per cent.

Specific items

(£m)	Adjusted 52 weeks 2015	Adjusted 52 weeks 2014
Operating specific items:		
Pension charge to cash difference	(129)	(58)
Royal Mail Pension Plan amendment (non-cash)	-	1,350
Transaction-related costs	-	(28)
Employee Free Shares charge ³ (non-cash)	(169)	(94)
Impairment and legacy costs	(79)	(15)
Total operating specific items	(377)	1,155
Non-operating specific items:		
Profit on disposal of property, plant and equipment	133	19
Profit on disposal of associate undertaking	-	2
Net pension interest (non-cash)	75	69
Total specific items	(169)	1,245

The £129 million difference between the income statement pension charge (£552 million) and the actual cash paid out in respect of pensions, including the Royal Mail Senior Executives Pension Plan (RMSEPP) £10 million deficit payment (£423 million), is treated as an operating specific item. The increase in the difference of £71 million has been driven by a decrease in AA corporate bond yields. For 2015-16, given the continued fall in AA corporate bond yields, the difference between the income statement charge and the cash cost is expected to be around £255 million, an increase of around £125 million over 2014-15, mainly due to an increase in the IAS 19 pension service charge rate from 23.6 per cent to 29.8 per cent.

Other operating specific items in the period included the charge associated with the Employee Free Shares Offer of £169 million, which was lower than the £180 million we anticipated due to an adjustment for leavers in the year. The charge for 2015-16 is expected to be around £150 million, dependent on the level and mix of leavers. Impairment and legacy costs of £79 million included a £24 million one-off impairment charge in respect of certain IT assets, a £19 million movement in the provision for potential industrial diseases claims driven by a reduction in the discount rate, and £5 million of other costs, partially offset by a £15 million reversal of historical employment costs. It also includes the charge in respect of the anticipated fine on GLS France in the ongoing investigation by the French Competition Authority and associated costs. This has been reassessed at the full year to be £46 million (comprised of £40 million for the anticipated fine and £6 million associated costs) in light of further correspondence with the French Competition Authority and their approach in other recent cases. The actual level of the fine to be imposed on GLS France will not be known until the second half of 2015-16.

Non-operating specific items included property and asset disposal gains of £133 million, of which £106 million is in respect of profit on the sale of the Paddington site.

³ Includes £6 million (2013-14 £3 million) provision for National Insurance, which will be cash settled

Financial review (continued)

Net pension interest of £75 million is non-cash and is calculated by applying the schemes' discount rate at the beginning of the year to the net pension surplus. The net pension interest for 2015-16, based on the discount rate and net pension surplus at 29 March 2015, is expected to be a credit of £107 million.

Net finance costs (excluding specific items)

Net finance costs of £26 million (2013-14 £67 million) comprise finance costs of £30 million (2013-14 £71 million), offset by finance income of £4 million (2013-14 £4 million). The decrease in finance costs was largely due to the new loans and borrowings (including the €500 million bond) being at lower rates than the previous HM Government facilities.

Following the amendments to the syndicated bank facility in March 2015, and taking into account the full year impact of the Euro bond, the blended interest rate on gross debt (loans, bonds and finance leases of £638 million at 29 March 2015) for 2015-16 is expected to be approximately three per cent.

Taxation

Effective rate

The effective tax rate on reported Group profit before tax is 18 per cent (2013-14 23 per cent). The UK effective tax rate on reported profit is 11 per cent (2013-14 22 per cent). This rate is significantly lower than the UK corporation tax rate as a result of reinvestment relief available to offset profit on UK property disposals. GLS' effective tax rate on reported profit is 51 per cent (2013-14 37 per cent) reflecting a range of tax rates across different territories, some of which are higher than in the UK, and losses (primarily in France) for which no deferred tax credit has been recognised. The increase over the prior year is mainly due to the charge in respect of the anticipated fine on GLS France in the ongoing investigation by the French Competition Authority, for which we anticipate no tax relief.

The effective tax rate on adjusted Group profits before tax is 24 per cent (2013-14 26 per cent). The rate has reduced broadly in line with the reduction in the UK corporation tax rate.

Current

The reported UK current tax charge of £7 million (2013-14 £1 million) represents a tax rate on profit before tax of two per cent (2013-14 nil per cent). Taxable profits in the UK are, as anticipated, largely covered by a combination of losses and capital allowance claims as well as the tax impacts of Employee Share Schemes. Reported GLS current tax charge of £32 million (2013-14 £36 million) represents a tax rate of 46 per cent (2013-14 34 per cent).

Deferred

The reported Group deferred tax charge was £33 million (2013-14 £349 million). This arose mainly as a result of capital allowance claims and utilisation of brought forward losses. In the prior period the charge was primarily in relation to the Group's pension position.

Earnings per share (EPS)

Adjusted EPS was 42.8 pence (reported 32.5 pence) on a basic and diluted basis.

Summary free cash flow

(£m)	52 weeks 2015	52 weeks 2014
Reported EBITDA before transformation costs	889	942
Pension charge to cash difference (operating specific item)	129	58
Adjusted EBITDA before transformation costs	1,018	1,000
Trading working capital movements	1	(57)
Total investment	(658)	(617)
Tax	(37)	(38)
Net finance costs paid	(18)	(33)
Other - SAYE share option scheme charge difference, dividends from associate	5	2
In-year trading cash flow	311	257
Other working capital movements	11	140
Operating specific items	(8)	(35)
Proceeds from disposal of property (excluding London property portfolio), plant and equipment and associate undertaking (non-operating specific item)	39	36
Free cash flow (before net cash flows from London property portfolio)	353	398
London property portfolio net cash flows (non-operating specific item)	100	-
Free cash flow	453	398

Free cash flow of £453 million was up £55 million. It included £100 million net cash flows from the London property portfolio (which are not reflected in the KPI measure).



See KPIs pages 18 - 19.

In-year trading cash flow increased by £54 million to £311 million, despite an increase in total cash investment, explained below.

Adjusted EBITDA before transformation costs of £1,018 million increased due to the trading performance explained above. Trading working capital movements were broadly flat.

Investment

(£m)	52 weeks 2015	52 weeks 2014
Growth capital expenditure	(178)	(201)
Replacement capital expenditure	(252)	(215)
Transformation operating expenditure	(228)	(201)
Total investment	(658)	(617)
Proceeds from disposal of property (excluding London property portfolio), plant and equipment and associate undertaking	39	36
Net investment	(619)	(581)

Total investment increased from £617 million to £658 million. Growth capital expenditure was mainly in relation to parcels projects, especially IT to support barcoding, scanning and tracking, and GLS. The main replacement capital expenditure investments were in relation to vehicles, property and IT projects. Transformation operating expenditure was predominantly in relation to voluntary redundancies. Proceeds from the disposal of property (excluding London property portfolio), plant and equipment were £39 million giving a net investment of £619 million. Over 2013-14 and 2014-15 cumulative net cash investment was £1.2 billion as expected. Going forward cash investment, net of operating asset disposals, is expected to be in the range £550-600 million per annum.

Tax payments of £37 million are broadly in line with the current income taxation charge of £39 million. Net finance costs paid of £18 million reduced due to lower net debt and a lower cost of debt in the year.

Other working capital movements

(£m)	52 weeks 2015	52 weeks 2014
March 2015 payroll paid after balance sheet date of 29 March 2015	46	-
Stamps used but purchased in previous periods and other deferred revenue	(35)	(10)
Unwinding of pension prepayment made in March 2012	-	150
Total other working capital movements	11	140

Other working capital movements resulted in an £11 million inflow. There was a benefit of £46 million due to the timing of payroll payments in respect of monthly paid staff, with the payment for the March 2015 payroll occurring after 29 March 2015. This timing benefit will not reverse until 2018-19, with 12 monthly payroll payments in all years until then. This was offset by £35 million of stamps used in the year which had been purchased in previous periods and other deferred revenue movements. In 2013-14, the movements largely related to a one-off benefit of £150 million in respect of the March 2012 pension prepayment.

Net cash flows relating to the London property portfolio were £100 million and largely relate to the sale of the Paddington site in the year.

Net debt

Net debt decreased by £280 million to £275 million, mainly due to free cash flow generated, offset by dividend payments of £200 million.

In July 2014, Royal Mail issued €500 million 2.375% Senior Fixed Rate Notes due July 2024 with a fixed annual interest coupon of 2.375%. The majority of the proceeds were used to repay £350 million of the existing syndicated bank loans. This increased the average maturity of the Group's drawn down loans and loan facilities.

In March 2015, the Group took advantage of favourable market conditions to negotiate amendments to its syndicated bank facility to convert the remaining term loan into a revolving credit facility for greater flexibility. This had the effect of reducing the interest rates charged and extending the maturity date to March 2020 with the option to extend for a further two years. This enabled the remaining £250 million of the existing syndicated bank loans to be repaid on 9 March 2015, whilst maintaining the same level of facilities. The increased flexibility to pay down debt when not being utilised reduces future net interest cost.

Dividends

The Board is recommending a final dividend of 14.3 pence per ordinary share, payable on 31 July 2015 to shareholders whose names appear on the register of members on 3 July 2015, subject to shareholder approval at the AGM on 23 July 2015. This gives a total dividend for the year of 21.0 pence, an increase of five per cent over the notional 2013-14 full year dividend of 20.0 pence.

Financial review (continued)

Property

On 14 October 2014, the Company announced that contracts had been exchanged for the sale of the former Paddington Mail Centre site to Great Western Developments Limited for £111 million in cash. Total net cash proceeds of the sale of £108 million were received on completion on 8 December 2014 and a profit on disposal of £106 million has been recorded as a non-operating specific item. We continue to market the site at Nine Elms and to evaluate our options in relation to the site at Mount Pleasant. These larger sites will require further investment in order to optimise value, which will be mainly met by the proceeds from the sale of the Paddington site.

Pensions

The IAS 19 pension position at 29 March 2015 was a surplus of £3,179 million, compared with a surplus of £2,068 million at 28 September 2014 and £1,723 million at 30 March 2014. The IAS 19 accounting position and key assumptions for the valuation are provided in note 8.

The process for the triennial valuation of the Royal Mail Pension Plan (RMPP) at 31 March 2015 has commenced and the outcome will be announced in due course. If the assumptions used for the 2012 triennial valuation of RMPP and RMSEPP are rolled forward to 31 March 2015, the combined actuarial surplus would be £1,793 million, compared with £1,585 million at 30 September 2014 and £1,422 million at 31 March 2014. It is this basis that the Pension Trustees and the Company use to assess the ongoing funding needs of these schemes. The increase in the surplus was largely driven by the return on assets, in particular due to the increase in the market value of gilts and derivative assets that are principally held to hedge inflation and interest rate risk. To support the Company's commitment that, subject to certain conditions, the RMPP will remain open to defined benefit accrual until at least March 2018, the Trustee has hedged a large proportion of the interest and inflation exposure on this expected future service benefit accrual. On an actuarial basis the amount of the surplus relating to the liabilities hedged in advance of those accrued as at March 2015, was approximately £700 million. This element will unwind over time.

Under the 2012 triennial valuation of RMPP the Company agreed to pay ongoing cash contributions of 17.1 per cent of pensionable pay until 2018. At that time, this amounted to around £400 million per annum, and reflected the creation of an actuarial surplus of £1.6 billion as a result of the Pensions Reform in 2013. Without this surplus the Company contributions required would have been around £700 million per annum. Accordingly the surplus was expected to decline over time. Since then, market conditions for defined benefit schemes have worsened. However, the position of RMPP has been protected to date by the hedging strategy explained above such that we continue to expect that the RMPP actuarial surplus will reduce to neither a material surplus nor deficit by March 2018.

Financial risks and related hedging

The Group is exposed to commodity and currency price risk. The Group operates hedging policies which are described in the notes to the financial statements.

The forecast diesel and jet commodity exposures in UKPIL are set out below together with the sensitivity of 2015-16 operating profit to changes in commodity prices and fuel duty:

	Forecast total cost (based on price at 29 March 2015) £m	Less fuel duty (incl. irrecoverable VAT) - not hedged £m	Underlying commodity exposure (incl. irrecoverable VAT) £m	% of underlying commodity hedged	Residual unhedged underlying commodity exposure (incl. irrecoverable VAT) £m	Impact on 2015-16 operating profit of a 10% increase in commodity price £m	Impact on 2015-16 operating profit of a 10% increase in fuel duty £m
2015-16 Exposure							
Diesel	161	94	67	86	10	(1)	(9)
Jet	10	-	10	100	-	-	n/a
Total	171	94	77	87	10	(1)	(9)

As a result of a reduction in the effective (after hedging impact) underlying diesel commodity costs for 2015-16, it is anticipated that the cost will be reduced by £6 million, but without hedging this variance would have been £25 million (based upon closing fuel prices at 29 March 2015). Due to the policy of hedging in advance, the current low oil price will result in an anticipated lower effective diesel commodity cost in the future.

The UKPIL and Other business units' functional currency is Sterling, whilst GLS' functional currency is the Euro. Therefore the translational exposure to the Group's operating profit relates to GLS' profits.

In 2014-15, the average exchange rate between Sterling and the Euro was £1=€1.27, a seven per cent strengthening in Sterling compared with £1=€1.19 in 2013-14, which resulted in a £7 million reduction in GLS' reported operating profits. At the consolidated Group earnings level, GLS' operating profits are largely offset by costs denominated in Euros (for instance payments in Euros in relation to interest and taxes and to overseas postal operators by UKPIL) such that a 10 per cent weakening of Sterling relative to the Euro/other European currencies does not have a material impact.

The Group manages its interest rate risk through a combination of fixed rate loans and leasing, floating rate loans/facilities and floating rate financial investments. At 29 March 2015, all of the gross debt of £638 million was at fixed rate to maturity.

Counterparty risk is managed by limiting aggregate exposure to any individual counterparty based on their financial strength.

Underlying change

The financial review, unless otherwise indicated, focuses on the adjusted results (including discontinued operations) and on movements in revenue, costs, profits and margins on an underlying basis. Underlying movements take into account differences in working days in UKPIL and movements in foreign exchange in GLS. In addition, adjustments are made for non-recurring or distorting items, which by their nature may be unpredictable. For the full year, we have made adjustments for the £28 million one-off bonus paid to staff in the second half of 2013-14 and the movement in provisions in respect of the management reorganisation programme (MRP) of £110 million (£104 million provision in 2013-14 and a £6 million release in 2014-15). For volumes, underlying movements are adjusted for working days in UKPIL (2013-14 304.8; 2014-15 304), and exclude elections in letters volumes. Due to the expected flow of traffic over holiday periods in 2015-16, we estimate that the impact of working days in UKPIL will be around £25 million (2015-16 303 working days). See table below and overleaf for a reconciliation for underlying movements.

Reconciliation for underlying movements

(£m)	Adjusted 52 weeks 2014	VAT credit (UKPIL)	One-off bonus (UKPIL)	MRP provision (UKPIL)	Working days (UKPIL)	Foreign exchange (GLS)	Underlying comparator	Year-on- year underlying change
Revenue								
Group	9,456	-	-	-	(20)	(111)	9,325	1%
UKPIL	7,787	-	-	-	(20)	-	7,767	Flat
GLS	1,651	-	-	-	-	(111)	1,540	7%
Costs								
Group								
People	(5,224)	(2)	28	-	-	25	(5,173)	1%
Distribution and conveyance costs	(1,869)	(13)	-	-	-	68	(1,814)	1%
Infrastructure costs	(1,051)	(12)	-	-	-	7	(1,056)	(3%)
Other operating costs	(583)	(3)	-	-	-	4	(582)	(1%)
Non-people costs	(3,503)	(28)	-	-	-	79	(3,452)	Flat
Operating costs before transformation costs	(8,727)	(30)	28	-	-	104	(8,625)	1%
UKPIL								
People	(4,760)	(2)	28	-	-	-	(4,734)	1%
Distribution and conveyance costs	(855)	(13)	-	-	-	-	(868)	(5%)
Infrastructure costs	(946)	(12)	-	-	-	-	(958)	(4%)
Other operating costs	(618)	(3)	-	-	-	-	(621)	(1%)
Non-people costs	(2,419)	(28)	-	-	-	-	(2,447)	(4%)
Operating costs before transformation costs	(7,179)	(30)	28	-	-	-	(7,181)	(1%)
GLS								
Operating costs	(1,543)	-	-	-	-	104	(1,439)	7%

Financial review (continued)

Reconciliation for underlying movements (continued)

(£m)	Adjusted 52 weeks 2014	VAT credit (UKPIL)	One-off bonus (UKPIL)	MRP provision (UKPIL)	Working days (UKPIL)	Foreign exchange (GLS)	Underlying comparator	Year-on- year underlying change
Profit, margins and EPS								
Group								
Operating profit before transformation costs	729	(30)	28	-	(20)	(7)	700	6%
Margin	7.7%						7.5%	40 bps
Transformation costs	(241)	-	-	110	-	-	(131)	
Operating profit after transformation costs	488	(30)	28	110	(20)	(7)	569	5%
Margin	5.2%						6.1%	20 bps
Profit before tax	421	(30)	28	110	(20)	(7)	502	
Tax	(110)						(131)	
Profit for the period	311						371	
Profit attributable to the Group	308						368	
Earnings per share	30.8p						36.8p	
UKPIL								
Operating profit before transformation costs	608	(30)	28	-	(20)	-	586	5%
Margin	7.8%						7.5%	40 bps
Transformation costs	(241)	-	-	110	-	-	(131)	
Operating profit after transformation costs	367	(30)	28	110	(20)	-	455	3%
Margin	4.7%						5.9%	20 bps
GLS								
Operating profit	108	-	-	-	-	(7)	101	14%
Margin	6.5%						6.5%	50 bps

Events after the reporting period

On 31 March 2015, after the financial year end, GLS Germany disposed of its wholly-owned subsidiary, DPD Systemlogistik GmbH & Co KG (DPD SL) to DPD GeoPost (Deutschland) GmbH. The disposal resulted in a post-tax profit of around €40 million (£29 million), which will be reflected as a specific item in the Group's 2015-16 financial statements.



Matthew Lester

Chief Finance Officer
20 May 2015

Business risks

The Governance section describes in detail how the Group manages its risk from the Group Board level, its respective sub-committees and through the organisation. Further details can be found on pages 43 – 63.

The table below details the principal business risks, their current status and how the Group mitigates these risks. The status includes our assessment of whether the risk is increasing (↑), decreasing (↓) or stable (↔). The alignment to strategy indicates those aspects of the business strategy that would be impacted by the risk, were it to materialise.

Principal risk	Status	How we are mitigating the risk	Alignment to strategy
Changes in market conditions and customer behaviour			
<p>The letters and parcels markets are increasingly competitive, customers continue to demand more and our competitors are responding quickly to these changing demands:</p> <p>Customer behaviour and Royal Mail's responsiveness to market changes relative to that of competitors</p> <p>Changes in customer behaviour, and changes to the markets in which the Group sells its products and services, could impact our forecasts for letter and parcel volumes.</p> <p>There is a risk that our product offerings and customer experience may not adequately meet evolving customer needs, or that we are unable to innovate or adapt our commercial and operational activities quickly enough to respond to changes in the market.</p>	<p>↑</p> <p>A number of carriers are expanding their operations. Additional market capacity increases downward price pressure.</p> <p>At the same time, customers increasingly demand faster, more flexible and responsive services, with high reliability.</p> <p>There is a continuing requirement to invest in growth and innovation to meet these challenges in the marketplace.</p>	<ul style="list-style-type: none"> We use continuous in-depth market monitoring and research to track how well we match our customers' needs, including relative to our competitors. We have implemented a range of products and service enhancements at pace. Further initiatives will provide service enhancements, including additional tracking capability and delivery solutions, and enhancing customers' online experience. Our Mailmen campaign is promoting the value of marketing mail. 	
<p>Economic environment</p> <p>Historically there has been a correlation between economic conditions and the level of parcel and letter volumes. Flat or adverse economic conditions could impact our ability to maintain and grow revenue, by either reducing volumes or encouraging customers to adopt cheaper service options for sending letters and parcels.</p>	<p>↓</p> <p>Economic conditions in the UK improved over the year. The recovery in Europe remains fragile. Low growth or recession in Europe could impact our international parcel volumes, including those handled by GLS.</p>	<ul style="list-style-type: none"> We have a robust modelling and forecasting framework that uses a range of quantitative and qualitative approaches to provide early warnings of changes to overall volumes and the profile of letter and parcel volumes, and to assess the effect of our pricing structures. We continually review and upgrade these models. We have taken short-term actions, and are developing longer-term responses to control costs. 	

Strategic links key



Being a successful parcels business
















Managing the decline in letters



Being customer focused






Business risks (continued)





Principal risk	Status	How we are mitigating the risk	Alignment to strategy
Business transformation			
<p>Royal Mail must continuously become more efficient and flexible in order to compete effectively in the letters and parcels markets:</p> <p>Efficiency</p> <p>The success of our strategy relies on the effective control of costs and the delivery of efficiency benefits.</p>	<p> We continue to make efficiency improvements. Our productivity improvement is within our target range. However, Ofcom has announced a review of what is a reasonable rate of efficiency improvement for Royal Mail. It may make unfavourable changes to the regulatory framework to incentivise further efficiency.</p>	<ul style="list-style-type: none"> We have agreed with the CWU a programme to enable better alignment of resourcing and workload. Our Together for Growth programme, supported by a joint mediation process, facilitates a collaborative approach to improving efficiency at a local level. A task force will address attendance issues, with a particular focus on long-term employee absence. A cost-conscious regime is in place to understand cost drivers better and further develop and embed cost-consciousness, and impose rigorous control over discretionary spend. 	<p> </p>
<p>Attracting and retaining senior management and key personnel</p> <p>Our performance, operating results and future growth depend on our ability to attract and retain talent with the appropriate level of expertise.</p>	<p> Turnover in senior and key personnel has been at normal levels for the business during the year, but this remains an inherent business risk.</p>	<ul style="list-style-type: none"> The Group's remuneration policy sets out that the overall remuneration package should be sufficiently competitive to attract, retain and motivate executives with the commercial experience to run a large, complex business in a highly challenging context. We operate a succession planning process and have in place a talent identification and development programme. 	<p>  </p>
<p>IT transformation</p> <p>The scale and complexity of the IT transformation programme and the ongoing requirement for effective management of the transition are sources of risk to its successful delivery.</p> <p>Failure to improve our IT systems or successfully implement the IT transformation programme would increase the risk of: security breaches and attacks; a material adverse effect on the Group's operations; and IT systems being unable to support the business plan.</p>	<p> The transformation programme will continue to run at its peak throughout the next financial year, moving from one service provider to a diversified supplier model. This impacts all of our core systems. At the same time, we have projects running in parallel to give customers a higher standard of service using more sophisticated technology.</p>	<ul style="list-style-type: none"> The IT transformation programme has a stretching target completion date that will minimise the risk of operating outdated legacy systems. We have strengthened standard programme management and governance disciplines to provide intensive focus on key aspects of the programme, such as managing interdependencies with other programmes and implementing the transition. Our Internal Audit department provides independent assurance about the programme delivery. 	<p>  </p>

Principal risk	Status	How we are mitigating the risk	Alignment to strategy
Regulatory and legislative environment			
<p>The business operates in a regulated environment. Changes in legal and regulatory requirements could impact our ability to meet our targets and goals:</p>		<ul style="list-style-type: none"> • We are engaging with stakeholders, including politicians, economists and academics, about the threats to the financial sustainability of the Universal Service. The Commons Business Innovation and Skills Committee has published a report calling for Ofcom to take steps to ensure the Universal Service can be protected. • We have also submitted a detailed response to Ofcom's proposals under the Access Pricing Review, setting out our view that the proposals are disproportionate. 	
<p>Sustainability of the Universal Service Obligation (USO)</p> <p>In our liberalised postal market, other operators are able to offer direct delivery services by cherry-picking easy-to-serve urban areas, without having to adhere to the same high delivery requirements and quality standards as Royal Mail.</p> <p>The combination of mandated access¹, uncertainty about access price proposals and the rollout of direct delivery, and structural decline in letters, poses a serious risk to the Group's future ability to earn revenue necessary to ensure the sustainable provision of the USO.</p>	<p>During 2014, we made a submission to Ofcom, requesting that it brought forward a full review of the impact of direct delivery on the Universal Service. However, in December 2014, Ofcom decided that there were no grounds for regulatory intervention at this time. This may lead to further direct delivery expansion in the future.</p> <p>Whistl, a subsidiary of PostNL, has expanded its direct delivery operation into several urban areas across the UK. On 11 May 2015, Whistl announced that it had commenced an extensive review of the viability and potential for the rollout of an end-to-end postal delivery service in the UK. Its current end-to-end service is suspended during the review process.</p> <p>Ofcom also announced in December 2014 that it would be carrying out a review of the regulatory rules that apply to Royal Mail's access prices (Access Pricing Review). Ofcom's proposals represent a more restrictive regime that would prevent Royal Mail from responding to competition, putting the financial sustainability of the Universal Service at risk.</p> <p>We proposed certain changes to our access contracts in January 2014. Some of these proposals are the subject of a Competition Act investigation by Ofcom. They were suspended, never implemented and have now been withdrawn.</p>		

¹ Royal Mail is obligated to provide access to its inward mail centres by our Regulator, Ofcom. This means that competitors to Royal Mail can collect and sort mail posted by businesses and hand it to Royal Mail for final mile delivery

Business risks (continued)

Principal risk	Status	How we are mitigating the risk	Alignment to strategy
<p>VAT status</p> <p>Royal Mail is currently exempt from Value Added Tax (VAT) in a number of areas, in which this status is under threat:</p> <ul style="list-style-type: none"> • HMRC's implementation of VAT legislation on mandated access services has been subject to a judicial review; • The European Commission is reviewing VAT exemptions more generally, and postal services fall within the scope of that review; • The EU has published a proposal for a 'Vouchers Directive'; as currently drafted, this would alter the VAT treatment of postage stamps. <p>Although Royal Mail could benefit from greater recoverability of VAT on costs if the VAT exemption for USO and access services was removed, the cost to customers who cannot reclaim VAT would be increased, making us less competitive.</p>	<p> The judicial review found that HMRC has correctly implemented VAT legislation and the services should remain exempt from VAT. However, the plaintiff in the case has been granted leave to appeal the decision, and we may not have a definitive resolution until 2016.</p> <p>The European Commission has published details of responses to its consultation about the future of VAT exemptions, but has not progressed the matter further. There has been no indication of the likely outcome or timescale of the exercise.</p> <p>The proposed Vouchers Directive remains under discussion in Brussels.</p>	<ul style="list-style-type: none"> • We will continue to support HMRC, as required, in defending its implementation of VAT legislation in respect of access services. • We have established a direct link with the European Commission and continue to lobby more widely in relation to both the Vouchers Directive and the VAT status of postal services. • We liaise with HM Treasury to seek to minimise the impact of the proposed Vouchers Directive. 	
<p>Employment legislation</p> <p>Changes to laws and regulations relating to employment (including the interpretation and enforcement of those laws and regulations) could, directly or indirectly, increase the Group's labour costs, which, given the size of the Group's workforce, could have an adverse effect on the Group.</p>	<p> The Employment Appeals Tribunal has ruled that, in excluding regular overtime from holiday pay calculations, the Government has misinterpreted the Working Time Directive since 1998.</p> <p>Whilst this decision appears to have crystallised the risk of having to include overtime in the calculation of holiday pay, the position is still unclear as to how to calculate the appropriate payments and exactly who should receive such payments. The case law is still evolving in this area.</p>	<ul style="list-style-type: none"> • We are closely monitoring developments in the case law in this area and are in discussions with our recognised unions as to how to deal with this issue. We hope to take a collaborative approach once the case law becomes clearer. • Based on our estimates of the potential financial impact, we believe that we have made sufficient provision for any historic liabilities that may arise. 	 

Principal risk	Status	How we are mitigating the risk	Alignment to strategy
<p>Pension risk</p> <p>The Group continues to operate a defined benefit pension scheme, the Royal Mail Pension Plan, open to accrual for existing members.</p> <p>Affordability of the Royal Mail Pension Plan</p> <p>The actuarial cost of providing an additional year's benefit was around £700 million based on the Plan's March 2012 actuarial valuation.</p> <p>In recognition of the surplus that was created by Pensions Reform in September 2013, the Group was able to maintain its cash contribution at around £400 million a year.</p> <p>As part of Pensions Reform, the Group committed, subject to conditions, to keep the Plan open without further amendment until at least March 2018.</p> <p>Changes in financial market conditions, or demographic or other factors may impact our continued ability to fund this commitment.</p>	<p style="text-align: center;"></p> <p>The first review of our commitment, which will be carried out in conjunction with the unions, will be completed by March 2018.</p> <p>A large proportion of the Plan's future interest rate and inflation rate exposure has been hedged and we expect there to be neither a material surplus nor deficit at March 2018.</p> <p>However, gilt yields have continued to fall, creating a risk to the affordability of the Plan after that date.</p> <p>In addition, under the 2012 actuarial valuation the Company is required to pay additional contributions of up to £50 million a year from April 2016 if the Trustee considers these necessary to maintain the Plan's projected funding position in March 2019.</p> <p>This requirement will be reviewed as part of the Plan's March 2015 actuarial valuation. The valuation process has commenced, and the outcome will be announced in due course.</p>	<ul style="list-style-type: none"> The RMPP Trustee is continuing to hedge future interest rate and inflation rate exposure, to reduce the risk that the Group's commitment to March 2018 cannot be met. We are engaging with the CWU and Unite/CMA on the emerging issues and potential courses of action. 	
<p>Industrial relations</p> <p>There is extensive trade union recognition in respect of our workforce in the UK:</p> <p>Industrial action</p> <p>There is a risk that one or more material disagreements or disputes between the Group and its trade unions could result in widespread localised or national industrial action.</p> <p>Widespread localised or national industrial action would cause material disruption to our business in the UK and would be likely to result in an immediate and potentially ongoing significant loss of revenue for the Group. It may also cause Royal Mail to fail to meet the Quality of Service targets prescribed by Ofcom, leading to enforcement action and fines.</p>	<p style="text-align: center;"></p> <p>The current pay deal runs until 2015-16 and is rooted in the Agenda for Growth agreement developed jointly with the CWU. The agreement represents a fundamental change in our relationship with the CWU, and promotes stability in industrial relations.</p> <p>However, the increasingly competitive environment and the need for change will challenge Royal Mail and its trade unions to find effective solutions without recourse to industrial action.</p>	<ul style="list-style-type: none"> We have agreed and implemented with the CWU a Joint Statement on Growth, Efficiency and Incentives, enabling collaborative improvements in operational efficiency. The Joint Statement is supported by our Together for Growth training programme, an industrial relations and business skills package for managers and CWU representatives. We have established a process that uses trained mediators nominated by and representing both the CWU and the business, for resolution of local disputes. 	

Corporate Responsibility

Responsibility leader

1st

2015 Dow Jones Sustainability Index leader (transportation and transportation infrastructure industry)



4.5 stars

out of five in BITC's Corporate Responsibility Index – UK's leading benchmark for corporate responsibility



Our performance

Champion

Corporate National Partnership Champion, Charity Times Awards (with Prostate Cancer UK)



84 per cent

of people in the UK think Royal Mail is an important part of local communities



Ipsos MORI, 2014

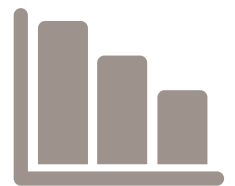
1st

delivery business awarded triple certification to the Carbon Trust Standard for carbon, water and waste








10 per cent

reduction in our lost time accident frequency rate since last year



Our corporate responsibility strategy is an integral part of realising our core strategic priorities. The objectives at the heart of our business and corporate responsibility strategies are the same – to generate sustainable shareholder value and to ensure a sound and sustainable Universal Service.

The links between our corporate responsibility objectives and our core strategic priorities are shown in the table below.

Corporate responsibility objective	Being a successful parcels business	Managing the decline in letters	Being customer focused
 Delivering economic and social benefit to the communities we serve	✓	✓	✓
 Driving colleague advocacy of the Group and its community role	✓		✓
 Managing the environmental impacts of our business and operations	✓		✓
 Delivering our transformation responsibly	✓	✓	✓
 Communicating our management of corporate responsibilities openly and transparently	✓		✓

We report progress against our corporate responsibility objectives under the areas of Customer; People; Community; Suppliers and Environment.

Measuring our progress

We have been named global leader for 2015 in our industry in the Dow Jones Sustainability Indices. We achieved the top ranking in both the Dow Jones Sustainability World Index and Dow Jones Sustainability Europe Index, ahead of around 100 other organisations in marine, rail, trucking, freight forwarding and logistics businesses. The ranking follows our first ever submission to the index as a publicly listed company.

Business in the Community's Corporate Responsibility Index is another good way of measuring our performance. In the 2015 Index, Royal Mail was ranked one of the most responsible companies in the UK after scoring 98 per cent in its assessment. We were awarded a rating of 4.5 stars out of a possible five.

Our customers

Being customer focused is one of our three strategic priorities (see page 16). We are

innovating to meet their needs. We are also focusing on improving our efficiency.

In October 2014, we introduced a new, extended size for our Small Parcel format, enabling both consumers and SME customers to fit more and larger items into the parcels they send. We marked the launch of the new Small Parcel sizing with a Christmas promotion – allowing customers to send Second Class parcels up to 2kg for the price of up to 1kg. In February 2015, we announced that we had decided to embed this price into our 2014-15 price changes. This means that there continues to be a single price for Second Class parcels weighing up to 2kg and this remains unchanged at £2.80.

Delivering when we say we will is a key component of our service standards. In 2014-15, we recorded a reduction in customer complaints from 465,500¹ to 445,500. For the first time in four years, customer complaints reduced across all four of the key areas we measure – redirections; redelivery; misdelivery; and 'Something for You' cards.

 See KPIs pages 18 – 19.

After our customers, our employees are best placed to evaluate how customer focused our products and services really are. We use our annual Employee Survey to gauge what they think about key aspects of the customer experience. This year, we again achieved a customer focus score of 69.

 See KPIs pages 18 – 19.

Our people

Employee engagement is one of the key drivers in our business success. Our Employee Survey helps us identify the areas where we are doing well and those we need to improve. This year, we achieved an improved employee engagement score of 56, up from 54 in 2013-14.

 See KPIs pages 18 – 19.

Engaged employees are essential for the customer focused culture that we are building at Royal Mail. Engagement is one of the three people-related KPIs on our Corporate Balanced Scorecard.

Building a dialogue through our internal communication channels is a vital aspect of our strategy.

During 2014-15 we undertook the following initiatives:

- Continued our 'Town Hall' programme, conducting almost 40 meetings addressing thousands of colleagues;
- Held approximately 350 on-site engagement sessions to brief frontline colleagues; and
- Brought together approximately 3,000 operations managers and union representatives at our annual Operations Conference.

As part of our ground-breaking Agenda for Growth agreement with the CWU, we have launched 60 initiatives. In November 2014, we completed training 10 mediators, selected from amongst our employees. Our Agenda for Growth agreement was awarded Best Employee Relations Initiative for 2014 by the Chartered Institute of Personnel Development.

¹ Total number of complaints for 2013-14 has been restated from 458,739 to 465,461 to include 6,722 complaints from Stamps and Collectibles

Corporate Responsibility (continued)

Training and career development

Ensuring our people have the skills they need to do the job is fundamental to the success of the business. In 2014-15, almost 54,000² colleagues attended instructor-led training in the UK, with over 40,500² colleagues attending web-based training sessions. Key programmes include the Customer and You programme, aimed at developing skills to improve the customer experience, and the Management Acceleration Programme, developed with Oxford University's Saïd Business School, to support effective management and leadership.

During 2014-15, we recruited 844 workplace coaches to support the development of our people in role. This brings the total number of workplace coaches across the business to 2,553. Our aim is to eventually have one workplace coach for every 25 employees. We are also deploying advanced driver coaching to help reduce the risk of accidents, reduce our fuel consumption and reduce wear and tear of our vehicles.

In Germany, GLS runs a dual degree programme for students at Technische Hochschule Mittelhessen – University of Applied Sciences. Students are able to apply their academic training working at GLS whilst studying for their degree. Similarly, GLS employees are offered the opportunity to study business administration at the same university; and senior managers participate in the Management Development Programme, aimed at enhancing their leadership skills.

Promoting diversity

Royal Mail employs a diverse mix of people that reflects the communities we serve. We are committed to being an equal opportunities employer and we proactively seek to recruit people from socially excluded groups. It is our policy to provide opportunities for our employees based on an individual's performance and skills, with no discrimination against protected characteristics³.

We made significant progress in 2014-15 under the direction of our new Diversity Council. Gender diversity has been a strength of Royal Mail's diversity programme. We were named as one of The Times Top 50 Employers for Women again in 2015. At our Board and senior management grades, we have relatively high gender diversity (see adjacent table). At Board level, 33 per cent of members are female. On average, FTSE 100 companies have 23.5⁴ per cent female representation on their boards.

Our Board Diversity Policy is set out in the Corporate Governance section.

At senior management level, 29 per cent of employees are female, compared to 14 per cent in operational functions. We are committed to improving the gender balance across all areas of the business.

Royal Mail's ethnic profile is broadly representative of the UK population⁵. Around 10 per cent of our employees declare themselves to be from ethnic minority backgrounds. We work with Business in the Community's (BITC) Opportunity Now and Race for Opportunity programmes, which promote best practice in equal opportunities.

As a Disability 'Two Ticks' employer, Royal Mail welcomes job applications from candidates with a disability or health condition. Our recruitment processes seek to ensure a fair approach for people with disabilities and we interview all disabled applicants who meet the minimum criteria for a role. We make reasonable adjustments to the workplace to support employees who become disabled. We also provide training as required, for example in assistive technology and software.

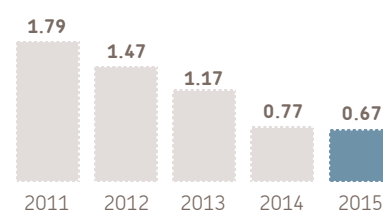
We deliver deaf awareness training workshops for hearing impaired employees, their colleagues and managers. We also focus on ensuring those with disabilities are not discriminated against through the provision of anti-discrimination workshops. Approximately six per cent of our employees have a disability.

We are a member of Stonewall's Diversity Champions programme, which campaigns for equality for lesbian, gay, bisexual and transgender (LGBT) people. We took steps to better understand the needs of our LGBT employees in 2015 by establishing an LGBT and Friends steering group. We also piloted a voluntary declaration in our Employee Survey. At the end of the reporting period, the Diversity Council also established a BAME (Black, Asian and Minority Ethnic) Steering Group and a Disability Steering Group to drive its work in these areas of our diversity strategy.

Safety

The safety and wellbeing of our workforce is an enduring priority for us. Our safety goal is to reduce the number of accidents to zero, a commitment driven throughout the business by a specific safety KPI in our Corporate Balanced Scorecard.

Lost time accidents per 100,000 work hours



We continue to make progress driving down accident rates. We achieved a Lost Time Accident Frequency Rate of 0.67 in 2014-15 (compared with 0.77 in 2013-14).

 See KPIs pages 18 – 19.

We were concerned when an increase in absence was recorded due to sickness during the early part of 2014-15, and that there was a particular rise in cases of long-term sickness. We have set up a taskforce to work across the business and have also rolled out a new case management programme to support employees unable to work as a result of mental health and musculoskeletal problems – two of the major causes of long-term sickness at Royal Mail.

We strive to improve our safety performance in everything we do. It is with great regret that we report four people died in connection with our activities in the UK in the past year. At the time of writing, three of these were found not to be attributable to Royal Mail undertakings.

	UKPIL		GLS	
	Female	Male	Female	Male
Gender distribution (number of people)				
Royal Mail plc Board	3	6		
Senior Management	664	1,646	36	251
Management	1,509	5,896	2,910	2,308
Administration	1,566	1,085		
Operational	18,810	111,716	1,802	7,102

² This represents the number of attendees. Actual number of colleagues may be lower as one person may have attended multiple training sessions

³ Race, colour, ethnic or national origin, nationality, disability, marital or civil partner status, sexual orientation, pregnancy or maternity, age, religion or belief (including political opinion in Northern Ireland), sex and gender reassignment

⁴ The female FTSE Board Report 2015, Cranfield University School of Management

⁵ 2011 Census data

We liaise closely with the relevant authorities and undertake our own detailed investigations to establish the root cause of each accident and, where possible, to determine what lessons can be learned. Findings are discussed at Board level and communicated across the Group.

Our communities

In 2014-15, Royal Mail contributed £7.6 million⁶ directly to charities, good causes and schemes for disadvantaged groups. We also supported £533,000 of colleague fundraising for charities and good causes across the UK. In addition, our people donated £2.5 million to hundreds of charities and good causes through our award-winning payroll giving programme.

During the year, Royal Mail provided £483,000 in matched giving and grants schemes to support employees' fundraising for charities and good causes.

Our two-year partnership with Prostate Cancer UK ended during the reporting period. We raised £2.34 million for the charity, including matched giving. This funded positions for 36 specialist prostate cancer nurses. We won the Charity Times 'Corporate National Partnership Champion' award for 2014. We also raised over £200,000 for our runner-up charities, Alzheimer's Society and Whizz-Kidz.

In September 2014 we launched a new partnership with the Stroke Association. We hope to raise £2 million for the charity to fund Life After Stroke grants for up to 10,000 stroke survivors.

GLS uses its services to support good causes across Europe. During the run-up to Christmas, GLS Ireland transported presents for children to Barnardo's centres, free of charge. In Germany, GLS transports information brochures for the breast cancer charity, Brustkrebs e.V., helping the charity to reduce its costs substantially.

Our suppliers

In the UK we contribute around £2.5 billion annually procuring goods and services from around 5,500 suppliers.

We are committed to ensuring that our suppliers maintain high standards of social, ethical and environmental conduct. We expect suppliers to adhere to our Responsible Procurement Code of Conduct. Our Code is based on the UN Global Compact's 10 principles around good human rights, labour and environmental practice, and anti-corruption. In addition, we encourage them to set objectives to improve their performance in social, environmental and ethical issues.

⁶ Includes our mandated commitments to Articles for the Blind and BPMA totalling £4.4 million

Case study Eyes and ears in the hunt for missing people



In November 2014, we launched a partnership with the charity Missing People, that puts postmen and women at the forefront of the search for high risk vulnerable adults and children in the UK.

We distribute the charity's missing people alerts through our network of handheld scanners, which are usually used to track and sign for deliveries. These reach 124,000 of our people involved in collection, processing and delivery of letters and parcels.

We target messages to specific geographic areas to ensure we reach postmen and women on the most relevant collection and delivery routes. When the scope of the search for a missing person goes national, we broadcast alerts across our entire network, leveraging our full scale to support efforts to find them.

This is the first time that an organisation has made its full range of business communication channels available to support the charity's efforts. The launch of our partnership was picked up by numerous national and local print and broadcast media outlets, reaching an estimated 18 million people.

In 2014-15, we developed a new procurement standard to ensure the agencies who provide us with temporary employees meet our standards on diversity. We are working closely with Peugeot to develop prototypes for delivery vans with improved safety, security and fuel efficiency. In addition, during the year we updated our governance process so that contracts with critical social and environmental risks are subject to Board approval.

We remain one of few companies globally to hold the Chartered Institute of Purchasing and Supply's Platinum Standard for procurement and supply chain management.

Ethical principles are also embedded in the Partner Code used by GLS Germany. These require suppliers working with GLS in the distribution of parcels to adhere to principles relating to anti-bribery and corruption and health and safety.

Our environment

We aim to minimise the environmental impact of our business operations. Managing and reducing our impact in a responsible manner will help us save costs, compete more effectively and deliver a good service to our customers.

In 2014, Royal Mail became the first delivery business to be awarded triple certification to the Carbon Trust Standard for carbon, water and waste. This recognises our achievements in managing and reducing our impacts.

During 2014-15, we took steps to integrate environment management into our Group-wide Safety, Health and Wellbeing Management System. This provides a co-ordinated framework and structure to raise the profile of environmental management and help drive our programme forward.

Our Environment Policy Statement overleaf sets out our approach to environmental issues in our operations. A full version of the Policy can be accessed online at: www.royalmailgroup.com/responsibility/policies

Corporate Responsibility (continued)

The table below sets out our Group Scope 1 and Scope 2 carbon dioxide equivalent (CO₂e) emissions for 2014-15. Our target is to achieve a 20 per cent reduction in our UKPIL emissions (including Scopes 1, 2 and 3) by 2020-21, compared to a 2004-05 baseline. In 2014-15 our total UK carbon footprint increased by 3.3 per cent⁷ compared to the previous year. On a normalised basis, emissions rose by 3.6 per cent per £1 million revenue. Compared with our baseline, emissions are down by 16 per cent. We believe we are on track to achieve our long-term target. We diverted 78 per cent of waste from landfill last year, surpassing our 2014-15 target of 70 per cent. We also recorded a reduction of one per cent in our use of water during the year.

In GLS, environmental management and performance is driven through its ThinkGreen initiative. The programme has three key aims: to use resources responsibly; reduce emissions; and optimise waste management. Key initiatives to help GLS achieve these objectives include: modernising the fleet and buildings, optimising transport planning and implementing local green measures.

Our Environment Policy Statement

We commit to:

- Comply with all relevant legislation, regulations and other voluntary commitments;
- Prevent pollution incidents and manage our environmental impacts through an environmental management system which aligns with ISO14001;
- Seek ways to continue to improve our environmental performance through clear measurement and management of our impacts, investment in technology and employee engagement. This will be delivered in partnership with Royal Mail Group's comprehensive programme for continuous improvement;
- Ensure our employees are fully engaged with our programme of activity and act in a responsible manner; and
- Work with Government, industry partners, environmental organisations and others to learn, share and promote environmental best practice and innovation.

Human rights

We are committed to upholding human rights both internally and externally to the business. We commit to obeying the laws, rules and regulations of every country in which we operate. In addition, we respect and support the United Nations Universal Declaration of Human Rights and the International Labour Organization Fundamental Conventions, covering freedom of association, the abolition of forced labour, equality and the elimination of child labour. Our commitments and expectations – both for ourselves and for our suppliers – are set out in our Corporate Responsibility Policy and our Responsible Procurement Code of Conduct (www.royalmailgroup.com/responsibility/policies). During 2015-16 we plan to undertake a review of our business against the UN Guiding Principles on Business and Human Rights.

This Strategic report was approved by the Board on 20 May 2015.

2014-15 CO ₂ e Emissions by Scope ('000 tonnes) ^{8,9}	Total	UKPIL	GLS
Scope 1 ¹⁰	500.5	487.5	13.0
Scope 2	166.4	145.4	21.0
Total	666.9	632.9	34.0
Tonnes CO₂e per £1m revenue	70.8		

Emily Pang

Company Secretary

Our Taxation Principles



Royal Mail has adopted the following set of tax principles. This is our published tax code of conduct which the whole of the international Group will adhere to.

- Royal Mail's head office is in the UK and our parent company is and will remain a UK tax resident company.
- Royal Mail is committed to complying with all applicable tax laws.
- Royal Mail will make decisions in relation to tax giving due regard to its reputation, integrity and status as a Group whose shares are listed on the London Stock Exchange.
- Royal Mail will, where it is responsible and appropriate to do so, take steps to reduce its tax liabilities within the laws of the countries in which Group companies operate. It will claim properly available allowances, deductions, reliefs, incentives, exemptions and credits where it is beneficial to do so.
- Royal Mail has a low risk appetite in relation to tax matters.
- Royal Mail is committed to ensuring that stakeholders are able to understand the important elements of Royal Mail's tax position and that the information it provides is full, fair and accurate.

⁷ 2013-14 data has been restated from c. 705,200 to c. 709,500 to include electricity losses associated with rail electricity losses

⁸ We quantify and report our organisational greenhouse gas emissions according to the Department for Environment, Food & Rural Affairs Environmental Reporting Guidelines 2013 and have utilised the UK Government 2014 Conversion Factors for Company Reporting in order to calculate CO₂ equivalent emissions from corresponding activity data. We have reported all material Scope 1 and Scope 2 emissions for which we consider ourselves responsible and exclude immaterial sources, such as fugitive emissions from air conditioning in owned vehicles

⁹ CO₂e emissions have been assured by EY

¹⁰ Natural gas data has been estimated for seven months this year, due to billing problems at British Gas

Chairman's introduction to Corporate Governance



Donald Brydon, CBE
Chairman

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Compliance with the UK Corporate Governance Code (the Code) and its statement requirements

The following sections explain how the Company applies the main principles set out in the UK Corporate Governance Code, September 2012 issued by the Financial Reporting Council (FRC), as required by the Listing Rules of the Financial Conduct Authority (FCA) and how it meets other relevant requirements including provisions of the Disclosure and Transparency Rules of the FCA. Both Codes are publicly available at the website of the FRC (www.frc.org.uk).

The Board considers that the Company complied with the full provisions of the Code during the year.

The FRC updated the UK Corporate Governance Code in September 2014. The 2014 Code applies to reporting periods beginning on or after 1 October 2014. This means the changes will apply for the Company with effect from April 2015 for annual reporting in 2015-16.

Chairman's introduction

Dear Shareholder,

The Board of the Company is committed to ensuring that it provides effective leadership and promotes uncompromising ethical standards. One of the ways in which the Board achieves this is by requiring that good governance principles and practices are adhered to throughout the Company. The Board determined that the following is a helpful summary of its role:

Good corporate governance is about helping to run the Company well.

It involves ensuring that an effective internal framework of systems and controls is put in place which clearly defines authority and accountability and promotes success whilst permitting the management of risk to appropriate levels. It involves the exercise of judgement as to the definitions of success, the appropriateness of risk and the levels of delegation to the Executive. The exercise of this judgement is the responsibility of the Board and involves consideration of processes and assumptions as well as outcomes.

It also involves the creation of a sensitive interface for the views of shareholders and other stakeholders to be given appropriate consideration when reaching these judgements.

The Executive team is required to provide such information to the Board as the Board needs to enable it to exercise its judgement over these matters.

There is a very fine distinction between the approval of processes and their definition. Wherever possible, it is the role of the Board to approve process rather than initiate or define it. Only exceptionally would the Board intervene to initiate or define.

The Board also sets the tone for the Company. The way in which it conducts itself, its attitude to ethical matters, its definitions of success and the assessment of appropriate risk, all define the atmosphere within which the Executive team works.

Good corporate governance is not about adhering to codes of practice (although adherence may constitute a part of the evidence of good governance) but rather about the exercise of a mindset to do what is right.

One of the challenges facing any Board is the way in which the Non-Executive and the Executive Directors interact. It is clear that they each have the same legal responsibility but it is generally unrealistic to expect Executive Directors to speak individually with the same freedom as the Non-Executive Directors. Equally, Executive Directors who just 'toe the executive line' in contradiction of their own views may not be effectively contributing to good governance. A well-functioning Board needs to find the right balance between hearing the collective Executive view and being aware of the natural internal tensions in an Executive team.

Notwithstanding the tensions created by many external expectations, which may be wholly or in part unrealistic, a successful Board should, ideally, be composed of a group of respected, experienced, like-minded but diverse people who coalesce around a common purpose of promoting the long-term success of the Company, provide a unified vision of the definitions of success and appropriate risk, endeavour to support management (i.e. those who honestly criticise at times but encourage all the time) and who create confidence in all stakeholders in the integrity of the business.

Chairman's introduction to Corporate Governance (continued)

A Board meeting should feel like a meeting at which everyone is participating to solve problems together. Above all, all participants should be able to say after a Board meeting that value has been added as a result of the meeting taking place. This added value will come in many forms: challenge, advice, clarity, imagination, support, sharing of problems, or creating strategic intent. The list is not exhaustive.

Board membership is for 365 days of the year. Board responsibilities do not start and end with formal meetings. Board members, on the Company's and their own initiative, should endeavour to engage outside meetings to bring their experience to the assistance of the Executive team wherever possible.

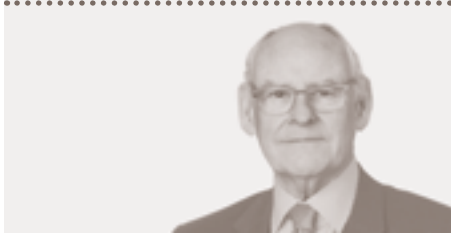
Above all there should be a sense of value added from the engagement of the Board members in all their interaction with the Company, formal or otherwise.

To enhance its performance and effectiveness, the Board sets itself explicit objectives, which are separate from objectives set for the Company and for the Chief Executive Officer, following the outcome of the Board appraisal process for the prior year. In relation to the objectives for the year ended 29 March 2015, the Board has regularly monitored its performance against these and has found this process adds value.

Donald Brydon, CBE

Chairman
20 May 2015

Board of Directors



Donald Brydon, CBE N* R
Chairman

Appointed to the Board¹: 6 September 2013²

Key areas of prior experience: Finance, manufacturing, governance, insurance.

Current external appointments:

- Chairman of The Sage Group plc.
- Chairman of the Medical Research Council.
- Chairman of Chance to Shine.
- Chairman of TWBT Ltd.
- Director, Science Museum Foundation.
- Director, The Foundation of Science and Technology.
- Patron of the British Postal Museum.

Previous relevant experience:

- 20 years with Barclays Group, during which time he was Chairman and Chief Executive of BZW Investment Management and acting Chief Executive of BZW.
- 15 years with the AXA Group, including holding the posts of Chairman and Chief Executive of AXA Investment Managers and Chairman of AXA Framlington.
- Chairman of Smiths Group.
- Chairman of the London Metal Exchange.
- Chairman of Amersham plc.
- Chairman of Taylor Nelson Sofres plc.
- Chairman of IFS School of Finance.
- Chairman of EveryChild, an international children's charity.
- Director of Allied Domecq plc, Scottish Power plc and AXA UK plc.



Moya Greene C*
Chief Executive Officer

Appointed to the Board³: 6 September 2013

Key areas of prior experience: Postal sector, finance, retail, transport.

Current external appointments:

- Non-Executive Director of Great-West Lifeco Inc.

Previous relevant experience:

- President and Chief Executive Officer of Canada Post Corporation.
- Assistant Deputy Minister for Transport Canada.
- Senior Vice President, and Chief Administration Officer, Retail Products, at Canadian Imperial Bank of Commerce.
- Vice Chairman of Purolator Courier Ltd, a Canadian express parcel company.
- Senior Vice President for operational effectiveness at Bombardier.
- Non-Executive Director of Tim Hortons Inc. in Canada. Member of the Audit Committee, Human Resources Committee and Remuneration and Compensation Committee.
- Managing Director, Infrastructure Finance, at TD Securities Inc.



Orna Ni-Chionna A N R*
Senior Independent Non-Executive Director

Appointed to the Board⁴: 20 September 2013

Key areas of prior experience: Consumer focus, retail, strategy.

Current external appointments:

- Chair of Client Service at Eden McCallum LLP.
- Non-Executive Director of Saga plc.
- Deputy Chairman of the National Trust.

Previous relevant experience:

- Partner at McKinsey & Company.
- Senior Independent Director of HVM plc, Northern Foods plc and BUPA.
- Non-Executive Director of Bank of Ireland UK Holdings plc and Bristol & West plc.

Key to membership of Board Committees

A Audit and Risk Committee

N Nomination Committee

P Pensions Committee

R Remuneration Committee

C Chief Executive's Committee (CEC)

***** Chair of the Committee

¹ The Director was appointed on 6 September 2013 to the Board of Royal Mail Limited, which changed its name to Royal Mail plc on 19 September 2013

² Appointed Chairman of Royal Mail Holdings plc on 26 March 2009

³ The Director was appointed on 6 September 2013 to the Board of Royal Mail Limited, which changed its name to Royal Mail plc on 19 September 2013

⁴ Appointed Senior Independent Director of Royal Mail Holdings plc on 1 April 2011

Board of Directors (continued)



Matthew Lester P C
Chief Finance Officer

Appointed to the Board⁵: 6 September 2013

Key areas of prior experience: Finance, accounting, consumer goods, financial services.

Current external appointments:

- Non-Executive Director of Man Group plc.
- Main committee member of the 100 Group of Finance Directors and Chairman of its Investor Relations and Markets Committee.

Previous relevant experience:

- Group Finance Director at ICAP plc.
- Group Financial Controller and Group Treasurer, Diageo plc.
- Held positions at Kleinwort Benson after qualifying as a chartered accountant with Arthur Andersen.



John Allan+ A
Non-Executive Director

Appointed to the Board: 20 September 2013

Key areas of prior experience: Retail, postal sector, logistics.

Current external appointments:

- Chairman of Barratt Developments plc, Ship Midco Limited (trading as WorldPay Limited) and London First (from 1 January 2015).
- Chairman of Tesco PLC from (1 March 2015).
- Chairman of the Board of Trustees of the DHL UK Foundation.

Previous relevant experience:

- Deputy Chairman and Senior Independent Director of Dixons Carphone plc (resigned 17 February 2015).
- Senior executive and corporate Board member of Deutsche Post World Net.
- Chief Financial Officer and corporate Board member of Deutsche Post DHL.
- Chief Executive Officer of Exel plc, a supply chain logistics company.
- Chairman of Care UK Health & Social Care Holdings Limited.
- Non-Executive Director of the Home Office Supervisory Board.
- Non-Executive Director at PHS Group plc, ISS A/S, National Grid plc, Wolseley plc, Hamleys plc, 3i plc and Connell plc.
- Senior adviser to Alix Partners.
- Regent of the University of Edinburgh.

+Resigned as Non-Executive Director on 30 April 2015



Nick Horler A N
Non-Executive Director

Appointed to the Board: 20 September 2013

Key areas of prior experience: Retail, energy, transport.

Current external appointments:

- Chairman of Alderney Renewable Energy Ltd.
- Chairman of Meter Provida Ltd.
- Chairman of Alder and Allan.
- Non-Executive Director of The Go-Ahead Group plc (member of Audit, Remuneration and Nomination Committees).
- Non-Executive Director of Thames Water Utilities Limited.

Previous relevant experience:

- Chief Executive Officer of Scottish Power.
- Managing Director Retail and Board member of E.ON UK plc.
- Managing Director of Powergen Energy Trading Limited.

Directors' original appointment dates to the Board of a Royal Mail parent company

Director	Royal Mail Holdings plc	Royal Mail Group Limited
Donald Brydon CBE	27 January 2009 ²	1 April 2012
Moya Greene	15 July 2010	1 April 2012
Orna Ni-Chionna	1 June 2010 ³	1 April 2012
Matthew Lester	24 November 2010	1 April 2012
John Allan	-	14 January 2013
Nick Horler	1 April 2010	1 April 2012
Cath Keers	1 June 2010	1 April 2012
Paul Murray	1 August 2009	1 April 2012
Les Owen	27 January 2010	1 April 2012

This table shows the dates that the Directors were appointed to the Board of Royal Mail Holdings plc, the parent Company until 1 April 2012, and the Board of Royal Mail Group Limited, the parent Company until 12 September 2013.

⁵ The Director was appointed on 6 September 2013 to the Board of Royal Mail Limited, which changed its name to Royal Mail plc on 19 September 2013



Cath Keers A N

Non-Executive Director

Appointed to the Board: 20 September 2013

Key areas of prior experience: Retail, consumer focus.

Current external appointments:

- Non-Executive Director of Home Retail Group plc and Chair of the Remuneration Committee since July 2012.
- Non-Executive Director of the insurance group Liverpool Victoria Friendly Society Limited (LV=).

Previous relevant experience:

- Customer Director and Marketing Director of O2 UK.
- Various marketing, strategy and business development roles at Next, BSKyB, Avon and Thorn EMI.



Paul Murray A* P R

Non-Executive Director

Appointed to the Board: 20 September 2013

Key areas of prior experience: Finance, energy, technology.

Current external appointments:

- Non-Executive Director of Independent Oil and Gas plc.
- Non-Executive Director of Naked Energy Ltd.
- Non-Executive Director of Qinetiq Group plc.
- Non-Executive Director of Ventive Ltd.
- Audit Committee Chairman at Qinetiq Group plc.

Previous relevant experience:

- Senior Independent Director of Taylor Nelson Sofres plc.
- Non-Executive Director of Thomson SA and of Tangent Communications plc.
- Group Finance Director of Carlton Communications plc and of LASMO plc.



Les Owen A R P*

Non-Executive Director

Appointed to the Board: 20 September 2013

Key areas of prior experience: Finance, pensions, insurance.

Current external appointments:

- Non-Executive Chairman of Jelf Group plc.
- Non-Executive Director of Computershare.
- Non-Executive Director of Discovery Holdings, a South African listed health and life insurer.

Previous relevant experience:

- Group Chief Executive Officer of AXA Asia Pacific Holdings Limited.
- Chief Executive Officer of AXA Sun Life plc, a member of the Global AXA Group Executive Board and responsible for AXA's Asian Life Insurance and Wealth Management operations.
- Non-Executive Director of Post Office Limited.
- Non-Executive Director of Just Retirement Group plc.
- Non-Executive Director of CPP Group plc.

Board attendance

During the year, the Directors attended the following number of meetings of the Board.

	Eligible to attend	Attended
Total number of meetings	12	
Chairman		
Donald Brydon	12	12
Executive Directors		
Moya Greene	12	11 ^A
Matthew Lester	12	12
Non-Executive Directors		
John Allan	12	12
Nick Horler	12	11 ^B
Cath Keers	12	11 ^C
Paul Murray	12	12
Orna Ni-Chionna	12	11 ^D
Les Owen	12	11 ^E

^A Moya Greene was unable to attend the Board meeting on 18 July 2014 due to prior engagements

^B Nick Horler was unable to attend the Board meeting on 18 July 2014 due to prior engagements

^C Cath Keers was unable to attend the Board meeting on 28 January 2015 due to prior engagements

^D Orna Ni-Chionna was unable to attend the Board meeting on 21 January 2015 due to prior engagements

^E Les Owen was unable to attend the Board meeting on 19 March 2015 due to illness

Board of Directors (continued)

Changes to the Board during the year

- Jan Babiak resigned from the Royal Mail plc Board of Directors on 29 April 2014.
- Mark Higson resigned from the Board and left the business following the AGM on 24 July 2014.
- Donald Brydon informed the Board in January 2015 of his intention to step down from the Board. The Senior Independent Director (SID), Orna Ni-Chionna, has initiated a process to appoint his successor. Donald will continue to chair the Board until at least the 2015 AGM.
- Following his appointment as chairman of Tesco PLC, John Allan informed the Board in February 2015 of his intention to stand down as a Non-Executive Director. It was confirmed on 20 March 2015 that he would resign as a Non-Executive Director with effect from 30 April 2015.

There have been no other changes to the Board during the year.

Board diversity policy

Diversity, including professional, international and ethnic diversity, is a key factor when assessing the Board's composition. It ensures there is the correct balance of skills, experience and expertise amongst Non-Executive Directors, to lead decision-making and assess the performance and strategy of the Company.

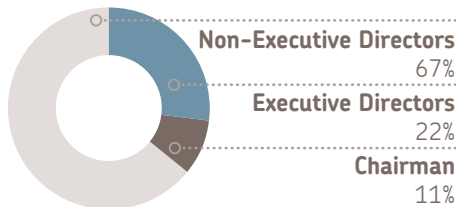
The Board has adopted a Board Diversity Policy to ensure transparency and diversity in making appointments to the Board on the recommendation of the Nomination Committee. This policy expresses the commitment to principles of non-discrimination against protected characteristics⁶ and to the promotion of fair participation and equality of opportunity for all. The Board assesses whether it is compliant with that policy through its Board effectiveness review. The Board has also adopted within this policy a process for Board appointments (including procedures for

appointing a new Chairman) where an appointment becomes necessary following a resignation or additional characteristics are identified as necessary during the Board effectiveness review.

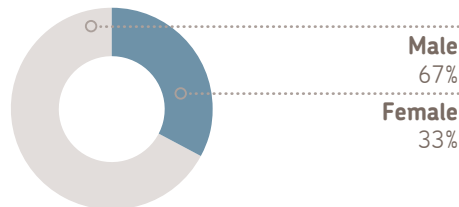
The gender balance of the Board is also taken into consideration when recruiting a new Non-Executive Director. This is reflected by the current composition of the Board. We are one of the few companies in the FTSE 100 that has a female Chief Executive Officer and, at 29 March 2015, two of the six Non-Executive Directors (33.3 per cent), including the SID, were also female. The Committee does not feel that it is appropriate to set a quota regarding the number of women on the Board but will look to maintain a strong representation of women on the Board.

The data depicted below is at 29 March 2015.

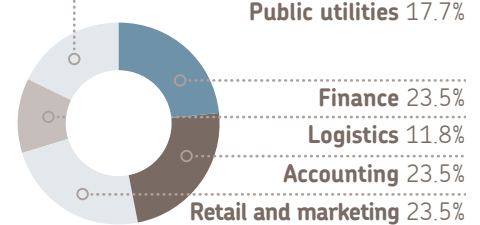
Board composition



Gender balance



Experience



⁶ Race, colour, ethnic or national origin, nationality, disability, marital or civil partner status, sexual orientation, pregnancy or maternity, age, religion or belief (including political opinion in Northern Ireland), sex and gender reassignment

Statement of Corporate Governance

Board Responsibilities

Role of the Board

The Board is responsible for setting the objectives and strategy for the Group and for monitoring its performance and risk management. The Board has adopted terms of reference setting out its duties and obligations and has defined those matters that are reserved exclusively for its consideration. These include the approval of strategic plans, financial statements, acquisitions and disposals, major contracts, projects, and capital expenditure. The Board has also developed objectives as a framework for its work for the next 18 months and progress in achieving these objectives is reviewed at each Board meeting.

Board focus

Some of the key areas of focus during the year were as follows (a number of these areas are also considered by the Board committees):

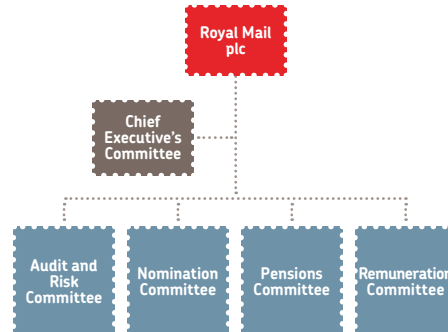
- The Group's Strategy;
- Revenue growth in core and new areas;
- Productivity and efficiency;
- New technology;
- Senior management talent;
- Health and Safety;
- Compliance and regulation;
- Investor and shareholder relations;
- General Logistic Systems; and
- Board effectiveness.

Expected focus for the next year:

- The Group's Strategy;
- Compliance and regulation;
- Revenue growth in core and new areas;
- Productivity, efficiency and cost reduction;
- Technology;
- Review of Board composition;
- Channel strategies; and
- Health and Safety.

Board Committees

Certain responsibilities are delegated by the Board to the Committees (shown in the following diagram). The details of these Board Committees are outlined later in this report. The chair of each of the Board Committees reports to the Board on matters discussed at Committee meetings and highlights any significant issues requiring the Board's attention. Reports on the work of the Audit and Risk Committee, Nomination Committee and Pensions Committee during the year are given on pages 50–56. The work of the Remuneration Committee can be found on page 57 and in the Directors' remuneration report on pages 64–75.



Shareholder relations

Communication with shareholders is given high priority. A full Annual Report and Financial Statements is sent to all shareholders who wish to receive one and there are presentations after our announcement of the half year and full year results which are available to watch live and on replay on our website. All information on our activities, published financial results and the Annual Report and Financial Statements can be found on our Company website, www.royalmailgroup.com.

There is regular dialogue with our institutional shareholders. The Chairman and the SID are also available to consult with shareholders.

The Board regularly receives an update on interaction with investors and shareholders to ensure that the Board has an understanding of their views. In addition, the SID provides a point of contact for those shareholders who wish to raise issues with the Board, other than through the Chairman.

The AGM is used to communicate with all investors and the Board welcomes their participation.

Board information

The Board receives business and financial performance reports at each Board meeting as well as standing reports on Health and Safety and from the Company Secretary. In addition, Directors have access to a Board information archive containing background and supporting documents for reference in performance of their duties. The Directors receive regular updates on developments in matters such as corporate governance. These processes enable the Company to comply with the provisions of the Code requiring the timely provision of information to Directors.

Risk management and internal controls

The Board is responsible for maintaining a risk management and internal control system and for managing principal risks faced by the Group. This is described in more detail in the Audit and Risk Committee Report on pages 50 – 54.

Board Roles

Role of the Chairman

The Chairman's responsibilities include:

- Chairing meetings of the Board and general meetings of the Company;
- Setting the Board's agenda and ensuring that adequate time is available for discussion of all agenda items, in particular strategic issues;
- Setting clear expectations concerning the Company's culture, values and behaviours;
- Ensuring the Board determines the nature and extent of significant risks that the Company is willing to embrace in implementing its strategy;
- Ensuring the Board has effective decision-making processes and applies sufficient challenge to major proposals;
- Encouraging all Board members to engage in Board and Committee meetings by drawing on their skills, experience, knowledge and, where appropriate, independence;
- Developing productive working relationships with the Chief Executive Officer and Executive Directors and constructive relations between Executive Directors and Non-Executive Directors;
- Ensuring effective communication with shareholders and other stakeholders and that Directors are made aware of their views; and
- Ensuring the performance of the Board, its Committees and individual Directors is evaluated at least once a year and to act on the results of such evaluations.

Statement of Corporate Governance (continued)

Role of the Non-Executive Directors

The Board considers that each of the Non-Executive Directors is independent. This means that in the view of the Board, they have no links to the Executive Directors and other managers and no business or other relationship with the Company that could interfere with their judgement. The Board, at least annually, reviews and authorises the schedule of Directors interests, including any potential conflicts.

Each Non-Executive Director plays an instrumental role in the decisions that are made by the Board and its Committees. They challenge Management regarding the performance of the Company with regard to the Company's goals and objectives. They also monitor financial controls and the systems of risk management.

The Non-Executive Directors and the Chairman met on a number of occasions during this period without the Executive Directors being present. These meetings are an important way to develop the working relationships between the Non-Executive Directors and to assess the performance of Management.

In accordance with the requirements of the Code, the terms of appointment for the Non-Executive Directors are available for inspection at the Company's registered office during normal office hours and they will be made available at the AGM for a period of 15 minutes prior to the commencement of the meeting and also during the meeting.

Role of the Senior Independent Director

As recommended by the Code, the Board appointed Orna Ni-Chionna, one of its independent Non-Executive Directors, to be the SID. The SID is available to meet with shareholders if they have concerns that the normal channels of Chairman, Chief Executive Officer or other Executive Directors have failed to resolve or for which such channels of communication are inappropriate.

The SID met with the Non-Executive Directors and Executive Directors during the year to assess the performance of the Chairman.

Role of the Company Secretary

Directors may take independent professional advice in the furtherance of their duties, at the Group's expense. All Directors have access to the advice and services of the Company Secretary, the appointment and removal of whom is a matter for the Board as a whole. The Company Secretary ensures Board procedures are followed and regularly reviewed and is a source of advice to the Chairman and the Board on implementation of the Code.

Board composition

At the end of the year, the Board of Royal Mail plc comprised a Chairman, two Executive Directors and six Non-Executive Directors. Prior to their appointment as Directors of the Company, each of the Directors had been a Director of Royal Mail Group Limited. The biographies of each of the Directors, setting out their current roles, commitments and previous experience, are on pages 43 – 45.

Board terms of appointment

Time commitments

The terms of appointment for the Non-Executive Directors require them to devote a minimum of two days a month to working for the Company – although in practice they tend to devote more time than the minimum requirement.

The Non-Executive Directors were required to declare their other significant commitments prior to their appointment and the Board is informed of any subsequent changes. The Company has announced to the London Stock Exchange any changes to their directorships on the boards of other publicly quoted companies since the Company's privatisation.

The Board is confident that all its members have the knowledge, talent and experience to perform the functions required of a Director of the business. Executive Directors have rolling 12-month contracts and Non-Executive Directors are generally appointed for three-year terms. There is also a clear division of responsibilities between the Chairman and the Chief Executive Officer.

Outside appointments

The Board believes that there are significant benefits to both the Group and the individual from Executive Directors accepting non-executive directorships of companies outside the Group. The Board's approach is normally to limit Executive Directors to one non-executive directorship, for which the Director may retain the fees.

Director induction and training

On appointment, all the Directors take part in an induction programme, in which they receive information about the Group, the role of the Board and matters reserved for its decision, the role of the principal Board Committees, the Group's Corporate Governance arrangements and the latest financial information about the Group. This is supplemented by visits to key business locations and meeting key personnel.

Chairman's appointment

A Board subcommittee chaired by the SID and comprising all the Non-Executive Directors has been established to help with the process of appointing a new Chairman.

An international search firm, the Zygos Partnership (who has not previously had a business relationship with the Company and therefore is not subject to any conflicts of interest), was appointed to assist with this process.

Board Effectiveness Review

The effectiveness of the Board, its Committees, the Executive and Non-Executive Directors, and the Chairman was assessed in 2014 by an external consultancy (who has not previously had a business relationship with the Company and therefore is not subject to any conflicts of interest), Independent Board Evaluation. This independent team observed several Board and Committee meetings with supporting materials provided as pre-reading by the Company. The external consultant also conducted individual interviews with each Board member and other relevant stakeholders such as senior executives and managers. Participants were interviewed according to a set agenda, tailored for the Board. The review covered a range of topics including succession planning, operations, composition, skills and experience, diversity, how the Board works together, governance and compliance.

The Board has made good progress within its first year as a listed company and is dedicated to build upon this. The Board is also committed to the success of the Company and demonstrated this in their support to the senior management team during the Initial Public Offering. The results were encouraging and a number of improvements were identified. Actions for the year have been agreed and several actions have already been undertaken. A summary of the actions are listed below:

Culture and Dynamics

Insights

Management information

Actions agreed/Undertaken

Training has been delivered to ensure that the initial information flow to the Board is succinct and fit for purpose. Improvements have been made to the timing and delivery of information.

Engagement with the senior management

Continue to engage informally with the senior management and have a good understanding of their roles and responsibilities for talent management, for example regular meetings for Board Members and Senior Managers have been established.

Strategy and Operations

Insights

Strategy sessions

Actions agreed/Undertaken

Continue to focus on the Board's longer-term blue-sky thinking and time has been set aside for this.

Risk management

The Board continues to ensure appropriate debate is given to key business risk management issues. An additional Audit and Risk Committee meeting has been scheduled to discuss, amongst other matters, Risk Management issues.

Entrepreneurship

Encourage entrepreneurship through the business, whilst maintaining the right checks and balances.

Composition and Tenure

Insights

Succession Planning

Actions agreed/Undertaken

To continue to focus on succession and talent management.

Board training and induction

To refresh the Board induction process and to provide governance training for Directors as well as reviewing the overall education programme. Refresher training on governance was provided to the Board in March 2015.

Board composition/Skills

A review of the Board skills will be carried out to identify and align them to the Company's strategy. A process has been initiated to appoint the Chairman's successor. Characteristics were identified for additional appointments to include strategic skills as well as factors such as diversity, customer experience and international experience.

Statement of Corporate Governance (continued)



Audit and Risk Committee report Introduction from the Chair

Dear Shareholder,

The Committee has two main areas of responsibility. The first is to review and recommend to the Board all financial statements and disclosures. The second is to satisfy itself that internal controls and risk management processes put in place by the management team are working effectively. The Committee gets independent assurance from the Group's Internal Audit and Risk Management (IA and RM) function and also receives regular reports from the Compliance function as well as the external auditor (EY) across a wide range of issues in support of their respective oversight responsibilities. The Committee is further supported by the Risk Management Committee (RMC), a management committee of the Chief Executive's Committee with a reporting line to the Audit and Risk Committee (ARC). The RMC's key responsibilities are to drive the monitoring, identification and management of key risks in the organisation.

Alongside myself, the members of the Committee are all independent Non-Executive Directors – Orna Ni-Chionna, John Allan (resigned 30 April 2015), Nick Horler, Cath Keers and Les Owen.

During the year, the Committee continued to challenge the assumptions and judgements made by Management in determining the half year and full year financial results of the Company and to assess for appropriateness their disclosure in the financial statements. We reviewed the Group Risk Profile on a quarterly basis, with particular focus on risks where likelihood or impact had changed or increased, along with their supporting action plans to manage those risks. We paid particular attention to the risks posed to Royal Mail by direct delivery (see Business risks page 33) and our significant IT transformation programme. We also received updates on three internal audit reports which were rated as unsatisfactory to establish whether appropriate actions had been taken and the concerns raised by the reports had been resolved.

In light of the public focus on supplier rebates, we sought to reconfirm our supplier agreements and the accounting treatment of any rebate arrangements that are in place. No significant rebates were identified and those that were in place were accounted for appropriately.

Following the French Competition Authority investigation of GLS France (along with other parcels distribution companies, alleging anti-competitive practices and illegal price-fixing), we reviewed the compliance framework and its implementation across the Group. Where weaknesses were identified, we approved the necessary actions to strengthen the framework, including enhanced multi-jurisdictional training and communications to emphasise the importance of compliance throughout the Group.

Audit tender

In early 2014, the Committee decided to initiate a competitive audit tender process in light of emerging best practice, new requirements with respect to audit tenure and the fact that the existing auditor, EY, had been the incumbent since 1986 without any tender process having been undertaken. During the year a 'Tender Working Team', nominated by the Committee, undertook an audit tender process. The team comprised myself, John Allan and Les Owen, supported by relevant experts within the business. At the beginning of the process, we approached nine firms to assess their interest in participating in the audit tender, their ability to perform the audit, and to confirm their independence.

Subsequently, three audit firms took part in the tender process. The information gathering phase of the tender involved the provision by Royal Mail of relevant information via a secure data room, a day at the Shared Service Centre in Chesterfield to hold discussions with individuals key to the audit process, a meeting in London with senior finance management from GLS, followed by meetings with the Chief Finance Officer and the Non-Executive Directors on the Tender Working Team.

In July 2014, each firm submitted a proposal document that included an audit plan and approach (with particular reference to certain accounting challenges specific to Royal Mail), details of their proposed team and a critique of the Royal Mail plc consolidated Annual Report and Financial Statements 2013-14. Presentations were then made to the Tender Working Team in August 2014.

The Tender Working Team assessed the proposals on the basis of the audit firm's proposed approach, their understanding of the business and its specific requirements for the statutory and regulatory audit; the quality

of their proposed audit teams, including consideration of continuity and succession plans; their capability to provide the necessary assurance to the Committee across the Group; review of their May 2014 FRC Audit Quality Inspection Reports; and the proposed fee quantum and structure. Feedback from key individuals involved in the audit tender process was also taken into consideration.

Following a thorough review of the proposals, the Tender Working Team selected KPMG as external auditor, with Richard Pinckard as audit engagement partner. The Committee supported this conclusion and in September 2014 recommended to the Board that KPMG be appointed auditor to the Group. The proposal to appoint KPMG as external auditor will be put to the 2015 AGM for shareholder approval.

Paul Murray

Chair, Audit and Risk Committee

Committee membership and attendance

	Eligible to attend	Attended
Total number of meetings	5	
Chair		
Paul Murray	5	5
Members		
John Allan	5	4
Nick Horler	5	5
Orna Ni-Chionna	5	5
Les Owen	5	5
Cath Keers	5	5

Meetings of the Committee were also attended, where relevant, by the Chairman of the Board, the Chief Executive Officer, the Chief Finance Officer, other members of senior management and representatives from the external auditor, EY. The Board considers that a number of the members of the Committee have recent and relevant financial experience, in particular Paul Murray (the Chair) and Les Owen.

Audit and Risk Committee Terms of Reference

The full terms of reference for the Committee can be found on our website www.royalmailgroup.com/about-us/management-committees/audit-and-risk-committee

Key areas of focus during the year

Matters the Committee considered during the year include:

- Financial reporting, particularly in considering information presented by management on significant accounting judgements and policies adopted in respect of the Company's half year and full year results and the assessment of whether the Annual Report and Financial Statements were fair, balanced and understandable;
- Risk management and internal control, receiving regular updates from IA and RM on the results of their reviews and risk management mandatory standards;
- Corporate Governance Framework;
- Compliance Framework, including receiving quarterly updates from the Group Compliance team on areas within their oversight remit; and
- Technology and the risks posed by the major transformation programme the Company is undertaking.

Key areas of focus for next year

- Best practice in external reporting;
- Parcels strategy and automation;

- Technology and the stabilisation of services and benefits delivered by the major transformation programme; and
- The requirements of the 2014 Corporate Governance Code, including the new viability statement.

Meeting cycle and agenda items

The Committee uses a meeting tracker, approved once a year, which provides a framework for each meeting agenda.

During 2014-15 the Committee met five times:

- One meeting related to the French Competition Authority investigation;

Of the four regular meetings:

- Two meetings mainly focused on the half year and full year results; and
- Two meetings mainly focused on internal audit and risk management.

However, all regular meetings contain elements of both financial reporting and internal audit and risk management, with reports from the Group Financial Controller and the Director of IA and RM being standing items on all agendas.

Reliance on external and in-house experts

The Group's actuary, Towers Watson Limited, provides expert opinion and long-term assumption advice with respect to pension accounting and the assessment of other long-term liabilities. The Committee has concluded that Towers Watson Limited has the necessary expertise and resources.

The Committee also relies on:

- Advice and information provided by the General Counsel with respect to specific provisions and other contingent liabilities; and
- An independent survey of households to statistically calculate a distribution using 95 per cent confidence limit which is used to estimate the number/value of stamps that have been bought by the public but not used.

The external auditor had full access to these experts and, using their own actuarial and statistical experts, was able to provide further assurance to the Committee on these matters. The Committee is satisfied that the General Counsel has, or has access to, the relevant necessary expertise and resources and that the company conducting the statistical surveys also has the relevant necessary expertise and resources.

Key activity in relation to the financial statements

The main areas of focus for the Committee during the year in relation to the financial statements were:

Matter considered	What the Committee did
<p>New matters arising in the year</p> <p>French Competition Authority investigation (£46 million, see note 4 on page 86 and note 20 on page 120)</p> <p>In October 2014 Royal Mail entered into a settlement agreement with the French Competition Authority in respect of the alleged breaches of antitrust laws by one of its subsidiaries, GLS France, during the period before the end of 2010. At the half year, a provision of £18 million was raised for the anticipated fine and associated costs (comprised of £12 million for the anticipated fine and £6 million for the associated costs). At the full year, the provision for the anticipated fine has been reassessed to be £40 million in light of further correspondence with the French Competition Authority and their approach in other recent cases. Of the £6 million provision for the associated costs, £4 million has been utilised to date.</p> <p>The actual fine to be imposed will not be known until the second half of 2015-16 and the level of provision recorded at the half and full year for the anticipated fine and associated costs is a matter of judgement based on legal advice.</p>	<p>A range of potential outcomes from the investigation was presented by Management, based on external legal advice, with their best estimate of a potential fine selected.</p> <p>The Committee reviewed and challenged Management's assumptions and invited EY's views on the proposed level of provision.</p> <p>The Committee will continue to scrutinise the level of provision and ensure that it is adjusted appropriately until the proceedings are concluded and the fine and associated costs are paid.</p>

Statement of Corporate Governance (continued)

Matter considered	What the Committee did
<p>Non-GAAP measures of performance – disclosure (see Financial Review on page 24 and Significant accounting policies on page 131)</p> <p>The Group has moved to a presentation of profit and loss on an ‘adjusted’ basis that excludes specific items and reports movements on an underlying basis.</p> <p>From March 2015 this will include a specific item adjusting the income statement pension charge for the actual cash cost of pensions.</p>	<p>Management believes that the use of certain non-GAAP measures assists with the understanding of the performance of the Group. The Committee discussed Management’s proposal to move to an adjusted measure of profit at the November 2014 and March 2015 meetings.</p> <p>We challenged the various adjustments proposed and the disclosure of the non-GAAP measures in light of the requirement for the annual report and financial statements to be fair, balanced and understandable.</p> <p>We concluded that the disclosure of non-GAAP measures does assist with the understanding of the performance of the business.</p>
<p>Ongoing matters considered due to their materiality and/or the application of judgement</p>	
<p>Advance customer payments (£286 million, see note 27 on page 127)</p> <p>The Group estimates the amounts of stamps and meter credits that have been sold but not used prior to the half year and year end.</p> <p>Although the relevant survey and extrapolation is conducted by an independent company, the level at which a stamp holding is considered to be abnormal, and therefore excluded from the estimate, is a judgement made by management. This judgement impacts revenue, profit and net assets.</p>	<p>The Committee continued to review and challenge the methodology and outcome from the statistical survey at the half year and full year, along with the judgement made by Management as to the level at which a stamp holding is considered abnormal. We compared the level of deferred income recognised by Management at each reporting period to ensure a consistent application.</p> <p>Separately, the auditor used their own experts to review the statistical processes and assess the judgemental assumption.</p> <p>We concluded that the level of deferred revenue remained appropriate.</p>
<p>Royal Mail Defined Benefit Pension Surplus (£3,179 million, see balance sheet and note 8 on page 93)</p> <p>The valuation of the pension liabilities relies on the estimation of long-term assumptions such as RPI/CPI and mortality. Small movements in these assumptions can lead to material impacts on the balance sheet.</p> <p>In view of the complexity of accounting for pension schemes, significant focus is required on the associated disclosure to ensure that it is fair, balanced and understandable.</p>	<p>Key long-term assumptions were prepared by the Group’s actuary, Towers Watson Limited, and benchmarked to prevailing economic indicators and other large pension schemes. The assumptions were reviewed and approved by the Pensions Committee (see Report on page 56). All of these assumptions are disclosed in note 8 to the financial statements. Changes in the assumptions were summarised for the Committee and explanations provided for the returns on scheme assets, particularly as a result of the liability hedging strategy.</p> <p>The auditor used their own independent actuarial experts to confirm that the assumptions used were reasonable and appropriate.</p>
<p>Industrial diseases claims provision (£81 million, see note 20 on page 120)</p> <p>The Group is liable for claims brought by employees (past and current) and by individuals who were employed in the General Post Office Telecommunications division and whose employment ceased prior to October 1981. The provision covers the estimate of claims that could be received over the next 25-40 years. Changes to the provision will impact the income statement and net assets.</p>	<p>To determine whether the level of provisioning in the balance sheet was reasonable, the Committee examined reports from Management and estimates of the gross provision (including the number of claims incurred but not received and the associated expected cash outflow, undiscounted) calculated by the Group’s actuary, Towers Watson Limited. The discount factor used by Towers Watson, as advised by Management, to calculate the present value of the provision was validated against applicable bond rates. We compared the discounted provision to the provisions recorded at previous reporting dates and to recent cash settlements confirmed by the General Counsel.</p> <p>We received EY’s comments on the assumptions and the calculation used to reach the discounted provision and concluded that the approach taken to setting the provision continued to be appropriate.</p>
<p>Impact of changing employment legislation (see Business risks on page 34)</p> <p>The Group has a large workforce and changes to laws and regulations relating to employment can have a significant effect on the Group’s results.</p>	<p>Throughout the year, the Committee received regular updates on relevant employment law cases from the General Counsel along with impact assessments of judgements on the Group.</p> <p>In light of the legal updates, we examined reports prepared by Management to determine whether their interpretation of the potential liabilities for the Group was appropriate.</p> <p>The Committee concluded that these potential liabilities were accounted for appropriately based on the legal assessments provided by the General Counsel.</p>

Audit Committee effectiveness

During the year, the Committee was assessed as part of the external evaluation carried out by Independent Board Evaluation. Further details can be found in the Statement of Corporate Governance on page 49. One area of potential improvement was the provision of appropriate training to ensure that the members are up to date with technical and auditing developments, and the need to schedule another Committee meeting in January. In addition, the Chair has used a short questionnaire to help determine priorities. The conclusion of the evaluation was that the Committee continues to be effective.

Effectiveness of the external audit process

During the year, the Committee reviewed the planning methodology and proposed audit approach presented by the external auditor, and the Chair of the Committee attended an audit planning event where the areas of audit risk were discussed and agreed. The Committee reviewed and approved the respective engagement letters for the statutory and regulatory audits.

At the end of the half year review and year end statutory audit, the Committee received reports from EY covering significant issues identified and discussed during the audit visits. These reports were compared with the matters that Management had identified, to ensure consistency. The Committee also held regular private meetings with the external auditor.

During the year, the Committee reviewed the external auditor's 2014 Audit Quality Inspection Report and discussed with them the findings of that report and those from a review of their audit files.

At the conclusion of the full year's audit, the Committee performed a specific assessment of the external audit process. This was supported by the results of discussions with individual Committee members and questionnaires completed by relevant individuals within the business, covering areas such as the preparation for the audit, the calibre of the audit teams, the audit scope, communications, technical expertise and audit governance and independence.

The effectiveness of Management in the external audit process is assessed principally in relation to the timely identification and resolution of areas of accounting judgement, the quality and timeliness of papers analysing those judgements, the identification of audit adjustments and the level of audit fee over-runs.

After taking all of the above into consideration, the Committee concluded that the audit team, and EY as a firm, had demonstrated that they had appropriate qualifications, resources and expertise and that the audit process was effective.

Safeguarding the independence and objectivity of the external auditor

EY have been the incumbent auditor since their appointment on 11 June 1985. The current external audit partner is Richard Wilson, who was appointed to lead the audit in June 2011. As noted above, a competitive tender process for the award of the external audit has been held during the year.

The Committee has a policy in respect of non-audit work which requires Management to seek pre-approval prior to the engagement of the external auditor for the provision of any non-audit services. This is to ensure that the level of fees earned from non-audit services and the type of services provided do not impair the external auditor's independence and objectivity. In general the external auditor is not approached to perform non-audit work. However the auditor may be appointed to perform non-audit services if there is a genuine efficiency in doing so. This could follow a competitive tender process involving the external auditor. The Committee currently permits the external auditor to provide non-audit services in respect of audit-related services, tax services and other services insofar as permitted by auditor independence rules. The Committee has delegated authority to the Chief Finance Officer to pre-approve assignments up to £25,000 with an annual limit of £500,000.

For 2014-15, EY undertook non-audit services in relation to tax advice, reviews and filings, corporate sustainability reporting assurance; and the iXBRL tagging of the Group's subsidiary financial statements. Total fees for non-audit services were £265,000 which represented around 13 per cent of the external audit fee.

The Committee also has a policy that restricts the recruitment or secondment of individuals employed by the external auditor into positions that provide financial reporting oversight where they could exercise influence over the financial or regulatory statements of the Group or the level of audit and non-audit fees.

Risk management and internal control overview

The Board believes that effective risk management and a sound control environment are fundamental to the Group. The UK Corporate Governance Code requires the Board to maintain sound risk management and internal control systems, to review their effectiveness at least annually and to report on this review to shareholders. A sound system of internal control depends on a thorough and regular evaluation of the nature and extent to which the Group is exposed to risk.

The Group's risk management and internal control system is designed to manage rather than eliminate risk as taking on manageable risk is an inherent part of undertaking the commercial activities of the Group. The system can only provide reasonable, not absolute, assurance against material misstatement or loss.

There is an ongoing process for identifying, evaluating and managing the principal risks faced by the Group in accordance with the guidance detailed by the UK Corporate Governance Code, including financial, operational and compliance risks, and risks to reputation. The process has been in place throughout the year and up to the date of approval of these financial statements.

Risk management and internal control framework

The Group-wide risk management framework includes risk governance, risk identification, measurement and management, and risk reporting and sets out the 'top-down' and 'bottom-up' approach to risk identification for the Group. During the year the business has:

- Reviewed its Risk Management Framework, Risk Management Policy and Risk Management Guide, received self-assessment validations from the prioritised business units and functions on compliance with the Risk Management Mandatory Standards and provided independent assurance of a sample of these submissions;
- Continued its emerging risk identification process through regular structured dialogue with subject matter experts across the business; and
- For a sample of risks on the Group Risk Profile, independently validated the supporting risk analysis information including the mitigation plans.

The Group's approach to risk management is based on the underlying principle of line management accountability for effective implementation of internal controls to manage risk.

Statement of Corporate Governance (continued)

The Group recognises and uses the principle of the 'Three Lines of Defence':

1. First Line comprises primary controls over the risks to the business, located in the day-to-day operation, and includes established management organisation, policies and documentation, budgets, and performance management.
2. Second Line comprises internal monitoring and oversight of the first line including regular reviews, assessments, and annual sign-offs.
3. Third Line comprises independent assessment of the first and second lines by the IA and RM function and others (including external audit).

Assessing the effectiveness of the system of risk management and internal control

In addition to the specific constitution, meetings, reliance on experts, and focus areas highlighted above, the Committee uses a number of mechanisms to help it to arrive at its conclusion on the effectiveness of the system of risk management and internal control in the business. These include:

1. Risk governance

The Board has delegated responsibility for specific review of risk and control processes to the Committee and the Committee in turn is supported by the RMC, to help discharge its duties. The RMC meets to promote and support the establishment, communication and embedding of risk management throughout the Group and to ensure that risks that are significant at Group level are being effectively managed.

2. Assurance from Internal Audit

IA and RM provides independent assurance to executive Management and the Board on the effectiveness of the internal control system and elements of the Risk Management Process, including compliance with the Risk Management Mandatory Standards, and validation of mitigation plans for Group Risks. IA and RM establishes and agrees with the Committee an annual plan of assignments and activities based on discussions with the Board and Management, and also taking into account known issues in the business, areas of known importance to the delivery of the business plan, areas subject to strong or emerging regulation or legislation, and known issues in the industry.

The Internal Audit work programme, focused towards the key business priorities for 2014-15, included:

- Business Transformation reviews including Parcels and IT Service Transition;
- Major business process reviews including Network Access Billing, Order to Cash, IT Disaster Recovery, and International Revenue Controls;
- Continued rolling programme of review of the basic business controls and validation reviews related to the management of individual risks on the Group Risk Profile; and
- Conformance of key units/functions to defined Risk Management Mandatory Standards.

3. External audit activity

External audits and reviews take place during the year to provide Management, the Board and the Regulator with assurance on specific matters. Activity includes:

- The external auditor performs a statutory year end audit;
- The external auditor performs an audit of the regulatory accounts as part of Universal Service Provider (USP) accounting requirements;
- The externally measured end-to-end Quality of Service is audited by an independent accounting firm (appointed by Ofcom) as part of Royal Mail's Designated Universal Service Provider condition requirements; and
- The Universal Service Obligation (USO) daily collections and deliveries performance reporting and methodology is assured by an independent accounting firm (appointed by Royal Mail) as part of Royal Mail's designated Universal Service.

Whistleblowing

Arrangements are in place to enable employees to raise concerns about potential wrongdoings in confidence and to ensure independent investigation of such matters. During the year IA and RM reported to the Committee on the number of notifications and the time taken to process them through the Employee Disclosure Committee (EDC).



Nomination Committee report Introduction from the Chair

Dear Shareholder,

As noted in the announcement on 20 January 2015, I have informed the Board of my intention to step down from the Board. The SID, Orna Ni-Chionna, has initiated a process to appoint my successor and I will continue to chair the Board until at least the 2015 AGM. Likewise, following his appointment as Chairman of Tesco PLC, John Allan resigned as a Non-Executive Director with effect from 30 April 2015. As a result of this, the Committee has started to assess the composition of the Board to take account of the changes.

In 2014, an external Board evaluation was undertaken (see page 49), the results of which were encouraging. It gave reassurance that the Board and its Committees continue to work effectively.

As well as succession planning and the continued evaluation of the balance of skills, knowledge and experience of the Board the Committee continues to focus on diversity, reviewing leadership attributes, approving changes to senior management and various appointments within the Company.

The following report outlines the Committee's membership and attendance, its role, its focus during the year, Directors' re-election and diversity.

Donald Brydon

Chair of the Nomination Committee

Committee membership and attendance

	Eligible to attend	Attended
Total number of meetings	3	
Chair		
Donald Brydon	3	3
Members		
Nick Horler	3	3
Cath Keers	3	3
Orna Ni-Chionna	3	3

Meetings of the Committee were also attended, where relevant, by the Company Secretary, the Deputy Company Secretary and the Group HR Director. The Chief Executive Officer and other Non-Executive Directors have also attended when required.

Nomination Committee Terms of Reference

The full terms of reference for the Committee can be found on our website www.royalmailgroup.com/about-us/management-committees/nomination-committee.

Role of the Committee

A summary of the responsibilities of the Committee in connection with appointments to the Board and senior management positions is shown below:

- To regularly review the structure, size and composition of the Board and to evaluate the balance of skills, knowledge, experience and diversity on the Board to inform the capabilities required for a particular appointment;
- To give full consideration to succession planning for Directors and senior management;
- To identify, and nominate for the approval of the Board, candidates to fill Board vacancies as and when they arise;
- To evaluate, before any appointment is made by the Board, the balance of skills, knowledge, experience and diversity on the Board and in the light of this evaluation consider, where appropriate, preparing a description of the role and capabilities required for a particular appointment. In identifying suitable candidates, the Committee may use open advertising or the services of external advisers to facilitate the search;

- To ensure that on appointment to the Board, Non-Executive Directors receive a formal letter of appointment setting out clearly what is expected of them in terms of time commitment, committee service and involvement outside Board meetings;
- For the appointment of a Chairman, to prepare a job description including the time commitment expected. A proposed Chairman's other significant commitments should be disclosed to the Board before appointment and any changes to the Chairman's commitments should be reported to the Board as they arise;
- To review annually the time required from Non-Executive Directors to fulfil their duties;
- To make recommendations to the Board on:
 - Formulating succession plans for both Executive Directors and Non-Executive Directors and in particular for the key roles of the Chairman and Chief Executive Officer;
 - Suitable candidates for the role of the SID;
 - Membership of the Board Committees in consultation with the Chairs of those committees;
 - The re-appointment of any Non-Executive Director at the conclusion of their specified term of office having given due regard to their performance and ability to continue to contribute to the Board; and
 - The re-election of Directors by shareholders under the re-election provisions of the Code or the retirement by rotation provisions in the Company's Articles of Association (the Articles), having due regard to their performance and ability to continue to contribute to the Board and the need for progressive refreshing of the Board.
- To nominate suitable candidates for other senior management positions; and
- To review the succession management process within the Company for the top 120 senior management positions.

Key areas of focus during the year

Matters the Committee considered during the year include:

- Reviewing leadership attributes in conjunction with an external adviser, Norman Broadbent;
- Choosing an external consultancy to undertake a Board evaluation exercise;
- Approving changes to the roles of certain members of senior management;
- Reviewing the Board's policy on diversity as outlined on page 46;
- CEC talent review;
- Appointment of Directors and Secretary to subsidiaries and Joint Ventures; and
- Appointment of Pension Trustees.

Key areas of focus for next year

- Assessing the composition of the Board following the departures of Donald Brydon and John Allan from the Board;
- Succession planning and talent management; and
- Appointment of Directors and Secretary to subsidiaries and Joint Ventures.

Directors' re-election

The Committee considers the performance of each individual Director, whether he or she continues to be effective and can demonstrate commitment to the role and whether they should be proposed for election at the AGM. Biographical details of each of the Directors, together with details of their skills and experience, may be found on pages 43 – 45. Following a performance evaluation of each Director and the Board as a whole, all Directors are considered by the Board to be fully effective.

Statement of Corporate Governance (continued)



Pensions Committee report Introduction from the Chair

Dear Shareholder,

The responsibilities delegated to the Committee by the Board include the review and approval of objectives in relation to the Royal Mail pension schemes, monitoring performance of these schemes, considering recommendations and reports from management in relation to policy and strategy concerning pensions and investment matters that are significant to the Group, and, where appropriate, making recommendations to the Audit and Risk Committee and the Board.

The Committee reports and makes recommendations to the Board (and to Royal Mail Group Limited as principal employer of the Group's pension's schemes) on:

- Pension matters which it reasonably considers are of strategic importance to the Group;
- Pension-related matters involving a financial impact of over £100 million;
- Material changes to benefits that require rule changes or changes to the pension scheme Trust Deeds other than those required for changes in legislation; and
- Material matters in relation to the accounting for the Group's pensions obligations.

The Committee is supported by the Pensions Policy Committee, whose members are the Chief Finance Officer, the Company Secretary, the Group HR Director and representatives from the CWU and Unite/CMA.

Further details of the Committee's role, its membership and the key areas of focus during the year are set out below.

Les Owen

Chair of the Pensions Committee

Committee membership and attendance

	Eligible to attend	Attended
Total number of meetings	3	
Chair		
Les Owen	3	3
Members		
Matthew Lester	3	3
Paul Murray	3	3
Jan Babiak*	1	1

*Jan Babiak resigned from the Board on 29 April 2014.

The meetings of the Committee have also been attended by the Company Secretary, the Director of Corporate Finance, the Group Financial Controller, the Head of Pensions Strategy and representatives from the Company's pensions advisers, Towers Watson Limited.

Pensions Committee Terms of Reference

The full terms of reference for the Committee can be found on our website www.royalmailgroup.com/about-us/management-and-committees/pensions-committee.

Role of the Committee

Further to the responsibilities outlined in the Committee Chair's statement, the role of the Committee also includes:

- Reviewing reports from the Trustee Executive on the Royal Mail pension schemes' financial position, investment performance, administration levels and other activities;
- Reviewing recommendations from the Pensions Policy Committee and approving assumptions relating to funding valuations and the Statement of Investment Principles;
- Approving, in accordance with the pension schemes' Rules, the appointment, re-appointment, removal, period of appointment and remuneration of the Chair of Trustees. This approval will be given on behalf of the Board following consultation with the Chair and on the recommendation of Management; and

- Reviewing major policy, regulatory, legislative, accounting reporting, industrial relations and Governmental issues impacting the pension schemes as from time to time is necessary, at the request of the Board, Management or any member of the Pensions Committee, and making decisions, recommendations or reporting to the Board accordingly.

Key areas of focus during the year

Matters the Committee considered during the year include:

- Scheme funding;
- Investment strategy and risk management;
- Investment performance and fees;
- The impact of pension legislation changes; and
- Pensions accounting and treatment of scheme surplus.

Key areas of focus for next year

Matters the Committee expect to be considering during the year ahead include:

- The pension schemes' funding valuations, and any implications for future benefit design;
- Investment strategy and risk management;
- Pensions accounting;
- Pension scheme administration; and
- The impact of new pensions freedoms on the schemes.

Remuneration Committee

Committee membership and attendance

	Eligible to attend	Attended
Total number of meetings	7	
Chair		
Orna Ni-Chionna	7	7
Members		
Donald Brydon	7	7
Paul Murray	7	7
Les Owen	7	7

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

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

Remuneration Committee Terms of Reference

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>.

Role of the 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.

Key areas of focus during the year

Details of the work carried out by the Remuneration Committee and the decisions made are outlined in the Directors' remuneration report on pages 64 – 75.

Other Committees:

Risk Management Committee

The Risk Management Committee supports the Audit and Risk Committee and meets to promote and support the establishment, communication and embedding of risk management throughout the business. The Committee meets quarterly and is chaired by the Chief Executive Officer.

Disclosure Committee

The role of the Disclosure Committee is to assist the Executive Directors in fulfilling their responsibility for oversight of the accuracy and timeliness of the disclosures made by the Company in relation to its financial and other reporting. The Committee meets on a regular basis during the reporting process and is chaired by the Chief Executive Officer.

Statement of Corporate Governance (continued)

Chief Executive's Committee

The Group has a committed management team which has successfully transformed the Company and allowed for its public flotation in 2013. Through the Chief Executive's Committee, the team manages the key strategies of the Group with an overall framework of financial risk and business controls to meet the needs of stakeholders.

Biographies for the Chief Executive Committee can be found below.



Moya Greene
Chief Executive Officer

See 'Our Board of Directors' on pages 43 – 45.



Stephen Agar
Managing Director, Consumer and Network Access

Current role

- Appointed Managing Director, Consumer and Network Access, in October 2011.
- Responsible for the regulated letters business (both USO and Access).

Previous work history

- A barrister who started his career in the Government Legal Service before moving to Racal Electronics plc.
- Joined Royal Mail in 1991.



Rico Back
Chief Executive Officer, GLS

Current role

- Appointed Chief Executive Officer of GLS in October 1999.

Previous work history

- Founding manager of German Parcel in 1989, which was acquired by the Group in 1999.



Catherine Doran
Chief Information Officer

Current roles

- Joined Royal Mail in September 2011 as Chief Information Officer.
- A Non-Executive Director for Defra and BQF.
- Member of the CIO Board for e-skills UK.

Previous work history

- Joined Royal Mail from Network Rail, where she led the company-wide transformation programme.



Neil Harnby
General Counsel

Current role

- Appointed General Counsel in January 2012.

Previous work history

- Previously General Counsel for the European and Middle Eastern Division of GE Capital, the financial services unit of the General Electric Company.
- Before joining GE, he was a Partner at Linklaters LLP.



Matthew Lester
Chief Finance Officer

See 'Our Board of Directors' on pages 43 – 45.



Jon Millidge

Group HR Director

Current role

- Appointed Group HR Director in February 2014.
- Pension Scheme Trustee of the Royal Mail Defined Contribution Plan.

Previous work history

- Joined Royal Mail in 1985 as a graduate and has worked across a number of the businesses with the Group.
- Previously Company Secretary from May 2010 to February 2014 and prior to that was the Acting Group HR Director.



Mike Newnham

Chief Customer Officer

Current role

- Appointed Chief Customer Officer in March 2012.

Previous work history

- Led the Consumer division of Orange in the UK.
- Prior to that held a number of executive board positions at Orange.



Shane O'Riordain

Managing Director, Communications, Strategy, Regulation and Pricing

Current role

- Appointed Managing Director, Communications in November 2010.
- Subsequently assumed responsibility for Strategy and in 2014, Regulation and Pricing.

Previous work history

- Director of Communications for Royal Mail Group.
- Held a number of Group Communications Director positions in the banking and financial sector, at Lloyds Banking Group, HBOS, Halifax and Flemings.



Emily Pang

Company Secretary

Current role

- Appointed as Company Secretary in February 2014, in addition to her current responsibilities.
- Joined the Group as Chief of Staff for Royal Mail Group in April 2011.

Previous work history

- Prior to joining Royal Mail, worked at Canada Post where she was Executive Chief of Staff and the interim Lead Executive for Human Resources.
- Prior to that worked at CIBC, a major Canadian bank.
- Emily is a Chartered Accountant.



Stuart Simpson

Deputy Chief Operations Officer

Current role

- Joined the Royal Mail in 2009 and appointed Deputy Chief Operations Officer in January 2014.
- Prior to this, he was running Operations for the West Region of the UK and was the Finance Director for UK Operations.

Previous work history

- Worked in the automotive industry for 15 years with senior roles in Finance and Strategy, the last ten of which were based outside the UK.



Sue Whalley

Chief Operations Officer

Current role

- Joined Royal Mail in 2006 and was appointed Chief Operations Officer in January 2014.
- Responsible for leading the next phase of the transformation in Operations, with specific focus on further development of safety, quality, efficiency, culture and innovation.
- Previously, as Regulation and Government Affairs Director, led the programmed work for privatisation.

Previous work history

- Consultant at McKinsey and Company for 17 years, the last six of which as a partner.

Directors' Report

Introduction

The Directors present their report together with audited financial statements for the year ended 29 March 2015.

Strategic report

To enable the assessment of how the Directors have performed their duty to promote the success of the Company, the Companies Act 2006 requires the Directors to set out in this report a fair review of the business of the Group during the year, the position of the Group at the end of the year and a description of the principal risks and uncertainties facing the Group. This information can be found in the following sections of the Annual Report and Financial Statements and are incorporated by reference.

The information required to be disclosed in the Annual Report under Listing Rule 9.8.4R is marked with an asterisk below.

Index	Page
Business model	14
Strategy for delivering objectives	16
Results	4
Financial assets and liabilities	80
Business risks	31
Corporate responsibility	36
Greenhouse gas emissions	40
Disabled employees	38
Our people	37
Going concern	83
Long-Term Incentive Plans*	99
Statement of the amount of interest capitalised*	121 and 124
Dividend waiver*	60

Disclosure and Transparency Rules

The Strategic report and the Directors' report together include the management report required by the Disclosure and Transparency Rules (DTR4.1) of the UK Financial Conduct Authority (Disclosure and Transparency Rules), the Directors having consulted with the management on such matters.

Corporate Governance statement

The Disclosure and Transparency Rules require certain information to be included in a corporate governance statement in the Directors' Report. This information can be found in the Statement of Corporate Governance on pages 47 - 59 and is incorporated into this Directors' Report by reference.

Dividends

Final dividend

The Board recommends a final dividend of 14.3 pence per ordinary share, giving a total dividend for the year of 21.0 pence per ordinary share. The final dividend will be payable on 31 July 2015 to shareholders whose names appear on the register of members on 3 July 2015.

Dividends and distribution

The Company may by ordinary resolution from time to time declare dividends not exceeding the amount recommended by the Board. Subject to the Companies Act 2006, the Board may pay interim dividends, and also any fixed rate dividend, whenever the financial position of the Company, in the opinion of the Board, justifies its payment. If the Board acts in good faith, it is not liable to holders of shares with preferred or pari passu rights for losses arising from the payment of interim or fixed dividends on other shares. All dividends shall be apportioned and paid pro rata according to the amounts paid up on the shares.

Dividend waivers

The trustee of the Royal Mail Share Incentive Plan will not receive any dividends (other than any special dividend declared by the Board) on Free Shares which it has not been possible to award to, or which have been forfeited by, participants in the plan.

Political donations

No political donations were made during the year and the Company intends to continue its policy of not making such donations for the foreseeable future.

Future developments

Possible future developments are described in Our strategy on pages 16 - 17 and Business risks on pages 31 - 35 of the Strategic report.

Share capital

As at 29 March 2015, the Company's issued share capital comprised 1,000,000,000 ordinary shares of one penny each as set out in note 28 to the accounts on page 127.

A block listing of 5,000,000 shares was undertaken in November 2014 but none as yet have been issued.

Rights and obligations attaching to shares

Voting

Subject to the provisions of the Articles and to any special rights or restrictions as to voting attached to any class of shares in the Company (of which there is none), members will be entitled to vote at a general meeting as follows:

- On a show of hands, every member present in person has one vote and every proxy present who has been duly appointed by one or more members will have one vote, except that a proxy has one vote for and one vote against if the proxy has been duly appointed by more than one member and the proxy has been instructed by one or more members to vote for and by one or more other members to vote against;
- For this purpose, the Articles provide that, where a proxy is given discretion as to how to vote on a show of hands, this will be treated as an instruction by the relevant member to vote in the way that the proxy decides to exercise that discretion; and
- On a poll, every member has one vote per share held by him, her or it and he, she or it may vote in person or by one or more proxies. Where he, she or it appoints more than one proxy, the proxies appointed by him, her or it taken together shall not have more extensive voting rights than the member could exercise in person.

In the case of joint holders of a share, the vote of the senior holder who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders and, for this purpose, seniority shall be determined by the order in which the names stand in the register in respect of the joint holding.

No member shall be entitled to vote at any general meeting or class meeting in respect of any share held by him, her or it if any call or other sum then payable by him, her or it in respect of that share remains unpaid or if a member has been served with a restriction notice (as defined in the Articles) after failure to provide the Company with information concerning interests in those shares required to be provided under the Companies Act 2006. Currently, all issued shares are fully paid.

Voting instructions may be submitted electronically at www.sharevote.co.uk by following the online instructions.

Employees allocated Free Shares under the Employee Free Shares Offer, which are held in trust by the Trustee of the Royal Mail Share Incentive Plan, are entitled to exercise any voting rights in respect of such Free Shares by instructing the Trustee how to vote on their behalf.

Deadline for voting rights

Full details of the deadlines for exercising voting rights in respect of the resolutions to be considered at the AGM to be held on 23 July 2015 will be set out in the Notice of Annual General Meeting.

Special rights

There are no persons holding securities that carry special rights with regard to the control of the Group.

Transfer of shares

Subject to the Articles, any member may transfer all or any of his or her certificated shares by an instrument of transfer in any usual form or in any other form which the Board may approve. The instrument of transfer must be signed by or on behalf of the transferor and (in the case of a partly-paid share) the transferee.

The transferor of a share is deemed to remain the holder until the transferee's name is entered in the register.

The Board can decline to register any transfer of any share which is not a fully paid share. The Board may also decline to register a transfer of a certificated share unless the instrument of transfer:

- (i) is duly stamped or certified or otherwise shown to the satisfaction of the Board to be exempt from stamp duty and is accompanied by the relevant share certificate and such other evidence of the right to transfer as the Board may reasonably require;
- (ii) is in respect of only one class of share; and
- (iii) if to joint transferees, is in favour of not more than four such transferees.

Registration of a transfer of an uncertificated share may be refused in the circumstances set out in the uncertificated securities rules (as defined in the Articles) and where, in the case of a transfer to joint holders, the number of joint holders to whom the uncertificated share is to be transferred exceeds four.

Authority of the Directors to allot shares

By a resolution passed by shareholders on 24 July 2014, at the AGM, the Directors were authorised subject to certain limitations to allot shares in the Company and to grant rights to subscribe for or to convert any security into shares in the Company:

- (a) up to a nominal amount of £3,333,333; and
- (b) comprising equity securities up to a nominal amount of £6,666,666 (such amount to be reduced by any allotments made under paragraph (a) above) in connection with an offer by way of a rights issue;

The authorities conferred on the Directors to allot securities under paragraph (a) and (b) will expire on the date of the 2015 AGM or on 31 July 2015, whichever is sooner, (the 'Expiry Date'). The Directors will be seeking a new authority for the Directors to allot shares and to grant subscription and conversion rights to ensure that the Directors continue to have the flexibility to act in the best interests of shareholders when opportunities arise by issuing new shares or granting such rights. The Board was also given authority to allot equity securities for cash or to sell Ordinary Shares as treasury shares for cash subject to certain limitations, such authority to apply until the Expiry Date.

Purchase of own shares by the Company

By a resolution passed by shareholders on 24 July 2014, at the AGM, the Company was authorised to purchase up to a maximum number of 100,000,000 of its Ordinary Shares pursuant to certain limitations, such power to apply until the Expiry Date. The Company did not repurchase any of its Ordinary Shares during the year ended 29 March 2015.

The Directors require express authorisation from shareholders to purchase our own shares. Accordingly, at the 2015 AGM, the Directors will seek authority to make market purchases of up to a maximum of ten per cent of issued share capital. At the present time the Company has no plans to exercise this authority.

Employee Benefit Trust

On 18 July 2014, the Board approved a proposal to establish a discretionary trust with employees (including Executive Directors of the Company) as beneficiaries, in the form of an Employee Benefit Trust (EBT), to hold Company shares to be used under any equity based employee benefits scheme. The EBT was established after the AGM in July 2014.

As at 29 March 2015 a total of 40,935 (2013-14 nil) shares were held by the EBT on behalf of the Company.

Substantial shareholdings

As at 29 March 2015, the Company had been notified, in accordance with the Disclosure and Transparency Rules, of the following interests amounting to three per cent or more of the voting rights in the issued ordinary share capital of the Company:

Shareholder	Number of shares	% of voting rights
Postal Services Holding Company Ltd	299,840,000	29.98%
Equiniti Share Plan Trustees Limited	84,437,195	8.44%
GIC Private Limited	39,343,389	3.93%

As at 20 May 2015, the Company had been notified, in accordance with the Disclosure and Transparency Rules, of the following interests amounting to three per cent or more of the voting rights in the issued ordinary share capital of the Company:

Shareholder	Number of shares	% of voting rights
Postal Services Holding Company Ltd	299,840,000	29.98%
Equiniti Share Plan Trustees Limited	84,437,195	8.44%

Amendment to the Company's Articles of Association

Any amendments to the Company's Articles may be made in accordance with the provisions of the Companies Act 2006 by way of special resolution.

Indemnity of Directors

To the extent permitted by the Companies Acts, the Company may indemnify any Director or former Director of the Company or any associated company against any liability and may purchase and maintain for any Director or former Director of the Company or any associated company insurance against any liability.

Appointment and replacement of Directors

Unless otherwise determined by ordinary resolution of the Company, the Directors shall be no fewer than two and no more than 15 in number.

Directors' Report (continued)

Following privatisation, Directors may now be appointed by the Company by ordinary resolution or by the Board. There is also an agreement in place with Postal Services Holding Company Limited (PSH) which grants PSH the right to nominate one Non-Executive Director for appointment to the Board for so long as PSH (together with its associates) is entitled to exercise or to control the exercise of ten per cent or more of the voting rights exercisable at a general meeting of the Company.

In accordance with the Code, all Directors of the Company are subject to annual re-election.

A Director appointed by the Board or PSH holds office only until the next AGM and is then eligible for election by the shareholders. The Company's Articles provide that, at each AGM, all those Directors who have been in office at the time of the two preceding AGMs and who did not retire at either of them, or who have held office with the Company, other than employment or executive office, for a continuous period of nine years or more at the date of the AGM, shall retire from office and may offer themselves for re-appointment by shareholders. The Board has, however, decided to follow the Code as referred to above so that all Directors are subject to annual re-election.

In addition to any power of removal conferred by the Companies Act, the Company may by special resolution remove any Director before the expiration of his or her period of office.

Donald Brydon informed the Board in January 2015 of his intention to step down from the Board but will continue to chair the Board until at least the 2015 AGM.

John Allan informed the Board in February 2015 of his intention to stand down as a Non-Executive Director and it was confirmed on 20 March 2015 that he would resign as a Non-Executive Director with effect from 30 April 2015.

Directors and their interests

The Directors of the Company during the year are given on pages 43 – 46. Details of the interest of the Directors and, where applicable, their Connected Persons in the Ordinary Shares of the Company and of Long-Term Incentive Plan Awards over Ordinary Shares of the Company are set out in the Directors' Remuneration Report on pages 64-75.

There are procedures in place to deal with any conflicts of interest and these have operated effectively.

Powers of the Directors

The business of the Company will be managed by the Board who may exercise all the powers of the Company, subject to the provisions of the Articles, the Companies Act 2006 and any ordinary resolution of the Company.

Directors' annual bonus and Long-Term Incentive Plan (LTIP) awards upon a change in the control of the Company

Upon a change of control of the Company, share awards under the annual bonus and vesting under the 2014 LTIP arrangements could pay out on a pro-rated basis if the performance conditions have been met. The performance-testing period would automatically end on the date of the change in control. Under the 2011 LTIP arrangements, awards granted more than 12 months prior to a change in control would not be pro-rated. Awards granted less than 12 months prior to a change in control would typically be pro-rated, unless the Remuneration Committee decides otherwise.

Events after the reporting period

On 31 March 2015, after the financial year end, the Group's GLS Germany subsidiary disposed of its 100 per cent owned subsidiary, DPD Systemlogistik GmbH & Co. KG (DPD SL) to DPD GeoPost (Deutschland) GmbH. The disposal resulted in a post-tax profit of around €40 million (£29 million) which will be reflected in the Group's 2015-16 financial statements.

Financial risk management

The Group's financial risk management objectives and policies and the main risks arising from the Group's financial assets and liabilities are summarised in note 14 to the accounts on page 105. See the financial risks and related hedging contained on page 28 of the Financial review in the Strategic report.

Change of control

The following agreements contain provisions permitting exercise of termination or other rights in the event of a change of control.

The Mails Distribution Agreement with Post Office Limited provides for the supply of certain services to the Group and allows for a request for renegotiation of terms in the event of a change of control of either party where such change of control is likely to have a material adverse effect on the party not undergoing the change of control.

The Outsourcing Agreement with CSC Computer Sciences Limited covers the provision of a wide range of IT goods and services and allows for termination of the agreement by either party on a change of control of the other in certain circumstances.

The Services Agreement with British Telecommunications plc (BT) allows BT to terminate the agreement on a change of control of Royal Mail to one of BT's competitors.

The Syndicated Loan Facility with various financial institutions provides the Group with a revolving credit facility for general corporate and working capital purposes. The agreement contains provision on a change of control of the Group for negotiation of the continuation of the agreement or cancellation by a lender.

The €500 million bond issued by the Company in July 2014 contains provisions such that, on a change of control that is combined with a credit rating downgrade in certain circumstances, the noteholders may require the Company to redeem or, at the Company's option, purchase the notes for their principal amount, together with interest accrued to (but excluding) the date of redemption or repurchase.

Branches

As a global group, our interests and activities are held or operated through subsidiaries, branches, joint arrangements or associates which are established in, and subject to the laws and regulations of, many different jurisdictions.

New products and services

In the ordinary course of business the Group develops new products and services in each of its business units.

Environmental social and governance risks

The Strategic Report, together with greenhouse gas (GHG) emissions which are located on page 40, set out key environmental, social and governance (ESG) risks faced by the business.

The Board identifies and assesses significant risks, including those relating to ESG matters, through the maintenance and review of the Group Risk Profile. This contains significant current risks, including ESG risks, which are identified at an early stage of becoming known as part of the long-term business perspective. Emerging risk identification is conducted by experts in the business and risk management is owned and managed at the operational level, supported centrally. An independent effectiveness review by an independent external auditor confirmed good links between the strategy of the Company and currently identified risks and that appropriate importance is placed on risk management by executives within the Group. The Company maintains a range of policies and procedures for managing business risks, which include ESG-related matters.

The Board annually reviews the Company's Corporate Responsibility report, which covers in detail the Group's non-financial (ESG) performance. The report is prepared in alignment with the reporting framework of the Global Reporting Initiative Index and the Company's performance is assessed against international sustainability indices. The Company reports progress against corporate responsibility objectives under five areas: Customer, People, Community, Suppliers and Environment. See also pages 36 – 40 for a summary of key corporate responsibility aspects.

Going concern

These consolidated financial statements have been prepared on a going concern basis. The financial performance and position of the Group, its cash flows and its approach to capital management are set out in the Financial review on pages 24 – 30. The Board has reviewed the Group's projections for the next 12 months and the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for at least 12 months.

Audit information

The Directors confirm that, so far as they are aware, there is no relevant audit information (as defined in section 418 of the Companies Act 2006) of which the Auditor is unaware and that each Director has taken all reasonable steps to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Disclaimer

The purpose of this Annual Report and Financial Statements is to provide information to the members of the Company. The Annual Report and Financial Statements have been prepared for, and only for, the members of the Company, as a body, and no other persons. The Company, its Directors and employees, agents or advisers, do not accept or assume responsibility to any other person to whom this document is shown or into whose hands it may come and any such responsibility or liability is expressly disclaimed.

The Annual Report and Financial Statements contain certain forward-looking statements with respect to the operations, performance and financial condition of the Group. By their nature, these statements involve uncertainty, since future events and circumstances can cause results and developments to differ materially from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this Annual Report and Financial Statements and the Company undertakes no obligation to update these forward-looking statements. Nothing in this Annual Report and Financial Statements should be construed as a profit forecast.

By Order of the Board

Emily Pang

Company Secretary
20 May 2015

Royal Mail plc

100 Victoria Embankment
London
EC4Y 0HQ

Company number 08680755

Directors' remuneration report



Orna Ni-Chionna

Chair, Remuneration Committee

The past year has been challenging in many respects but the team delivered a substantial increase in adjusted operating profit before transformation costs, to £740 million.

In addition:

- We have maintained our leading position in the competitive UK delivery market;
- We have introduced around 30 new projects, including new services, products and promotions to improve our customer offering;
- A reduction of one per cent was delivered in UKPIL operating costs before transformation costs, ahead of our expectations;
- Free cash flow increased to £453 million from £398 million; and
- We met our regulatory Quality of Service standard for First Class mail, and exceeded our target for Second Class mail.

Annual bonus and Long-Term Incentive Plan (LTIP) awards for 2014-15

Our Company's good performance resulted in payouts on both our annual bonus and our LTIP award, in accordance with our remuneration policy. This policy aims to reward stretching performance, which generates sustainable and improving returns for our shareholders.

Annual bonus

Our performance in 2014-15 resulted in the achievement of a high score against the financial, people and customer targets in our Corporate Balanced Scorecard, which make up 80 per cent of the potential annual bonus. Performance against personal objectives, which are set by the Committee and represent 20 per cent of the potential bonus, was also high.

This resulted in a bonus of 79 per cent of salary for our Chief Executive Officer (CEO), Moya Greene; and 79 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 70.

Dear Shareholder,
In July 2014 we held our first ever Annual General Meeting as a Public Listed Company, and I was pleased that our new Remuneration Policy won overwhelming shareholder support in a binding vote, and that our Annual Implementation Report on remuneration won a similar level of support in the advisory vote.

LTIP

During 2014-15, the Company achieved the stretching performance targets that were set in 2012 for Operating Profits and Return on Total Assets as part of the LTIP. As a result, 100 per cent of the 2012 LTIP vested for each of the two Executive Directors, equivalent to 70 per cent of salary. The Committee had no reason to use its discretion to reduce the award. More details of the LTIP payout can be found on page 71.

Actions Taken within the Policy

In my letter to you last year, I referred to the fact that our business was facing many significant challenges. Responding to those challenges was requiring the transformation of almost everything that the Company does. In fact the pace of market change has intensified in our parcels business, and as described elsewhere in this Remuneration Report, the management team has therefore accelerated the pace of implementation of operational and technical change while devising strategic moves that aim to deliver continued success in the future.

With this fast changing Company and fast changing market environment as context, the Committee considered carefully whether any element of our remuneration policy, or its overall design, should be changed for 2015-16. We decided not to propose any changes to the overall design of our remuneration this year. We will keep our policy under review and we reserve the option of making changes next year, if we deem that to be necessary. We would of course have to put any change in remuneration policy to you as a shareholder for your approval.

However, I would like to mention a few actions that we decided to take within the framework of the current policy:

1. We increased the salary of our CEO by 10 per cent, effective from 1 January 2015. In our view, her role has expanded substantially in complexity since 2010 and in particular since we became a public company; and she had received no increase of any sort in her salary since joining the

company in July 2010, i.e. almost five years ago. Even after this increase, her salary and potential pay remains well below typical levels in companies of comparable size and complexity. During that time the majority of our postmen and postwomen have seen salary increases totalling slightly more than this percentage.

2. We are introducing additional measures within the Corporate Balanced Scorecard for our Executive Directors. The thinking behind this move is that we are keen to align the annual bonus more closely with the long-term objectives of the company and we believe that having a greater proportion of strategic measures will go some way to achieving this. The potential value of the annual bonus will not change. More detail is given on page 65.
3. We have introduced clawback clauses to our policies, formalising and simplifying the Committee's ability to take back bonus payments were circumstances to come to light that would warrant such a move.

The remainder of this Remuneration Report has been written in accordance with the new regulations that came into force last year. I hope that you will feel able to support the Implementation Report this year. I look forward to continued dialogue with you over the coming years.

Orna Ni-Chionna

Chair, Remuneration Committee

Summary of our Policy and its application

What is our Remuneration Policy for Executive Directors and how have we applied it?

In the table below we have summarised the relevant parts of the approved Remuneration Policy, how it has been implemented for 2014-15 and how it will be implemented for 2015-16.

Element	Summary of Policy	Implementation in 2014-15	Implementation in 2015-16																												
Base salary	<p>Salary levels for the Executive Directors are normally reviewed annually.</p> <p>The Committee takes into account factors such as: the performance of the Company, the performance and experience of the individual, any changes in role or responsibility, assessment against relevant comparator groups, internal relativities and the level of increase being offered to our frontline employees. The Committee will consider these factors to determine the maximum amount that would be paid in base salary for an Executive Director.</p>	<p>Moya Greene's salary was £498,000 from 1 April 2014 before being changed on 1 January 2015, having been unchanged since joining in July 2010, to the new salary rate of £547,800 (actual salary paid in the year was £510,450).</p> <p>Matthew Lester's salary increased by six per cent to £454,065 from 1 April 2014. This increase was consistent with the salary increase given to our frontline employees for 2013 and 2014.</p>	<p>Moya Greene's salary increased to £547,800, an increase of 10 per cent (effective 1 January 2015). Matthew Lester's salary remains unchanged.</p> <p>When reviewing the salaries the Committee took into account the factors set out in the adjacent column.</p> <p>Prior to this increase, Moya Greene's salary has not changed since her appointment to the Company in July 2010. Over this period*, our frontline employees have received an average salary increase of 11 per cent, as shown in the table below:</p> <table border="1"> <thead> <tr> <th>% increase in salary</th> <th>2015-16</th> <th>2014-15</th> <th>2013-14</th> <th>2012-13</th> <th>2011-12</th> <th>2010-11</th> </tr> </thead> <tbody> <tr> <td>Moya Greene</td> <td>10**</td> <td>0</td> <td>0</td> <td>0</td> <td>0</td> <td>0</td> </tr> <tr> <td>Matthew Lester</td> <td>0</td> <td>6</td> <td>0</td> <td>0</td> <td>0</td> <td>0</td> </tr> <tr> <td>Average employee</td> <td>2.8</td> <td>3.0</td> <td>3.0</td> <td>3.5</td> <td>1.4</td> <td>2.0</td> </tr> </tbody> </table> <p>* Increase over the period July 2010 – January 2015 **No further changes will be made to her salary in the 2015-16 financial year.</p>	% increase in salary	2015-16	2014-15	2013-14	2012-13	2011-12	2010-11	Moya Greene	10**	0	0	0	0	0	Matthew Lester	0	6	0	0	0	0	Average employee	2.8	3.0	3.0	3.5	1.4	2.0
% increase in salary	2015-16	2014-15	2013-14	2012-13	2011-12	2010-11																									
Moya Greene	10**	0	0	0	0	0																									
Matthew Lester	0	6	0	0	0	0																									
Average employee	2.8	3.0	3.0	3.5	1.4	2.0																									
Benefits	<p>Provision of a company car and health insurance, or the cash equivalent of any benefits not taken.</p> <p>Under her contract, Moya Greene is entitled to two return flights to Canada each year, financial advice and use of a driver for business-related travel.</p>	In line with policy.	No change.																												
Pension	Company contribution to a defined contribution pension scheme and/or a cash supplement (in lieu of pension).	<p>£200,000 per annum cash allowance for the CEO.</p> <p>40 per cent of salary cash allowance for the CFO.</p>	No change.																												
Annual bonus	<p>Maximum award level of 100 per cent of salary.</p> <ul style="list-style-type: none"> 80 per cent based on financial, efficiency, people and customer targets, and strategic objectives as set out in the Corporate Balanced Scorecard and reviewed annually. 20 per cent based on the achievement of challenging personal objectives. <p>A minimum level of operating profit must be achieved before any bonus is payable to an Executive Director. Clawback provisions have been included in the annual bonus.</p> <p>60 per cent of the maximum bonus will be earned for strong performance and 100 per cent for maximum performance which is unchanged from the previous year.</p> <p>Forward-looking targets and weightings are deemed to be commercially sensitive but will be disclosed retrospectively in next year's report.</p>	<p>The Corporate Balanced Scorecard comprised:</p> <ul style="list-style-type: none"> 25 per cent financial targets; 25 per cent customer targets; 25 per cent people-related targets; and 25 per cent performance targets. <p>More details on the targets and the extent to which they are met are set out on page 70.</p>	<p>The Corporate Balanced Scorecard for Executive Directors will comprise:</p> <p>30 per cent financial and efficiency targets</p> <ul style="list-style-type: none"> Productivity UKPIL people costs UKPIL non-people costs Group revenue Group operating profit before transformation costs Group free cashflow <p>15 per cent customer targets</p> <ul style="list-style-type: none"> First Class quality of service Parcels quality of service Business customer satisfaction Complaints <p>15 per cent people-related targets</p> <ul style="list-style-type: none"> Accident rate Sick absence Employee engagement Employee customer focus <p>40 per cent strategy objectives</p> <p>This increases focus on the linkage between the short-term and long-term objectives of the Company. It will include achieving progress on the culture change initiative, changing the Company's product mix and building our capacity to move at speed in response to the changing marketplace.</p>																												

Directors' remuneration report (continued)

Element	Summary of Policy	Implementation in 2014-15	Implementation in 2015-16																		
LTIP	<p>Maximum award level of 98 per cent of salary.</p> <p>Performance measures and/or weightings will reflect the business strategy at the time, and are measured over three years.</p> <p>Malus and clawback provisions are included in the LTIP.</p>	<p>For the awards granted in 2014 the measures are as set out in the adjacent column.</p> <p>The details of the targets and their level of satisfaction for the 2012 LTIP award are provided on page 67.</p>	<p>For the awards granted in 2015 the measures will remain the same as for the 2014 award (see below):</p> <table border="1"> <thead> <tr> <th rowspan="2">Measure</th> <th rowspan="2">Weighting</th> <th colspan="2">Vesting (% of award)</th> </tr> <tr> <th>Threshold</th> <th>Maximum</th> </tr> </thead> <tbody> <tr> <td>EPS*</td> <td>50</td> <td>12.5</td> <td>50</td> </tr> <tr> <td>Operating profit margin before transformation costs**</td> <td>35</td> <td>8.75</td> <td>35</td> </tr> <tr> <td>Total shareholder return versus a comparator group</td> <td>15</td> <td>7.5</td> <td>15</td> </tr> </tbody> </table> <p>* The EPS range will be disclosed prior to the 2015 AGM. The LTIP 2015 grant of awards will take place after the AGM.</p> <p>**The targets set for the operating profit margin performance condition are considered by the Board to be commercially sensitive. However, they will be disclosed retrospectively at the end of the performance period.</p> <p>The relative TSR performance target will compare the Company's TSR against other companies in the FTSE 100 index (excluding mining and financial companies). If Royal Mail's TSR performance is ranked at the middle of the group, 7.5 per cent of the total award will vest, increasing to full vesting (15 per cent of the total award) if performance is in the top quartile of the group.</p>	Measure	Weighting	Vesting (% of award)		Threshold	Maximum	EPS*	50	12.5	50	Operating profit margin before transformation costs**	35	8.75	35	Total shareholder return versus a comparator group	15	7.5	15
Measure	Weighting	Vesting (% of award)																			
		Threshold	Maximum																		
EPS*	50	12.5	50																		
Operating profit margin before transformation costs**	35	8.75	35																		
Total shareholder return versus a comparator group	15	7.5	15																		
Shareholding requirement	<p>100 per cent of salary.</p> <p>Executive Directors are expected to keep any shares they already own and 50 per cent of any shares released under the LTIP (after selling sufficient shares to meet any associated tax obligation) until this is achieved.</p>																				

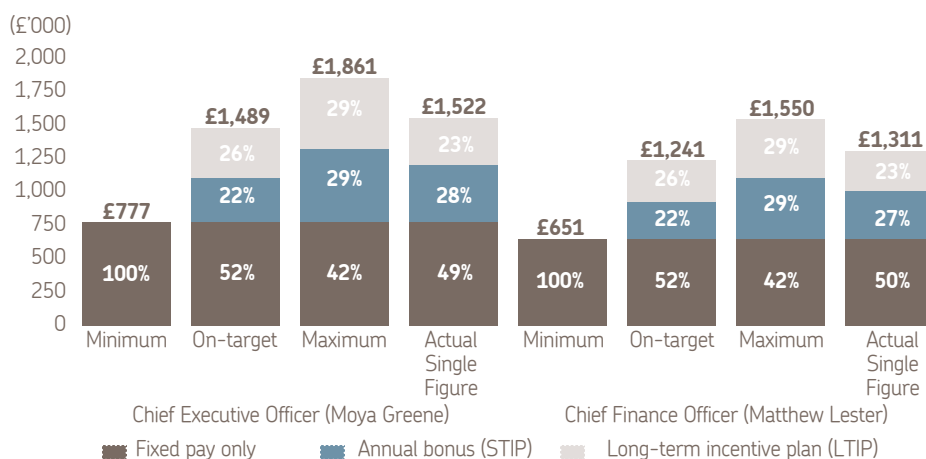
Our Remuneration Policy received a shareholder vote of 97 per cent in favour at the 2014 AGM. The full Remuneration Policy is set out on our website www.royalmailgroup.com.

What did the Executive Directors earn for the 2014-15 financial year?

The single figure of remuneration for Moya Greene was £1,522,248. For Matthew Lester it was £1,310,611. A full breakdown is set out on page 69.

How does this compare to our policy?

The following charts show the single figure of remuneration for the Executive Directors against the remuneration policy scenarios applying for 2014-15



Assumptions are as set out in the approved Remuneration Policy.

What performance was achieved under the incentives in 2014-15?

A summary of the annual bonus outcomes for the 2014-15 year is set out below. More details on targets and outcomes are given on page 70.

Financial (20%)		Corporate Balanced Scorecard (80%)				Performance (20%)		Personal (20%)
		Customer (20%)		People (20%)				
Total UK costs	Stretch	First Class Quality of Service	Above target	Safety	Above target	Group revenue	Above threshold	Moya Greene: 17.5%
Group operating profit, before transformation costs	Target	Mean business customer satisfaction	Stretch	Employee engagement	Stretch	Productivity for collections, processing and delivery	Above target	Matthew Lester: 17.5%
Free cash flow	Above target	Customer complaints	Above target	Customer focus	Threshold	Composite parcels quality of service	Above threshold	Mark Higson: 9.6%
61.5% out of 80%								
Total award:						Moya Greene: £432,762, 79.0% of salary Matthew Lester: £358,711, 79.0% of salary Mark Higson: £79,663, 58.8% of salary*		

* Mark Higson stood down from the Board and left the Company on 24 July 2014. He was eligible to be considered for a pro rata bonus for 2014-15, covering the period from 1 April 2014 up to 24 July 2014

The outcome of the 2012 LTIP award is set out below. More details on targets and outcomes are given on page 71.

Measure	Target*	Outcome*	% of target achieved	2014-15 LTIP vesting (%)	Resulting cash awards		
					Moya Greene	Matthew Lester	Mark Higson
Operating Profit before transformation costs	£679 million	£682 million	100	100 (equivalent to 70 of salary).	£350,140	£300,924	£225,956
ROTA	22.7%	23.4%	103				

* Operating profit is based on reported operating profit adapted to adjustments approved by the Remuneration Committee. These adjustments were in respect of the change from the current pension rate to that embedded in the 2013 Business Plan and the impact of foreign exchange movements. The Remuneration Committee decided that these adjustments were required in order to determine the true comparative operating profit for the purposes of the LTIP

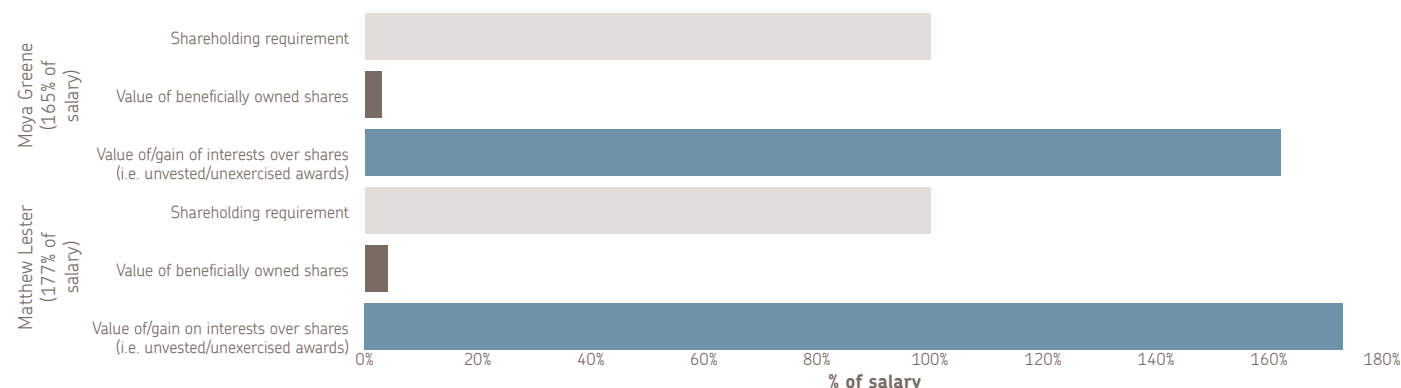
How many shares and rights to shares do our Executive Directors hold?

Executive Director	Interest in shares	Interest in shares as a % of salary	Maximum scheme interests unvested	Total potential interests	Total potential interests as a % of salary
Moya Greene	3,759	3	200,589	204,348	165
Matthew Lester	3,759	4	178,065	181,824	177
Mark Higson*	3,643	4	79,342	82,985	86

* At as 24 July 2014

Directors' remuneration report (continued)

As part of the IPO, Executive Directors were restricted in the number of shares they could purchase in the Employee Priority Offer (Maximum £10,000). No LTIP awards have vested in shares. The first time an LTIP may vest in shares is in 2016 (subject to the performance criteria being met) and therefore the Executive Directors in time will be able to build up the required shareholding.



Executive Directors are expected to build up a shareholding equivalent to 100 per cent of their salary.

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	Notice Period (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.

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 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.

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 table below.

	Date of Contract	Unexpired Term (months)
Donald Brydon	20 September 2013	16
John Allan	20 September 2013	Resigned 30 April 2015
Jan Babiak	20 September 2013	Resigned 29 April 2014
Nick Horler	20 September 2013	16
Cath Keers	20 September 2013	16
Paul Murray	20 September 2013	16
Orna Ni-Chionna	20 September 2013	16
Les Owen	20 September 2013	16

All the Non-Executive Directors (including the Chairman) were appointed in 2013 for an initial term commencing on 20 September 2013 until the conclusion of the 2016 AGM approximately three years later.

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

Annual Report on Remuneration

This part of the Directors' Remuneration Report sets out details on how the remuneration policy has been applied for 2014-15. Detailed information about the Directors' remuneration, set out below and on pages 69 – 75 has been audited by the Company's independent auditors, Ernst & Young LLP.

What did the Directors earn for the 2014-15 financial year? (Audited)

The single remuneration figure table below sets out the remuneration received by the Directors for 2014-15 (or for performance periods ending in 2014-15 in respect of the LTIP) and, for the purposes of comparison, for 2013-14.

£'000	Salary/Fees		Benefits ¹		Short-Term Incentive Plan ²		Long-Term Incentive Plan ³		Pension		Other		Total	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Chairman														
Donald Brydon	210	200	-	-	-	-	-	-	-	-	-	-	210	200
Executive Directors														
Moya Greene	510	498	29	29	433	385	350	488	200	200	(250) ⁴	-	1,522	1,350
Mark Higson	135	428	5	15	80	245	226	420	54	171	316 ⁵	-	816	1,279
Matthew Lester	454	428	15	15	359	328	301	419	182	171	-	-	1,311	1,361
Non-Executive Directors⁶														
John Allan ⁷	45	40	-	-	-	-	-	-	-	-	-	-	45	40
Jan Babiak ⁸	3	40	-	-	-	-	-	-	-	-	-	-	3	40
Nick Horler	45	40	-	-	-	-	-	-	-	-	-	-	45	40
Cath Keers	45	40	-	-	-	-	-	-	-	-	-	-	45	40
Paul Murray	60	50	-	-	-	-	-	-	-	-	-	-	60	50
Orna Ni-Chionna	70	60	-	-	-	-	-	-	-	-	-	-	70	60
Les Owen	55	40	-	-	-	-	-	-	-	-	-	-	55	40
Total	1,632	1,864	49	59	871	958	877	1,327	436	542	316	(250)	4,182	4,500

¹ Benefits include medical insurance and car allowance. The figure for Moya Greene also includes return flights to Canada

² Bonuses are determined based on the salary as at 1 January 2015 in line with the Company's policy for all staff who are eligible for a bonus. See page 70 for details on bonus outcomes for the year being reported on and the calculation of the bonus included in the single total figure of remuneration. All bonus payments are made in cash

³ The current year figure relates to the 2012 LTIP award. The prior year figure relates to the 2011 LTIP award, which was based on performance to 30 March 2014. See page 71 for details of the LTIP value included in the single total figure of remuneration

⁴ The figure for Moya Greene relates to a relocation payment. As previously disclosed, Moya Greene voluntarily offered to return the amount she received from this assistance. It was confirmed in Royal Mail's Prospectus (September 2013) that Royal Mail has received payment for the after tax amount and an additional amount representing an independent professional estimate of the unrealised gain associated with the assistance received

⁵ The payment in lieu of notice of £292,509 plus unused annual leave of £23,891. Details of the payment to Mark Higson are set out in full on page 72

⁶ The Board decided to review the fees of the Non-Executive Directors this year in line with current practice (with the Remuneration Committee reviewing the Chairman's fees). The Board and the Remuneration Committee felt that it was appropriate, now that the Company has been listed for a reasonable period, to review the actual workload of the Non-Executive Directors and Chairman given the Company's profile and the challenges internally and externally that it faces. The result of the reviews was that the fees for the Chairman were increased by 9.5 per cent to £230,000, and for the remainder of the Non-Executive Directors by 11.1 per cent to £50,000. These increases took effect from 1 April 2015. The Board and the Remuneration Committee benchmarked the resulting fee levels to ensure that they were in line with shareholder approved Policy

⁷ John Allan resigned on 30 April 2015

⁸ Jan Babiak resigned on 29 April 2014

Directors' remuneration report (continued)

How was the pay in the above table linked to performance in 2014-15?

A) Annual bonus

Annual bonus performance is measured over a single financial year against a range of financial and non-financial targets, as set out in the Corporate Balanced Scorecard, and against 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 corporate metrics under the Corporate Balanced Scorecard, which are used to determine 80 per cent of the bonus award for the CEO and CFO.

% of scorecard	Weighting	Measure	Target	Actual	Achievement	Outcome
Financial (25%)*	5%	Total UK costs (£m)	7,434	7,275	Stretch	8.3%
	10%	Group operating profit before transformation costs (£m)	620	620	Target	10.0%
	10%	Free cash flow (£m)	300	353	Above Target	15.8%
Customer (25%)	10%	First Class Quality of Service (%)	93.0	93.1	Above Target	11.3%
	10%	Mean business customer satisfaction	75	76	Stretch	16.7%
	5%	Customer complaints ('000)	460.0	445.5	Above Target	7.4%
People (25%)	10%	Safety	0.69	0.67	Above Target	14.4%
	10%	Employee engagement	55	56	Stretch	16.7%
Performance (25%)	5%	Customer focus	70	69	Threshold	2.5%
	10%	Group revenue* (£m)	9,685	9,556	Above threshold	6.7%
	10%	Productivity for collections, processing and delivery (%)	2.2	2.5	Above Target	14.0%
	5%	Composite parcels quality of service (%)	95.3	95.0	Above threshold	4.3%
Total	100%					128.2%
As a % of the award	80%					61.5%

* Financial targets and actuals are based on reported results subject to adjustments approved by the Remuneration Committee. Group revenue and Group operating profit before transformation costs are adjusted for foreign exchange movements. Free cash flow excludes net cash flows from the London property portfolio

A minimum level of operating profit before transformation costs and other specific items must be achieved before an Executive Director becomes eligible for a payment. For the year in question this minimum profit level was £520 million: actual profit achieved was £620 million.

20 per cent of the annual bonus is based on specific personal targets, which are set at the start of the year and are based on each Executive Director's area of responsibility. Personal targets for the CEO included specific objectives relating to implementing strategic and operational changes, execution of an appropriate real estate strategy, delivering the Company's obligations under the 2014 Agenda for Growth agreement with the CWU, increasing the pace of change in UKPIL, and identifying and developing significant new revenue opportunities. Personal targets for the CFO included specific objectives relating to the strategic and

financial objectives, identifying and implementing revenue opportunities to support the future top line and improving the clarity of value drivers for GLS.

Performance against these objectives was reviewed by the Committee and the resulting aggregate annual bonus awards for 2014-15 were as follows:

- Moya Greene: £432,762, 79.0 per cent of salary
- Matthew Lester: £358,711, 79.0 per cent of salary
- Mark Higson**: £79,663, 58.8 per cent of salary

** Salary pro-rated to leaving date of 24 July 2014

B) Long-Term Incentive Plan (LTIP)

The 2012 LTIP grant was a cash award, based on performance over three financial years to 29 March 2015. It was subject to two performance conditions.

The primary metric was operating profit before transformation costs:

Operating profit performance in the final year of the performance period	Proportion of target award vesting
Less than 70 per cent of target	0 per cent
70 per cent to 80 per cent of target	0 per cent to 80 per cent vesting on a straight-line sliding scale
80 per cent to 100 per cent of target	80 per cent to 100 per cent vesting on a straight-line sliding scale
100 per cent to 120 per cent of target	100 per cent to 140 per cent vesting on a straight-line sliding scale
More than 120 per cent of target	140 per cent vesting (i.e. a maximum of 98 per cent of salary)

The secondary metric was a downwards-only adjustment based on ROTA targets:

ROTA performance over the performance period	Adjustment
Less than 75 per cent of target	Award lapses
75 per cent to 90 per cent of target	50 per cent reduction in the level of vesting achieved under the operating profit performance condition
More than 90 per cent of target	None

The outcome of the 2012 award was as follows:

Measure	Target*	Outcome*	% of target achieved	2014-15 LTIP vesting	Resulting cash awards	
					Moya Greene	Matthew Lester
Operating profit before transformation costs	£679m	£682m	100	100% (equivalent to 70% of salary).	£350,140	£300,924
ROTA	22.7%	23.4%	103			

* Operating profit is based on reported operating profit adapted to adjustments approved by the Remuneration Committee. These adjustments were in respect of the change from the current pension rate to that embedded in the 2013 Business Plan and the impact of foreign exchange movements. The Remuneration Committee decided that these adjustments were required in order to determine the true comparative operating profit for the purposes of the LTIP

The 2014 LTIP share awards were granted on 24 July 2014 and are subject to the following performance conditions:

Measure	Weighting (%)	Threshold		Maximum	
		Target	Vesting (% of award)	Target	Vesting (% of award)
EPS*	50	9% CAGR	12.5	21% CAGR	50
Operating profit margin before transformation costs**	35	-	8.75	-	35
Total shareholder return versus FTSE100 (excluding mining and financial companies)	15	Median	7.5	Top Quartile	15

* The base EPS is the notional EPS excluding specific items for the 2013-14 financial year of 26.3 pence

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

What previous LTIP awards remain outstanding at the year end? (Audited)

The table below sets out details of the LTIP awards outstanding at the year end.

	Year	Type	Maximum value of award at grant	Maximum value of award at grant	% vesting at threshold performance	Final year of performance period	Number of shares
			(% salary)	(£'000)	(% salary)		
Moya Greene	2013	LTIP (rights)*	98	488	0	2015-16	92,232
	2014	LTIP (shares)	98	488	28	2016-17	108,357
Matthew Lester	2013	LTIP (rights)*	98	419	0	2015-16	79,268
	2014	LTIP (shares)	98	445	28	2016-17	98,797

* 2013 LTIP awards were converted into conditional rights to acquire Ordinary Shares on 19 December 2013

The 2013 LTIP cash awards are subject to the same performance conditions and sliding scale of targets as the 2012 award. The precise operating profit and ROTA figures are deemed to be commercially sensitive. However, full details of the targets and performance achieved against them will be disclosed on vesting of the award.

Directors' remuneration report (continued)

Have any payments been made to past Directors in the year? (Audited)

No payments have been made to past Directors of Royal Mail plc during the year.

What about payments for Loss of Office? (Audited)

As stated in the Annual Report and Financial Statements 2013-14, Mark Higson stood down from the Board and ceased employment with the Company with effect from the end of our AGM on 24 July 2014.

In connection with the termination of his employment, Mark received:

Payment in lieu of notice

In line with Mark's contractual entitlement, the Company made a payment in lieu of notice for the period 25 July 2014 – 29 March 2015. The total payment was for £292,509. In addition Mark was entitled to receive a payment of £23,891, in respect of unused annual leave.

The payments were calculated as set out in the table below:

Element	Method of calculation	Amount
Salary	Eight months and six days pay	£292,509
Pension	Ceased at termination	£0
Unused Annual Leave	14.5 days paid in lieu	£23,891

2015 Annual bonus payment

Mark was also eligible for a pro rata bonus for 2014-15, covering the period from 1 April 2014 up to 24 July 2014. The total payment in respect of the annual bonus will be £79,663. See page 70 for further details of the satisfaction of the bonus targets.

The payment was calculated as follows:-

Base Salary (£428,400) x Corporate + Personal Bonus as a percentage of salary (58.8%) x Proportion of Financial Year in role (31.6%) = £79,663.

Long-Term Incentive Plan

As Mark is a good leaver, as defined in the LTIP rules, awards allocated to Mark in 2012 and 2013 under the Royal Mail LTIP will be released to him on the normal vesting dates in 2015 and 2016 respectively, subject to the LTIP performance targets having been achieved. The award will be reduced pro rata, to reflect the proportion of the performance period when Mark was in role. Details of the 2012 award are included in the LTIP section on page 67.

The following table sets out further details regarding the 2013 award:

Award	Number of shares subject to the award	Proportion of performance period completed in role	Maximum number of shares capable of release	Maximum value of shares capable of release*
2013	79,342	44%	35,263	£55,862

* Valued using the share price on 27 March 2015 of £4.42

The number of these shares actually released will be based on the level of the satisfaction of the performance conditions at the normal release date.

In respect of the 2012 LTIP award the performance period finished at the year end of 29 March 2015. The level of the satisfaction of the performance conditions (see page 67) was 70 per cent.

Benefits

Mark benefited from private medical cover for the period of his notice. In addition the Company will make a contribution to the outplacement fees incurred by Mark up to the value of £50,000 plus VAT.

What is the current shareholding of the Board? (Audited)

This table sets out details of the shareholdings of the Executive and Non-Executive Directors as at 29 March 2015. There has been no change in the Directors' interests in the ordinary share capital of the Company between 29 March and 20 May 2015.

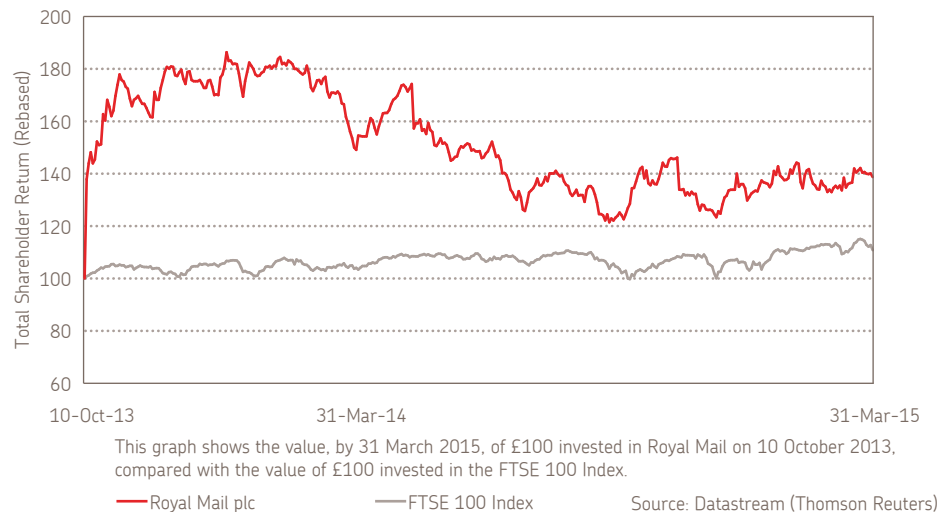
	Interest in shares	Interest in shares as a % salary	Maximum scheme interests unvested	Total potential interests	Total potential interests as a % salary
Chairman					
Donald Brydon	15,530	-	-	-	-
Executive Directors					
Moya Greene	3,759	3	200,589	204,348	165
Matthew Lester	3,759	4	178,065	181,824	177
Mark Higson*	3,643	4	79,342	82,985	86
Non-Executive Directors					
John Allan	3,257	-	-	-	-
Jan Babiak**	3,030	-	-	-	-
Nick Horler	3,173	-	-	-	-
Cath Keers	3,030	-	-	-	-
Paul Murray	15,477	-	-	-	-
Orna Ni-Chionna	3,173	-	-	-	-
Les Owen	3,030	-	-	-	-

* As at 24 July 2014

**Resigned on 29 April 2014

How does TSR compare to that of other similar companies?

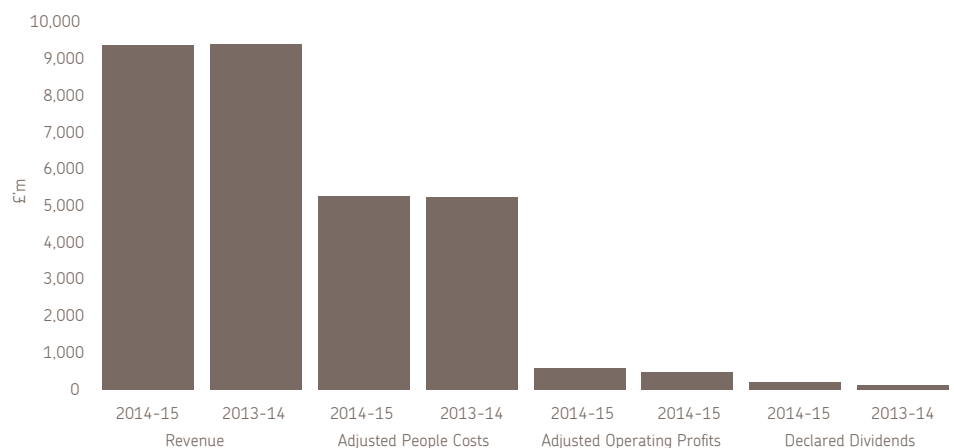
This graph shows the cumulative Total Shareholder Return of the Group since IPO relative to the FTSE 100 Index. The FTSE 100 Index has been chosen for comparison as the Company is a constituent of the Index and it provides a benchmark of the performance of other large UK listed companies.



How much does Royal Mail spend on pay?

This table shows the Group's actual spend on pay (for all employees) relative to dividends, revenue and operating profits.

We have chosen to include revenue as this measure represents the amount of money the company received during the year and provides a clear illustration of the ratio of our people costs to our income.



Directors' remuneration report (continued)

What has the pay for the Chief Executive been over the last six years?

The total remuneration figure for the Chief Executive Officer over the last six financial 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.

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

*Moya Greene joined in July 2010

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

The table below shows the percentage change in the Chief Executive Officer's salary, benefits and annual bonus between 2013-14 and 2014-15, compared with that for the average employee of the Group. The population used to obtain the average salary is the frontline employee salary.

	Moya Greene			Average Employee ¹		
	2014-15	2013-14	% Change	2014-15	2013-14	% Change
Salary	£547,800 ²	£498,000	10	£24,307	£23,585	3
Benefits	£29,000	£29,000	-	-	-	-
STIP	£432,762	£385,000	12	£3,486	£3,132	11

¹ The population used to obtain the average salary is the frontline employee salary. The population used to obtain the average employee STIP is the full STIP-eligible population

² The new salary came into effect from 1 January 2015. The actual salary paid to the CEO in the year was £510,450

Do the Executive Directors receive fees from external appointments?

The Executive Directors are entitled to receive fees from external appointments. Moya Greene was a Non-Executive Director at Tim Hortons Inc and received fees of £45,573 (Sterling equivalent) for the last reported financial year. Moya Greene ceased to be a Non-Executive Director of Tim Hortons Inc in December 2014. She joined the Board of Great-West Lifeco Inc. as a Non-Executive Director with effect from 7 May 2015. Great-West Lifeco Inc. is listed on the Toronto Stock Exchange. Matthew Lester is a Non-Executive Director at Man Group plc and received fees of £95,000 for the last reported financial year.

Composition of the committee, advice received and response to changes to the corporate governance code

The members of the Committee during the last financial year were: Orna Ni-Chionna (Chair); Donald Brydon; Jan Babiak; Paul Murray; and Les Owen. Jan Babiak resigned as a Non-Executive Director on 29 April 2014, and ceased to be a Committee member.

The Committee takes information and advice from inside and outside the Group. Internal support was provided by the Group HR Director (supported by other members of the HR department as appropriate) and the Company Secretary. The Chief Executive Officer was invited to attend meetings where appropriate. No individual was present when matters relating to his or her own remuneration were discussed.

Following a competitive tender process, PwC was appointed by the Committee in October 2014 to act as its independent adviser. Prior to the appointment of PwC, New Bridge Street (NBS) was the Committee's independent adviser. The total fees paid in respect of services to the Committee were as follows:

NBS – April to October	£94,707
PwC – October to March	£127,000

NBS and PwC are signatories to the Remuneration Consultants Code of Conduct and reported 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.

The Committee is comfortable that the way we implement Policy is in line with the new UK Corporate Governance Code (applying for financial years beginning on or after 1 October 2014). The following table sets out the key elements of the revised Code and how implementation of the Company's remuneration policy for Executive Directors is in line with this:

Code Provision**Company Remuneration Policy**

Executive Directors' remuneration should be designed to promote the long-term success of the Company.

The Company operates:

- the LTIP which provides shares subject to performance at the end of a three year performance period; and
- a minimum shareholding requirement for its Executive Directors of 100% of salary.

It is the Committee's view that the combination of the LTIP and shareholding requirement provides a holistic approach to ensuring Executive Directors are focused on the long-term success of the Company.

Schemes should include provisions that would 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.

The Annual Bonus and LTIP includes malus and clawback provisions. The circumstances in which malus and clawback could apply are as follows:

- discovery of a material misstatement resulting in an adjustment in the audited consolidated accounts of the Company;
- the assessment of any performance target or condition in respect of an award was based on error, or inaccurate or misleading information;
- the discovery that any information used to determine the cash subject to a bonus and number of shares subject to an award was based on error, or inaccurate or misleading information;
- action or conduct of a participant which, in the reasonable opinion of the Board amounts to fraud or gross misconduct.

For the Annual Bonus, malus will apply to the date of the bonus determination and clawback will apply for three years from the date of the bonus determination. For the LTIP malus will apply to the date of vesting and clawback for three years from the date of vesting.

The Committee believes that the rules of the Plans provide sufficient powers to enforce malus and clawback if required.

For share-based remuneration, the Remuneration Committee should consider requiring directors to hold a minimum number of shares and to hold shares for a further period after vesting or exercise, including for a period after leaving the company, subject to the need to finance any costs of acquisition and associated tax liabilities.

The policy contains a minimum shareholding requirement for Executive Directors of 100% of salary. The Committee does not feel at this point taking into account the levels and the basis on which the Company pays its Executive Directors that there is a current requirement to include holding periods. However, the Committee will review the position on an annual basis.

VOTING BY SHAREHOLDERS ON LAST YEAR'S REMUNERATION REPORT

The table below shows the advisory vote on the 2013-14 Remuneration Report at the 2014 AGM.

Number of votes cast	For	Against	Withheld
609,567,259	607,734,557 99.70%	1,832,702 0.30%	7,761,617

The table below shows the binding vote on the 2013-14 Remuneration Policy at the 2014 AGM.

Number of votes cast	For	Against	Withheld
610,900,442	589,564,599 96.51%	21,335,843 3.49%	6,422,408

The Committee believes that this very strong level of support from shareholders on the Policy and its implementation means no changes are currently required to the Policy operated by the Company.

*Approved by the Board on 20 May and signed by
Orna Ni-Chionna
Chair, Remuneration Committee*

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¹ For the 52 weeks ended 29 March 2015 and 52 weeks ended 30 March 2014

² At 29 March 2015 and 30 March 2014

	Notes	52 weeks 2015			52 weeks 2014		
		Reported ¹ £m	Specific items ² £m	Adjusted ² £m	Reported ¹ £m	Specific items ² £m	Adjusted ² £m
Continuing operations							
Revenue*	2	9,328	-	9,328	9,357	-	9,357
Operating costs		(8,717)	(129)	(8,588)	(8,688)	(58)	(8,630)
People costs	4/12	(5,359)	(129)	(5,230)	(5,267)	(58)	(5,209)
Distribution and conveyance costs		(1,764)	-	(1,764)	(1,796)	-	(1,796)
Infrastructure costs		(1,019)	-	(1,019)	(1,047)	-	(1,047)
Other operating costs		(575)	-	(575)	(578)	-	(578)
Operating profit before transformation costs		611	(129)	740	669	(58)	727
Transformation costs	3	(145)	-	(145)	(241)	-	(241)
Operating profit after transformation costs		466	(129)	595	428	(58)	486
Operating specific items:							
Royal Mail Pension Plan amendment	4	-	-	-	1,350	1,350	-
Transaction-related costs	4	-	-	-	(28)	(28)	-
Employee Free Shares charge	4	(169)	(169)	-	(94)	(94)	-
Impairment and legacy costs	4	(79)	(79)	-	(15)	(15)	-
Operating profit		218	(377)	595	1,641	1,155	486
Non-operating specific items:							
Profit on disposal of property, plant and equipment	4	133	133	-	19	19	-
Profit on disposal of associate undertaking	4	-	-	-	2	2	-
Earnings before interest and tax		351	(244)	595	1,662	1,176	486
Finance costs	5	(30)	-	(30)	(71)	-	(71)
Finance income	5	4	-	4	4	-	4
Net pension interest (non-operating specific item)	4/8(c)	75	75	-	69	69	-
Profit before tax		400	(169)	569	1,664	1,245	419
Tax (charge)/credit	6	(72)	66	(138)	(386)	(276)	(110)
Profit for the period from continuing operations		328	(103)	431	1,278	969	309
Discontinued operations:							
Profit after tax for the period from discontinued operations	24	-	-	-	2	-	2
Profit for the period		328	(103)	431	1,280	969	311
Profit for the period attributable to:							
Equity holders of the parent Company		325	(103)	428	1,277	969	308
Non-controlling interests		3	-	3	3	-	3
Earnings per share:							
Basic and diluted – continuing operations	9	32.5p	(10.3)p	42.8p	127.5p	96.9p	30.6p
Basic and diluted – total Group	9	32.5p	(10.3)p	42.8p	127.7p	96.9p	30.8p
Total Group revenue*		9,424	-	9,424	9,456	-	9,456
Continuing operations		9,328	-	9,328	9,357	-	9,357
Discontinued operations		96	-	96	99	-	99

¹ Reported – prepared in accordance with International Financial Reporting Standards (IFRS)

² Specific items and Adjusted – non-GAAP measures explained on page 133

Consolidated statement of comprehensive income

For the 52 weeks ended 29 March 2015 and 52 weeks ended 30 March 2014

	Notes	Reported 52 weeks 2015 £m	Reported 52 weeks 2014 £m
Profit for the period		328	1,280
Other comprehensive income/(expense) for the period from continuing operations:			
Items that will not be subsequently reclassified to profit or loss:			
Amounts relating to pensions accounting		1,211	(344)
IFRIC 14 adjustment relating to pension surplus	8	(2)	(8)
Actuarial gains/(losses) on defined benefit schemes	8(c)	1,512	(453)
Tax on above items ¹	6	(299)	117
Items that may be subsequently reclassified to profit or loss:			
Foreign exchange translation differences		(47)	(12)
Exchange differences on translation of foreign operations (GLS) ²		(74)	(12)
Net gain on hedge of a net investment (€500 million bond – 2.375% Senior Fixed Rate Notes due July 2024)		27	-
Designated cash flow hedges		(21)	(19)
Losses on cash flow hedges deferred into equity		(53)	(24)
Losses on cash flow hedges released from equity to income		27	4
Tax on above items	6	5	1
Total other comprehensive income for the period		1,143	(375)
Total comprehensive income for the period		1,471	905
Total comprehensive income for the period attributable to:			
Equity holders of the parent Company		1,468	902
Non-controlling interests		3	3

¹ Includes £4 million (2013-14 £nil million) in relation to Royal Mail Senior Executives Pension Plan (RMSEPP) deficit payments

² Includes £3 million (2013-14 £nil million) in relation to net deferred tax liabilities (note 6)

Consolidated statement of cash flows

For the 52 weeks ended 29 March 2015 and 52 weeks ended 30 March 2014

	Notes	Reported 52 weeks 2015 £m	Reported 52 weeks 2014 £m
Cash flow from operating activities:			
Operating profit before transformation costs		611	669
Adjustment for:			
Depreciation and amortisation	21/23	279	274
Share of post-tax profit from associate	25	(1)	(3)
EBITDA before transformation costs		889	940
Working capital movements		12	83
Decrease in inventories		1	2
(Increase)/decrease in receivables		(52)	81
Increase in payables		72	19
Net increase in derivative assets		(8)	(2)
Decrease in provisions (non-specific items)		(1)	(17)
Pension charge to cash difference (operating specific item)		129	58
Share-based awards (SAYE and LTIP) charge to cash difference		5	-
Cash cost of transformation operating expenditure ¹		(228)	(201)
Cash cost of operating specific items		(8)	(35)
Cash inflow from operations		799	845
Income tax paid		(37)	(38)
Net cash inflow from operating activities		762	807
Cash flows from investing activities:			
Dividends received from associate undertaking		-	2
Finance income received		4	4
Proceeds from disposal of property (excluding London property portfolio), plant and equipment (non-operating specific item)		39	33
London property portfolio disposals (non-operating specific item)		100	-
Disposal proceeds		111	-
Related cash costs		(11)	-
Proceeds from disposal of associate undertaking (non-operating specific item)		-	3
Net cash inflow from discontinued operations		-	2
Purchase of property, plant and equipment ¹		(267)	(341)
Acquisition of business ¹		(7)	(2)
Purchase of intangible assets (software) ¹		(153)	(69)
Payment of deferred consideration in respect of prior years' acquisitions ¹		(3)	(4)
Net purchase of financial asset investments (current)		(55)	-
Net cash outflow from investing activities		(342)	(372)
Net cash inflow before financing activities		420	435
Cash flows from financing activities:			
Finance costs paid on refinancing of loan facilities		-	(45)
Other finance costs paid		(22)	(37)
Payment of capital element of obligations under finance lease contracts		(75)	(73)
Cash received on sale and leasebacks		13	109
New loans		393	600
Repayment of loans and borrowings		(600)	(973)
Dividends paid to equity holders	11	(200)	-
Dividend paid to non-controlling interests		(1)	-
Net cash outflow from financing activities		(492)	(419)
Net (decrease)/increase in cash and cash equivalents		(72)	16
Effect of foreign currency exchange rates on cash and cash equivalents		(7)	(1)
Cash and cash equivalents at the beginning of the period	15	366	351
Cash and cash equivalents at the end of the period	15	287	366

¹ Items included in total investment – note 7

Consolidated balance sheet

At 29 March 2015 and 30 March 2014

	Notes	Reported at 29 March 2015 £m	Reported at 30 March 2014 £m
Non-current assets			
Property, plant and equipment	21	1,933	1,989
Leasehold land payment		2	3
Goodwill (mainly investment in GLS)	22	182	197
Intangible assets (mainly software)	23	300	195
Investment in associate	25	5	4
Financial assets – pension escrow investments	5/14/18	20	20
– derivatives	14/18/19	2	3
Retirement benefit asset – net of IFRIC 14 adjustment	8	3,179	1,723
Other receivables		11	13
Deferred tax assets	6	8	9
		5,642	4,156
Assets held for sale	24	32	3
Current assets			
Inventories		20	22
Trade and other receivables	26	949	926
Financial assets – derivatives	14/18/19	5	2
– short-term deposits	5/14/18	56	1
Cash and cash equivalents	5/14/15/18	287	366
		1,317	1,317
Total assets		6,991	5,476
Current liabilities			
Trade and other payables	27	(1,668)	(1,652)
Financial liabilities – obligations under finance leases	5/14/17/18/29	(93)	(87)
– derivatives	14/17/18/19	(34)	(12)
Income tax payable		(14)	(14)
Provisions	20	(149)	(173)
		(1,958)	(1,938)
Non-current liabilities			
Financial liabilities – interest bearing loans and borrowings	5/14/16/17/18	(366)	(600)
– obligations under finance leases	5/14/17/18/29	(179)	(255)
– derivatives	14/17/18/19	(14)	(5)
Provisions	20	(104)	(95)
Other payables		(40)	(31)
Deferred tax liabilities	6	(474)	(151)
		(1,177)	(1,137)
Liabilities associated with assets held for sale	24	(10)	-
Total liabilities		(3,145)	(3,075)
Net assets		3,846	2,401
Equity			
Share capital	28	10	10
Retained earnings		3,843	2,332
Other reserves		(16)	52
Equity attributable to parent Company		3,837	2,394
Non-controlling interests		9	7
Total equity		3,846	2,401

The financial statements were approved and authorised for issue by the Board of Directors on 20 May 2015 and were signed on its behalf by:

Moya Greene
Chief Executive Officer

Matthew Lester
Chief Finance Officer

Consolidated statement of changes in equity

For the 52 weeks ended 29 March 2015 and 52 weeks ended 30 March 2014

	Share capital £m	Retained earnings £m	Foreign currency translation reserve £m	Hedging reserve £m	Equity holders of the parent £m	Non-controlling interests £m	Total Equity £m
Reported at 31 March 2013	-	1,318	73	10	1,401	4	1,405
Profit for the period	-	1,277	-	-	1,277	3	1,280
Other comprehensive expense for the period	-	(344)	(12)	(19)	(375)	-	(375)
Share capital issue	10	(10)	-	-	-	-	-
Employee Free Shares issue ¹ (note 10)	-	91	-	-	91	-	91
Reported at 30 March 2014	10	2,332	61	(9)	2,394	7	2,401
Profit for the period	-	325	-	-	325	3	328
Other comprehensive income/(expense) for the period	-	1,211	(47)	(21)	1,143	-	1,143
Release of Post Office Limited separation provision (note 20)	-	7	-	-	7	-	7
Dividend paid to equity holders of the parent (note 11)	-	(200)	-	-	(200)	-	(200)
Dividend paid to non-controlling interests	-	-	-	-	-	(1)	(1)
Share-based payments (note 10):							
- Employee Free Shares issue ¹	-	163	-	-	163	-	163
- Save As You Earn (SAYE) scheme	-	1	-	-	1	-	1
- Long-Term Incentive Plan (LTIP) ²	-	4	-	-	4	-	4
Reported at 29 March 2015	10	3,843	14	(30)	3,837	9	3,846

¹ Excludes £6 million (2013-14 £3 million) National Insurance, charged to the income statement, included in provisions on the balance sheet

² Excludes £1 million (2013-14 £nil million) National Insurance, charged to the income statement, included in provisions on the balance sheet

A description of the reserves in the above table is included in note 28.

Notes to the consolidated financial statements

Core notes to the consolidated financial statements

The notes in this section are considered by the Board to be particularly important to a reader of the financial statements.

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9. Earnings per share	98
10. Share-based payment	98
11. Dividends	100

1. Basis of preparation

This note explains how these Royal Mail plc Group (the Group) consolidated financial statements have been prepared including information on non-GAAP measures and the Directors' going concern assessment.

General information

Royal Mail plc (the Company) is incorporated in the United Kingdom (UK) and the consolidated financial statements are produced in accordance with the Companies Act 2006 and applicable International Financial Reporting Standards (IFRS) as adopted by the European Union. The UK is the Company's country of domicile.

The Company was listed on the London Stock Exchange on 15 October 2013.

The consolidated financial statements of the Company for the 52 weeks ended 29 March 2015 (2013-14 52 weeks ended 30 March 2014) comprise the Company and its subsidiaries (together referred to as the Group) and the Group's interest in its associate undertaking.

The consolidated financial statements for the 52 weeks ended 29 March 2015 were authorised for issue by the Board on 20 May 2015.

Basis of preparation and accounting

The Group consolidated financial statements are presented in Sterling, as that is the currency of the primary economic environment in which the Group operates, and all values are rounded to the nearest whole £million except where otherwise indicated. The consolidated financial statements have been prepared on an historic cost basis, except for pension assets and derivative financial instruments, which have been measured at fair value.

Presentation of results

The Group's 'Significant accounting policies' can be found after the notes to the Group financial statements.

Reported performance

The consolidated financial statements have been prepared in accordance with IFRS as adopted by the EU and as issued by the International Accounting Standards Board (IASB) (i.e. on a 'reported' basis).

Non-GAAP performance measures

In the reporting of financial information, the Group uses certain measures that are not required under IFRS, the Generally Accepted Accounting Principles (GAAP), under which the Group reports. The Directors believe that these non-GAAP measures assist with the understanding of the performance of the business.

These non-GAAP measures (see page 133) are not a substitute, or superior to, any IFRS measures of performance but they have been included as Management considers them to be an important means of comparing performance year-on-year and they include key measures used within the business for assessing performance.

Going concern

In assessing the going concern status of the Group, the Directors are required to look forward by a minimum of 12 months from the end of the reporting year, 29 March 2015, to ensure that there is sufficient headroom to enable the Group to pay its creditors as they fall due.

The Directors have reviewed business projections, with particular emphasis on the 24 months to March 2017, to consider business cash flows under different trading scenarios that could reasonably take place during the period under review. The Group's business activities, strategy, performance and key risks are outlined on pages 2 to 40.

The Directors have assessed these against committed and undrawn funding facilities (£1,050 million at 29 March 2015) and other liquid resources available to the Group (cash at bank £127 million, cash equivalent investments £140 million and other bank deposits £56 million at 29 March 2015). Funding facilities and cash and cash equivalents available to the Group are described in further detail in notes 5, 15 and 16.

The Directors are satisfied that these facilities, coupled with business projections, show that the Group will continue to operate for the foreseeable future.

Notes to the consolidated financial statements (continued)

2. Segment information

The Group's revenue, certain costs and earnings before interest and tax are segmented in this note in alignment with how the business is managed.

Business unit	Main statutory entities
UK Parcels, International & Letters (UKPIL) UK operations	Royal Mail Group Limited Royal Mail Estates Limited Royal Mail Investments Limited
General Logistics Systems (GLS) Other European operations	GLS Germany GmbH & Co. OHG GLS Italy S.p.A. GLS France S.A.S.
Other UK operations	Romec Limited (51 per cent owned subsidiary) – facilities management NDC 2000 Limited (51 per cent owned subsidiary) – design services Quadrant Catering Ltd (51 per cent owned associate) – catering services

The Group is structured on a geographic business unit basis and these business units report into the Chief Executive's Committee and the Royal Mail plc Board. Each of these units has discrete revenue, costs, profit, cash flows, assets and people. Therefore, full and complete financial information is prepared and reviewed on a regular basis and compared with both historical and budget/forecast information as part of the performance management process.

The key measure of segment performance is operating profit before transformation costs (used internally for the corporate balanced scorecard). A reconciliation of the Group's earnings before interest and tax (EBIT) by segment is also disclosed.

The majority of inter-segment revenue relates to the provision of facilities management and catering services to UKPIL. Trading between UKPIL and GLS is not material.

Transfer prices between the segments are set on a basis of charges reached through commercial negotiation with the respective business units that form each of the segments.

Reported 52 weeks 2015

	UK operations			Other European operations	Total £m
	UKPIL £m	Other £m	Total £m	GLS £m	
Continuing operations					
External revenue	7,757	14	7,771	1,557	9,328
Inter-segment revenue	-	152	152	-	152
Total segment revenue	7,757	166	7,923	1,557	9,480
Operating profit before transformation costs	486¹	10	496	115	611
Transformation costs	(145)	-	(145)	-	(145)
Operating profit after transformation costs	341	10	351	115	466
Operating specific items:					
Employee Free Share charge	(169)	-	(169)	-	(169)
Impairment and legacy costs	(33)	-	(33)	(46)	(79)
Operating profit	139	10	149	69	218
Non-operating specific items:					
Profit on disposal of property, plant and equipment	133	-	133	-	133
Earnings before interest and tax	272	10	282	69	351
Net finance costs			(27)	1	(26)
Net pension interest (non-operating specific item)			75	-	75
Profit before tax			330	70	400
Tax – specific items			66	-	66
- other			(102)	(36)	(138)
Profit for the period from continuing operations			294	34	328

¹ Includes £129 million pension charge to cash difference – operating specific item (note 4)

2. Segment information (continued)

Reported 52 weeks 2014

	UK operations			Other European operations	Total £m
	UKPIL £m	Other £m	Total £m	GLS £m	
Continuing operations					
External revenue	7,787	18	7,805	1,552	9,357
Inter-segment revenue	-	176	176	-	176
Total segment revenue	7,787	194	7,981	1,552	9,533
Operating profit before transformation costs	550 ²	13	563	106	669
Transformation costs	(241)	-	(241)	-	(241)
Operating profit after transformation costs	309	13	322	106	428
Operating specific items:					
Royal Mail Pension Plan amendment	1,350	-	1,350	-	1,350
Transaction-related costs	(24)	-	(24)	(4)	(28)
Employee Free Share charge	(94)	-	(94)	-	(94)
Impairment and legacy costs	(15)	-	(15)	-	(15)
Operating profit	1,526	13	1,539	102	1,641
Non-operating specific items:					
Profit on disposal of property, plant and equipment	19	-	19	-	19
Profit on disposal of associate undertaking	2	-	2	-	2
Earnings before interest and tax	1,547	13	1,560	102	1,662
Net finance costs			(70)	3	(67)
Net pension interest (non-operating specific item)			69	-	69
Profit before tax	not reported		1,559	105	1,664
Tax - specific items	at this level		(276)	-	(276)
- other			(69)	(41)	(110)
Profit for the period from continuing operations			1,214	64	1,278

² Includes £58 million pension charge to cash difference - operating specific item (note 4)

The following amounts are included within operating profit before transformation costs:

Reported 52 weeks 2015

	UK operations			Other European operations	Total £m
	UKPIL £m	Other £m	Total £m	GLS £m	
Depreciation	(211)	(1)	(212)	(30)	(242)
Amortisation of intangible assets (mainly software)	(31)	-	(31)	(6)	(37)
Share of post-tax profit from associate	-	1	1	-	1

Reported 52 weeks 2014

	UK operations			Other European operations	Total £m
	UKPIL £m	Other £m	Total £m	GLS £m	
Depreciation	(212)	-	(212)	(29)	(241)
Amortisation of intangible assets (mainly software)	(29)	-	(29)	(4)	(33)
Share of post-tax profit from associate	-	3	3	-	3

Notes to the consolidated financial statements (continued)

3. Transformation costs

Transformation costs are included within the cost base and profit that Management monitors to assess financial and trading performance. These costs relate directly to the transformation programme that has spanned several years and are therefore considered worthy of separate disclosure.

	Reported 52 weeks 2015 £m	Reported 52 weeks 2014 £m
Voluntary redundancy - ongoing	(87)	(14)
Voluntary redundancy - management reorganisation programme	6	(102)
Project costs (including £2 million management reorganisation programme costs in 2014)	(55)	(108)
Business transformation payments	(9)	(17)
Total transformation costs	(145)	(241)

Business transformation payments represent payments linked to the achievement of key milestones in transforming the network, as part of the Business Transformation Agreement 2010.

4. Specific items

These are both recurring and non-recurring income/expense items which in Management's view should be disclosed separately to provide greater visibility of the performance of the business. The definition of specific items can be found on page 133.

	Reported 52 weeks 2015 £m	Reported 52 weeks 2014 £m
Operating specific items:		
Pension charge to cash difference	(129)	(58)
Royal Mail Pension Plan amendment	-	1,350
Transaction-related costs	-	(28)
Employee Free Shares charge	(169)	(94)
Impairment and legacy costs	(79)	(15)
Potential industrial diseases claims	(19)	7
Historical employment costs	15	(15)
Impairment	(24)	-
French Competition Authority investigation costs	(46)	-
Other	(5)	(7)
Total operating specific items	(377)	1,155
Non-operating specific items:		
Profit on disposal of property, plant and equipment	133	19
Profit on disposal of associate undertaking	-	2
Net pension interest	75	69
Total non-operating specific items	208	90
Total specific items before tax	(169)	1,245

The impairment of £24 million relates to certain IT assets which did not fully meet the requirements of the business.

4. Specific items (continued)

	Reported 52 weeks 2015 £m	Reported 52 weeks 2014 £m
Tax effect of above items ¹	55	(288)
Tax specific items	11	12
Adjustments in respect of prior periods	9	-
Impact of change in tax rate ²	2	12
Total	66	(276)

¹ No tax charge has been recognised on property disposals included in specific items, as no tax liability would be expected to crystallise on the grounds that, were the assets (into which the gains have been rolled) to be sold at their residual values, no capital gain would arise

² A tax credit was recognised for the remeasurement of certain deferred tax balances as a result of the change in UK statutory corporation tax rates

The tax credit on specific items of £66 million (2013-14 £276 million charge) reflects the tax effect of specific items, including the tax impact of property transactions and certain tax-only adjustments, such as the impact of changes in tax law and amounts over or under provided in previous years in respect of specific items.

5. Net finance costs and net debt

This note provides details of:

- Interest payable on loans and finance lease obligations and interest received from investments and loans. This analysis excludes net pension interest which is a non-cash item and is derived to comply with the requirements of the relevant accounting standard IAS 19; and
- Net debt – a non-GAAP measure which shows the Group's overall debt position, by netting the value of financial liabilities (excluding derivatives) against its cash and other liquid assets. The balance sheet shows these items gross within the different categories of assets and liabilities.

	Reported 52 weeks 2015 £m	Reported 52 weeks 2014 £m
Net finance costs		
Unwinding of discount relating to industrial diseases claims provision	(2)	(3)
Interest payable on financial liabilities	(28)	(68)
HM Government facilities:		
Loans and borrowings	-	(47)
Unused facility fees	-	(2)
Other facility fees	-	(3)
Syndicated bank loan facility:		
Loans and borrowings	(7)	(3)
Unused facility fees	(2)	(1)
Arrangement fees ¹	(4)	(2)
€500 million bond – 2.375% Senior Fixed Rate Notes due July 2024	(6)	-
Finance leases	(7)	(10)
Losses realised on interest rate swap contracts ²	(2)	-
Finance costs	(30)	(71)
Interest receivable on financial assets	4	4
Finance income	4	4
Net finance costs	(26)	(67)

¹ Arrangement fees include £2 million (2013-14 £nil million) written off upon repayment of £350 million of the term loans following the bond issue

² The interest rate swap contracts were closed out early upon repayment of the remaining term loan on 9 March 2015

Notes to the consolidated financial statements (continued)

5. Net finance costs and net debt (continued)

Net debt

	Balance sheet category	Reported at 29 March 2015 £m	Reported at 30 March 2014 £m
Obligations under finance leases	Current liabilities	(93)	(87)
Interest-bearing loans and borrowings	Non-current liabilities	(366)	(600)
Obligations under finance leases	Non-current liabilities	(179)	(255)
		(638)	(942)
Cash and cash equivalents		287	366
Cash at bank and in hand	Current assets	127	37
Client cash ³	Current assets	20	14
Cash equivalent investments ⁴	Current assets	140	315
Financial assets – short-term deposits (bank and local authority deposits)	Current assets	56	1
Pension escrow investments (RMSEPP)	Non-current assets	20	20
Total net debt		(275)	(555)

³ Client cash is cash collected from consignees by GLS on behalf of its posting customers

⁴ Cash equivalent investments include short-term bank and local authority deposits, money market fund investments and other financial assets

Net debt decreased by £280 million during the year ended 29 March 2015 and by £351 million during the year ended 30 March 2014 as shown below.

	Reported 52 weeks 2015 £m	Reported 52 weeks 2014 £m
Net debt brought forward	(555)	(906)
Free cash flow	453	398
Dividends paid to equity holders of the parent Company	(200)	-
Dividend paid to non-controlling interests	(1)	-
Finance costs paid on refinancing of loan facilities	-	(45)
Decrease/(increase) in finance lease obligations (non-cash)	8	(1)
Foreign currency exchange impact on cash and cash equivalents	(7)	(1)
Foreign currency exchange rate impact on €500 million bond	27	-
Net debt carried forward at 29 March 2015 and 30 March 2014	(275)	(555)

Below is a summary of loans and borrowings at the year end, the respective average interest rates, and facilities available.

	Loans and borrowings £m	Further committed facility £m	Total facility £m	Average interest rate of loan drawn down %	Basis of interest rate chargeable at 29 March 2015 %	Average maturity date of loan drawn down Year	Average maturity date of loan facility Year
Syndicated bank loan facilities	-	1,050	1,050	n/a	LIBOR plus 0.55%	n/a	2020
€500 million bond - 2.375% Senior Fixed Rate Notes	366	-	366	2.5	Fixed at 2.5%	2024	2024
Total	366	1,050	1,416	2.5		2024	2021

The bond, issued in July 2014, is shown net of issue discount and fees and at a closing spot rate of £0.737/€. The effective interest rate on the bond (2.5 per cent) consists of the interest coupon of 2.375 per cent plus the unwinding of the discount and fees on issuing the bond (0.08 per cent). The £300 million Term Loan B and £50 million of Term Loan A were repaid on 15 August 2014 through proceeds raised from the bond issue. The bond is designated as a hedge of the net investment in GLS, which has the Euro as its functional currency. During the year, a gain of £27 million on the retranslation of this borrowing was transferred to other comprehensive income, which offsets the losses on translation of the net investment in GLS. There is no hedge ineffectiveness in the period ended 29 March 2015.

In March 2015, the Group took advantage of favourable market conditions to negotiate amendments to the syndicated bank loan facility to allow: conversion of the remaining term loan into a revolving credit facility; a reduction to the interest rates charged; and to extend the maturity date (to March 2020 with the option to extend for a further two years). This increased flexibility allowed the remaining £250 million of the existing syndicated bank loans to be repaid on 9 March 2015, whilst maintaining the same level of facilities.

5. Net finance costs and net debt (continued)

The syndicated bank loan facility can be cancelled and any loans drawn under the facility can become repayable immediately on the occurrence of an event of default under the loan agreements. These events of default include non-payment, insolvency and breach of covenant relating to interest (excluding arrangement fees), adjusted net debt and EBITDA. It is not anticipated that the Group is at risk of breaching any of these obligations.

The covenants require the Group to maintain the (leverage) ratio of adjusted net debt to EBITDA below 3:1 and EBITDA to interest (excluding arrangement fees) above 3.5:1. Adjusted net debt consists of net debt plus Letters of Credit (contingent liabilities in respect of the UKPIL insurance programme, where the possibility of an outflow of economic benefits is considered remote⁵) and is adjusted for exchange rate movements during the year. The Group's leverage ratio at 29 March 2015 is 0.4:1 (2013-14 0.7:1). The Group's ratio of EBITDA to interest (excluding arrangement fees) at 29 March 2015 is 40.4:1 (2013-14 31.4:1). As a result, the Group is well within its covenant agreement at 29 March 2015.

The interest rate chargeable on the syndicated bank loan facility would increase if more than one third of the facility was drawn and would increase if the Group's leverage ratio exceeded 1:1. Under the loan agreement, the maximum interest rate chargeable would be LIBOR plus 1.45 per cent. The €500 million bond becomes repayable immediately on the occurrence of an event of default under the bond agreement. These events of default include non-payment and insolvency. The blended interest rate on gross debt for the period to 27 March 2016 is forecast to be approximately three per cent.

⁵ The lease arrangement for automation equipment, which required Royal Mail to arrange for the provision of Letters of Credit (2013-14 £37 million), was terminated during the year and the Letters of Credit were cancelled, undrawn

6. Taxation

This note provides details about current tax (charges)/credits on profit and deferred tax (charges)/credits relating to the impact of past events on expected future tax. The note also provides the tax impact of specific items, further details of which can be seen in note 4.

	Reported 52 weeks 2015 £m	Reported 52 weeks 2014 £m
Tax (charged)/credited in the income statement		
Current income tax:		
Current UK income tax charge	(13)	(1)
Foreign tax	(32)	(34)
Current income tax charge	(45)	(35)
Amounts over/(under) provided in earlier years	6	(2)
Total current income tax charge	(39)	(37)
Deferred income tax:		
Effect of change in tax rates	2	12
Relating to origination and reversal of temporary differences	(36)	(368)
Amounts over provided in previous years	1	7
Total deferred income tax charge	(33)	(349)
Tax charge in the consolidated income statement	(72)	(386)
Tax on non-GAAP, specific items:		
Tax credit/(charge) relating to specific items	66	(276)
Tax (charged)/credited to other comprehensive income		
Deferred tax:		
Actuarial (gains)/losses on defined benefit pension schemes	(303)	117
Tax relief on pension payments	4	-
Net gains on revaluation of cash flow hedges	5	1
Total (charge)/credit in the consolidated statement of other comprehensive income	(294)	118

Notes to the consolidated financial statements (continued)

6. Taxation (continued)

Reconciliation of the total tax charge

A reconciliation of the tax charge in the income statement and the UK rate of corporation tax applied to accounting profit for the 52 weeks ended 29 March 2015 and 52 weeks ended 30 March 2014 is shown below.

	Reported 52 weeks 2015 £m	Reported 52 weeks 2014 £m
Profit before tax	400	1,664
At UK standard rate of corporation tax of 21% (2013-14 23%)	(84)	(383)
Effect of higher taxes on overseas earnings	(6)	(2)
Tax over provided in prior years	7	5
Non-deductible expenses	(19)	(10)
Associate's profit after tax charge included in Group pre-tax profit	1	1
Tax effect of property disposals	29	-
Net increase in tax charge resulting from non-recognition of deferred tax assets and liabilities	(2)	(9)
Effect of change in tax rates	2	12
Tax charge in the income statement	(72)	(386)

Current tax

Substantially all of the current tax charge for the Group is in respect of GLS. UK taxable profits in 2014-15 are almost fully covered by a combination of brought forward losses, capital allowance claims and a further statutory deduction in respect of shares awarded to employees under the Employee Free Shares scheme. Accordingly, the current tax rate for the Group is 10 per cent.

Effective tax rate

The effective tax rate on reported profit is 18 per cent, comprising current tax due on reported profits and deferred tax in relation to temporary differences. This rate is below the UK statutory rate, principally because no tax charge has been recognised in relation to property disposals, as no tax liability would be expected to crystallise on the grounds that were the assets (into which gains have been rolled) to be sold at their residual values, no capital gain would arise.

GLS pays tax in a number of territories, with the majority of its profits in the period to 29 March 2015 earned in territories where the tax rate is above the UK statutory tax rate. Certain subsidiaries, notably GLS France, remain unable to recognise tax credits on losses made during the reporting period. These factors contribute to GLS having a higher effective tax rate for the period than the UK statutory rate.

Deferred tax

Deferred tax by balance sheet category	At 31 March 2014 £m	(Debited)/ credited to income statement £m	(Debited)/ credited to other comprehensive income £m	Reported at 29 March 2015 £m	At 1 April 2013 £m	(Debited)/ credited to income statement £m	(Debited)/ credited to other comprehensive income £m	Reported at 30 March 2014 £m
Liabilities								
Accelerated capital allowances	(1)	-	-	(1)	-	(1)	-	(1)
Pensions temporary differences	(339)	13	(303)	(629)	(222)	(234)	117	(339)
Employee share schemes	(65)	17	-	(48)	-	(65)	-	(65)
Goodwill qualifying for tax allowances	(28)	(4)	3 ¹	(29)	(23)	(5)	-	(28)
Deferred tax liabilities	(433)	26	(300)	(707)	(245)	(305)	117	(433)
Assets								
Deferred capital allowances	169	(42)	-	127	245	(76)	-	169
Provisions and other	30	(5)	-	25	37	(7)	-	30
Losses available for offset against future taxable income	90	(12)	4	82	51	39	-	90
Hedging derivatives temporary differences	2	-	5	7	1	-	1	2
Deferred tax assets	291	(59)	9	241	334	(44)	1	291
Net deferred tax (liability)/asset	(142)	(33)	(291)	(466)	89	(349)	118	(142)

¹ £3 million (2013-14 £nil million) credited to the foreign currency translation reserve

6. Taxation (continued)

	Reported at 29 March 2015 £m	Reported at 30 March 2014 £m
Deferred tax – balance sheet presentation		
Liabilities		
GLS Group	(31)	(30)
Net UK position	(443)	(121)
Deferred tax liabilities	(474)	(151)
Assets		
GLS Group	8	9
Net UK position	-	-
Deferred tax assets	8	9
Net deferred tax liability	(466)	(142)

The reported deferred tax position shows an increased overall liability in the reporting period to 29 March 2015.

This increase in the reported liability is primarily as a result of the deferred tax impact of the increase in UK pension assets as described in note 8, which has been reflected in other comprehensive income.

GLS has deferred tax assets and liabilities in various jurisdictions which cannot be offset against one another. The main balance relates to goodwill and intangibles liabilities in GLS Germany, for which the Group has already taken tax deductions.

At 29 March 2015, the Group had unrecognised deferred tax assets of £68 million (2013-14 £68 million) comprising £61 million (2013-14 £63 million) relating to tax losses of £227 million (2013-14 £238 million), mainly in GLS, that are available for offset against future profits if generated in the relevant companies and £7 million (2013-14 £5 million) in relation to £33 million (2013-14 £23 million) of UK capital losses carried forward. The Group has not recognised these deferred tax assets on the basis that it is not sufficiently certain of its capacity to utilise them in the future.

The Group also has temporary differences in respect of £295 million (2013-14 £307 million) of capital losses, the tax effect of which is £59 million (2013-14 £61 million) in respect of assets previously qualifying for industrial buildings allowances. Further temporary differences exist in relation to £308 million (2013-14 £214 million) of gains for which rollover relief has been claimed, the tax effect of which is £62 million (2013-14 £43 million). No tax liability would be expected to crystallise on the basis that, were the assets (into which the gains have been rolled) to be sold at their residual values, no capital gain would arise.

Notes to the consolidated financial statements (continued)

7. Free cash flow

The Group uses free cash flow to monitor and manage its cash performance. This measure eliminates inflows/outflows between net debt items (note 5) and includes finance cash costs paid. This note provides a reconciliation of 'net cash inflow before financing activities' in the consolidated statement of cash flows, prepared under IFRS, to 'free cash inflow' which is a non-GAAP measure.

	Reported 52 weeks 2015 £m	Reported 52 weeks 2014 £m
EBITDA before transformation costs (see consolidated statement of cash flows)	889	940
Pension charge to cash difference (operating specific item)	129	58
Total Group ongoing pension costs in the income statement	552	479
Total Group cash flows relating to ongoing pension costs:		
RMPP defined benefit scheme employer contributions (note 8(d))	(369)	(380)
Defined contribution scheme employer contributions	(44)	(31)
RMSEPP deficit correction payments (note 8(d))	(10)	(10)
Trading working capital movements	1	(57)
Share-based awards (SAYE and LTIP) charge to cash difference	5	-
Dividend received from associate undertaking	-	2
Net cash inflow from discontinued operations	-	2
Total investment ¹	(658)	(617)
Growth capital expenditure	(178)	(201)
Replacement capital expenditure	(252)	(215)
Transformation operating expenditure	(228)	(201)
Income tax paid	(37)	(38)
Net finance costs paid	(18)	(33)
In-year trading cash inflow	311	257
Other working capital movements	11	140
Cash cost of operating specific items	(8)	(35)
Proceeds from disposal of property (excluding London property portfolio), plant and equipment (non-operating specific items)	39	33
Proceeds from disposal of associate undertaking (non-operating specific item)	-	3
London property portfolio disposals (non-operating specific item)	100	-
Disposal proceeds	111	-
Related cash costs	(11)	-
Free cash inflow	453	398

¹ Total investment is represented by several different line items in the consolidated statement of cash flows

Working capital movements

	Reported 52 weeks 2015 £m	Reported 52 weeks 2014 £m
Other working capital movements:		
March 2015 payroll paid after balance sheet date of 29 March 2015	46	-
Stamps used but purchased in previous periods/deferred revenue	(35)	(10)
Unwinding of pension prepayment made in March 2012	-	150
Total other working capital movements	11	140
Trading working capital movements	1	(57)
Total working capital movements	12	83

7. Free cash flow (continued)

Free cash flow reconciliation

The following analysis provides a reconciliation of 'net cash inflow before financing activities' in the consolidated statement of cash flows and free cash inflow.

	Reported 52 weeks 2015 £m	Reported 52 weeks 2014 £m
Net cash inflow before financing activities	420	435
Net purchase of financial asset investments (current)	55	-
Other finance costs paid	(22)	(37)
Free cash inflow	453	398

8. Employee benefits – pensions

At 29 March 2015, a pension asset of £3,179 million has been recognised compared with £1,723 million at 30 March 2014. This increase is primarily due to the return on liability hedging assets as explained further in this note.

Summary pension information

	Reported 52 weeks 2015 £m	Reported 52 weeks 2014 £m
Ongoing pension costs:		
UK defined benefit scheme (income statement rates ¹ 23.6%, 20.3%)	(508)	(448)
UK defined contribution scheme	(38)	(25)
Total UK ongoing pension costs	(546)	(473)
Total GLS defined contribution type scheme costs	(6)	(6)
Total Group ongoing pension costs	(552)	(479)
Difference between ongoing income statement charge and cash flows (cash flow rates 17.1% for both years) ²	139	68
Total Group pension cash flows relating to ongoing pension costs	(413)	(411)

	Reported at 29 March 2015 '000	Reported at 30 March 2014 '000
UK pension schemes – active membership:		
UK defined benefit scheme	100	106
UK defined contribution scheme	39	36
Total	139	142

¹ This service cost is charged to the income statement. It represents the cost (as a percentage of pensionable payroll) of the increase over the year in the defined benefit obligation due to members earning one more year of pension benefits. It is calculated in accordance with IAS 19 and is based on market yields (high quality corporate bonds and inflation) at the beginning of the Company's reporting year

² This difference excludes the Royal Mail Senior Executives Pension Plan (RMSEPP) deficit correction payments of £10 million (2013-14 £10 million). The employer contribution cash flow rate forms part of the payroll expense and is paid into the Royal Mail Pension Plan (RMPP) (RM section). The contribution rate is set following each actuarial funding valuation, usually every three years. These actuarial valuations are required to be carried out on assumptions determined by the Trustee and agreed by Royal Mail

UK Defined Contribution Scheme

The Group operates the Royal Mail Defined Contribution Plan, which was launched in April 2009 and is open to employees who joined the Company from 31 March 2008 following closure of the Royal Mail Pension Plan (RMPP) to new members.

Ongoing UK defined contribution scheme costs have increased from £25 million in 2013-14 to £38 million, mainly due to an increase in the average employer's contribution rate from 3.8 per cent in 2013-14 to 5.4 per cent.

Notes to the consolidated financial statements (continued)

8. Employee benefits – pensions (continued)

UK Defined Benefit Schemes

Royal Mail Group Limited had one of the largest defined benefit pension schemes in the UK (based on membership and assets), called the RMPP. On 1 April 2012 (one week into the 2012-13 reporting year) – after the granting of State Aid approval by the European Commission to HM Government on 21 March 2012 – almost all of the historic pension liabilities and pension assets of RMPP, built up until 31 March 2012, were transferred to a new HM Government pension scheme, the Royal Mail Statutory Pension Scheme (RMSPS).

On this date, RMPP was also sectionalised, with Royal Mail Group Limited and Post Office Limited each responsible for their own sections from 1 April 2012 onwards.

The transfer left the Royal Mail section (RM section) of the RMPP fully funded on an actuarial basis. This means that, using long-term actuarial assumptions agreed at that date, it was predicted the Company would have to make no further cash deficit correction payments relating to the historic liabilities. All further references in this note to the RMPP, relate to its RM section.

Royal Mail Pension Plan (RMPP)

The RMPP is funded by the payment of contributions to separate trustee administered funds. RMPP includes sections A, B and C, each with different terms and conditions:

Section A is for members (or beneficiaries of members) who joined before 1 December 1971;

Section B is for members (or beneficiaries of members) who joined on or after 1 December 1971 and before 1 April 1987 or for members of Section A who chose to receive Section B benefits; and

Section C is for members (or beneficiaries of members) who joined on or after 1 April 1987 and before 1 April 2008. Benefits provided are based on career salary blocks for years' service, revalued annually.

Following conclusion of the March 2012 actuarial valuation, the regular future service contribution rate for RMPP, expressed as a percentage of pensionable pay, remained at 17.1 per cent. As the valuation showed the Plan to be in surplus, no deficit correction payments are currently being made by the Company. The Group expects to contribute around £369 million to the RMPP in respect of normal cash service costs in 2015-16.

Royal Mail Senior Executives Pension Plan (RMSEPP)

The Group also contributes to a smaller defined benefit scheme for executives, RMSEPP – which closed in December 2012 to future accrual. The Company therefore makes no regular future service contributions. As agreed in the March 2012 actuarial valuation the Company makes deficit correction payments of £10 million per annum until at least the date on which the 2018 valuation is completed (no later than 30 September 2018). Deficit correction payments in 2014-15 were £10 million (2013-14 £10 million).

A liability of £2 million (2013-14 £1 million) has been recognised for future payment of pension benefits to a past Director.

Pensions Reform

In June 2013, the Company began a consultation with RMPP members on a proposal to ensure the RMPP could remain open to future accrual, subject to certain conditions, at least until the conclusion of the next periodic review in March 2018. Subsequently, on 26 September 2013, the Company agreed with the RMPP Trustee to implement a Pensions Reform with effect from 1 April 2014.

The agreed changes due to the Pensions Reform were considered to be a 'Plan amendment' which met the IAS 19 definition of a past service cost, and as such £1,350 million was recognised in the income statement of the Group for the comparative year ended 30 March 2014.

Accounting and actuarial surplus position (RMPP and RMSEPP)

	Accounting (IAS 19)		Actuarial/cash funding	
	Reported at 29 March 2015 £m	Reported at 30 March 2014 £m	Reported at 31 March 2015 £m	Reported at 31 March 2014 £m
Fair value of schemes' assets (8(b) below)	6,619	3,833	6,462	3,873
Present value of schemes' liabilities	(3,425)	(2,097)	(4,669)	(2,451)
Surplus in schemes (pre IFRIC 14 adjustment)	3,194	1,736	1,793	1,422
IFRIC 14 adjustment	(15)	(13)	n/a	n/a
Surplus in schemes	3,179	1,723	1,793	1,422

There is no element of the present value of the schemes' liabilities above that arises from schemes that are wholly unfunded. The actuarial liabilities calculated for the Annual Report and Financial Statements are required within shorter timescales, which can lead to differences in approximations and assumptions compared to the scheme actuary's funding updates.

The surplus in RMSEPP is assumed to be available as a refund as per IFRIC 14 and, as such, is shown net of taxation withheld.

8. Employee benefits – pensions (continued)

The surplus in RMPP is assumed to be recoverable as a reduction to future employer contributions. Therefore, no IFRIC 14 adjustment is required. The Directors do not believe that the current excess of pension scheme assets over the liabilities on an accounting basis will result in an excess of pension assets on a funding basis. However, the Directors are required to account for the pension scheme based on their legal right to benefit from a surplus, using long-term actuarial assumptions current at the reporting date, as required by IFRS.

The actuarial/cash funding surplus of £1,793 million at 31 March 2015 (31 March 2014 surplus of £1,422 million) allows the RMPP to remain open for the benefit of the members at least until March 2018, subject to certain conditions (as part of the Pensions Reform agreement), without requiring either the Company or individuals to make unaffordable increases to their cash contributions.

The funding liabilities have increased more than the accounting liabilities since they are calculated by reference to gilt yields which have fallen to a greater extent than corporate bond yields on which the accounting liabilities are calculated. As a result, the funding surplus has increased less than the accounting surplus.

The following disclosures relate to the major assumptions, sensitivities, surplus and gains/losses in the RMPP and RMSEPP defined benefit schemes.

a) Major long-term assumptions used for accounting (IAS 19) purposes – RMPP and RMSEPP

The major assumptions used to calculate the accounting position of the pension schemes were as follows:

	Reported at 29 March 2015	Reported at 30 March 2014
Retail Price Index (RPI)	3.1%	3.4%
Consumer Price Index (CPI)	2.1%	2.4%
Discount rate		
– nominal	3.5%	4.5%
– real (nominal less RPI) ³	0.4%	1.1%
Rate of increase in pensionable salaries ⁴	RPI-0.1%	RPI-0.1%
Rate of increase for deferred pensions	CPI	CPI
Rate of pension increases – RMPP Sections A/B	CPI	CPI
Rate of pension increases – RMPP Section C ⁴	RPI-0.1%	RPI-0.1%
Rate of pension increases – RMSEPP members transferred from Section A or B of RMPP	CPI	CPI
Rate of pension increases – RMSEPP all other members ⁴	RPI-0.1%	RPI-0.1%
Life expectancy from age 60 – for a current 40/60 year old male RMPP member	29/27 years	29/27 years
Life expectancy from age 60 – for a current 40/60 year old female RMPP member	32/30 years	32/30 years

³ The real discount rate used reflects the long average duration of the RMPP scheme of around 30 years

⁴ The rate of increase in salaries, and the rate of pension increase for Section C members (who joined RMPP on or after April 1987) and RMSEPP 'all other members', is capped at five per cent, which results in the average long-term pension increase assumption being 10 basis points lower than the RPI long-term assumption

Mortality

The mortality assumptions for RMPP are based on the latest Self Administered Pension Scheme (SAPS) S1 mortality tables with appropriate scaling factors (106 per cent for male pensioners and 101 per cent for female pensioners). Future improvements are based on the CMI 2012 core projections with a long-term trend of 1.25 per cent per annum.

Sensitivity analysis for RMPP liabilities

The RMPP liabilities are sensitive to changes in key assumptions. The potential impact of the largest sensitivities on the RMPP liabilities is as follows:

Key assumption change	Potential increase in liabilities £m
Additional one year of life expectancy	95
Increase in inflation rate (both RPI and CPI simultaneously) of 0.1% p.a.	90
Decrease in discount rate of 0.1% p.a.	90
Increase in CPI assumption (assuming RPI remains constant) of 0.1% p.a.	25

This sensitivity analysis has been determined based on a method that assesses the impact on the defined benefit obligation, resulting from reasonable changes in key assumptions occurring at the end of the reporting year. Changes opposite to those in the table (e.g. an increase in discount rate) would have the opposite effect on liabilities.

The average duration of the RMPP obligation is 30 years (2013-14 28 years).

Notes to the consolidated financial statements (continued)

8. Employee benefits – pensions (continued)

b) Schemes' assets – RMPP and RMSEPP

	Reported at 29 March 2015			Reported at 30 March 2014		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Equities						
UK	22	165	187	28	82	110
Overseas	411	-	411	321	-	321
Bonds						
Fixed interest – UK	60	8	68	101	8	109
– Overseas	525	-	525	371	-	371
Index linked – UK	195	-	195	156	-	156
– Overseas	-	-	-	-	-	-
Pooled investments						
Managed funds	576	-	576	303	-	303
Unit Trusts	4,166	-	4,166	1,864	-	1,864
Property (UK)	23	295	318	20	230	250
Cash and cash equivalents	175	-	175	345	-	345
Other	25	-	25	5	-	5
Derivatives	(27)	-	(27)	(1)	-	(1)
Total schemes' assets	6,151	468	6,619	3,513	320	3,833

There were no open equity derivatives within this portfolio at 29 March 2015 (at 30 March 2014 £nil million). Included within the pension assets are £3.7 billion (2013-14 £2.0 billion) of HM Government Bonds. The schemes' assets do not include property occupied by the Group, the Group's own shares, or assets used by the Group.

Risk exposure and investment strategy

The investment strategy of the RMPP Trustee aims to safeguard the assets of the Plan and to provide, together with contributions, the financial resource from which benefits are paid. Investment is inevitably exposed to risks. The investment risks inherent in the investment markets are partially mitigated by pursuing a widely diversified approach across asset classes and investment managers. The RMPP uses derivatives (such as swaps and futures) to reduce risks whilst maintaining expected investment returns. The RMPP Trustee recognises that there is a natural conflict between improving the potential for positive return and limiting the potential for poor return. The RMPP Trustee has specified objectives for the investment policy that balance these requirements.

The largest risks faced by the Plan are movements in interest rates and inflation rates. To reduce the risk of movements in these rates driving the Plan into a funding deficit, and the Company not being able to maintain its March 2018 commitment, the Trustee aims to hedge in advance the funding liabilities which will build up by March 2018. The liabilities projected to accrue to March 2017 have already been hedged – predominantly through investment in gilts and derivatives (interest rate and inflation rate swaps) held in Unit Trust pooled investments providing economic exposure to gilts. The impact of the Plan's advance hedging of projected funding liabilities is to increase volatility in the pension surplus due to the return on the liability hedging assets not being matched by an increase in the accrued liabilities. As the accrued liabilities get closer to the projected liabilities that have been hedged, this volatility will reduce. The increase in the liability hedged assets is predominantly reflected in the Unit Trust values above which have increased from £1,864 million at 30 March 2014 to £4,166 million at 29 March 2015.

The notional value covered by the interest rate swaps (full exposure to the relevant asset class incurred by entering into a derivative contract) held in a specific managed portfolio for this purpose at 29 March 2015 is £2.5 billion (at 30 March 2014 £2.3 billion) and the notional value covered by the inflation rate swaps at 29 March 2015 is £1.8 billion (at 30 March 2014 £1.5 billion).

The spread of investments continues to balance security and growth in order to pay the RMPP benefits when they become due.

8. Employee benefits – pensions (continued)

c) Movement in schemes' assets, liabilities and net position – RMPP and RMSEPP

Changes in the value of the defined benefit pension liabilities, fair value of the schemes' assets and the net defined benefit asset/(liability) are analysed as follows:

	Defined benefit asset		Defined benefit liability		Net defined benefit asset/(liability)	
	Reported 2015 £m	Reported 2014 £m	Reported 2015 £m	Reported 2014 £m	Reported 2015 £m	Reported 2014 £m
Retirement benefit surplus (pre IFRIC 14 adjustment) at 31 March 2014 and 1 April 2013	3,833	3,343	(2,097)	(2,513)	1,736	830
Amounts included in the income statement:						
Ongoing UK defined benefit pension scheme costs (included in People costs, note 12)	-	-	(508)	(448)	(508)	(448)
Royal Mail Pension Plan amendment	-	-	-	1,350	-	1,350
Pension interest income/(cost) ⁵	183	172	(108)	(103)	75	69
Total included in profit before tax	183	172	(616)	799	(433)	971
Amounts included in other comprehensive income – rereasurement gains/(losses):						
Actuarial gain/(loss) arising from:						
Demographic assumptions	-	-	-	4	-	4
Financial assumptions	-	-	(590)	(256)	(590)	(256)
Experience adjustment	-	-	5	2	5	2
Return on schemes' assets (excluding interest income)	2,097	(203)	-	-	2,097	(203)
Total actuarial gains/(losses) on defined benefit schemes	2,097	(203)	(585)	(250)	1,512	(453)
Other:						
Employer contributions	409	407	-	-	409	407
Employee contributions	129	136	(129)	(136)	-	-
Benefits paid	(33)	(25)	33	25	-	-
Curtailment costs	-	-	(31)	(20)	(31)	(20)
Movement in pension-related accruals	1	3	-	(2)	1	1
Total other movements	506	521	(127)	(133)	379	388
Retirement benefit surplus (pre IFRIC 14 adjustment) at 29 March 2015 and 30 March 2014	6,619	3,833	(3,425)	(2,097)	3,194	1,736

⁵ Pension interest income results from applying the schemes' discount rate at 30 March 2014 to the schemes' assets at that date. Similarly, the pension interest cost results from applying the schemes' discount rate as at 30 March 2014 to the schemes' liabilities at that date

The return on assets has been driven by the increase in market value of gilts, which the RMPP Trustee holds as part of its liability hedging strategy. This strategy has been agreed with the Company to support the commitment Royal Mail has made to its employees, which is that, subject to certain conditions, RMPP will remain open until at least March 2018.

In addition to the above items which affect the defined benefit asset, additional curtailment costs of £10 million (2013-14 £34 million) were recognised in the income statement on a consistent basis with the associated redundancy costs. Estimates of both are included in any redundancy provision raised.

Notes to the consolidated financial statements (continued)

8. Employee benefits – pensions (continued)

d) Pension cash flows

The analysis below shows how the defined benefit scheme employer contributions in note 8(c) reconcile with the defined benefit scheme pension cash flows in note 7.

	Reported at 29 March 2015 £m	Reported at 30 March 2014 £m
Ongoing defined benefit (RMPP) scheme employer contributions	369	380
Deficit correction payments (RMSEPP)	10	10
Pension (RMPP) top-up payments relating to voluntary redundancy – within transformation operating expenditure	30	17
Employer defined benefit scheme contributions (note 8(c))	409	407

9. Earnings per share

This note explains the calculation of the Group's earnings per share. The calculation for the comparative year is based on the 1,000,000,000 shares that were issued part way through that year (September 2013) and which were subsequently listed on the London Stock Exchange in October 2013. The note also includes non-GAAP 'adjusted' information.

	52 weeks 2015		52 weeks 2014	
	Reported	Adjusted	Reported	Adjusted
Profit from continuing operations attributable to equity holders of the parent (£m)	325	428	1,275	306
Weighted average number of shares issued (million)	1,000	1,000	1,000	1,000
Basic earnings per share (pence)	32.5	42.8	127.5	30.6
Diluted earnings per share (pence)	32.5	42.8	127.5	30.6

The diluted earnings per share for the year ended 29 March 2015 is based on a weighted average number of shares of 1,001,485,583 to take account of the issue of potential ordinary shares resulting from the Long-Term Incentive Plan (LTIP) for certain senior management and the Save As You Earn (SAYE) scheme that was launched during the reporting year (note 10).

The basic and diluted earnings per share for the comparative year ended 30 March 2014 assumed that one billion shares in issue at the date of the Company's listing on the London Stock Exchange (15 October 2013) existed for the whole of that reporting year.

10. Share-based payment

This note provides details about the Free Shares awarded to employees, including the associated accounting charge to the Group's income statement under IFRS 2, and the number of shares held in the Share Incentive Plan (SIP) at the end of the reporting year. Details of shares awarded under the Long-Term Incentive Plan (LTIP) and Save As You Earn (SAYE) scheme are also included.

Employee Free Shares

Ordinary shares representing ten per cent of the value of the Company were granted free of charge to eligible employees on 15 October 2013, the date of the Initial Public Offering. These Free Shares are held on behalf of employees in an HM Revenue and Customs (HMRC)-approved Share Incentive Plan (SIP) administered by Equiniti Share Plan Trustees Limited (Equiniti).

613 shares were awarded to each eligible full-time employee as their 2013 SIP allocation. The Company allocated a further 116 shares (729 in total – see below) to eligible full-time employees on 9 April 2014 as a 2014 SIP allocation, subject to them remaining employees of Royal Mail Group Limited.

The 729 total shares awarded to eligible full-time employees comprises the 725 initial, expected allocation of shares and an additional four shares resulting from the reallocation of shares forfeited by certain employees who left the Group during the 2013-14 reporting period.

10. Share-based payment (continued)

Part-time eligible employees have been allocated a pro-rata number of shares. All allocated shares will be equity-settled.

The fair value of the award of Free Shares is £510 million (including £20 million National Insurance) which is being charged to the income statement on a straight line basis, adjusted for 'good leavers' and forfeitures, over the period of vesting (three years for the 2013 SIP and four years for the 2014 SIP, in each case from the award date).

A charge to the income statement of £169 million (including £6 million National Insurance) has been made for the year ended 29 March 2015 for both SIP allocations, as they were granted as one award.

The Free Shares are held in a Trust funded by Royal Mail and may only be distributed to, or for the benefit of, eligible employees. The Trust is under the control of the Company and is operating for its benefit. At 29 March 2015 the Trust has been included in these consolidated financial statements.

A reconciliation of the ordinary shares held in the SIP at 29 March 2015 is shown below.

	Number of shares
Initial shares award on 15 October 2013	84,415,327
Shares transferred out of SIP – 'good leavers'	(809,247)
Remaining shares to be allocated	15,744,673
Total shares remaining in SIP at 30 March 2014	99,350,753
Shares transferred out of SIP during the reporting period ('good leavers')	(4,494,836)
Total shares remaining in SIP at 29 March 2015	94,855,917

Of the total shares remaining in the scheme 92,983,863 are allocated to current employees. The remaining 1,872,054 shares are unallocated, of which 1,763,804 arose as a result of forfeitures, with a further 108,250 not subject to allocation under either SIP.

Award of shares under the Long-Term Incentive Plan (LTIP)

The 2013 LTIP is a three-year scheme that vests in March 2016. This scheme is being treated as a cash-settled scheme on the assumption that the award will result in cash payment. The fair value of the award reflects the share price at the reporting year end date of 29 March 2015 at which point the value was £5 million (2013-14 £5 million).

A further LTIP award was granted to senior management on 31 March 2014 (2014 LTIP). This award is equity-settled with the fair value of the shares awarded being set at the grant date market value of 450.4 pence. A total of 3.5 million shares have the potential to vest under the 2014 LTIP.

The total income statement charge arising from both LTIP schemes is summarised in the table below.

	Reported 52 weeks 2015 £m	Reported 52 weeks 2014 £m
2013 LTIP	-	5
2014 LTIP	5	-
Total	5	5

The LTIP shares are not part of the SIP explained above. Further details of both the 2013 and 2014 LTIP plans can be found in the Directors' remuneration report on pages 64 – 75.

Notes to the consolidated financial statements (continued)

10. Share-based payment (continued)

Save As You Earn Share (SAYE) share option scheme

On 24 July 2014 a SAYE share option scheme was introduced for eligible employees. Under the terms of the scheme the Board permits the grant of options in respect of ordinary shares in the Company to those employees who enter into an HMRC-approved SAYE savings contract. These contracts are for a term of three years with contributions from employees of an amount between £5 and £59 each month. The options purchased may be exercised during the six month period following the end of the contract at a subscription price of not less than 80 per cent of the average of the mid-market quotations of an ordinary share over the three dealing days immediately preceding the offer date.

A charge to the Group income statement of £1 million has been made for the year ended 29 March 2015 in relation to the SAYE scheme.

The table below shows the movements in share options during the reporting period.

	Number of options
Balance at the beginning of the reporting period	–
Options granted	14,956,040
Options exercised	(65)
Options forfeited	(174,435)
Balance at the end of the reporting period	14,781,540

For SAYE options exercised during the period, the weighted average share price at the date of exercise was 429 pence. The weighted average exercise price for each of the above categories of share options is 360 pence.

As a result of the scheme rules for good leavers, 43,850 (2013–14 nil) share options were exercisable at 29 March 2015 at a weighted average exercise price of 360 pence.

The fair values of the options granted during the year have been calculated using the Black-Scholes model assuming the inputs shown below. Expected volatility has been estimated by reference to historical trends of share price movements of similarly regulated FTSE 100 companies. The fair value of the options granted is expensed over the service period of three years on the assumption that 11 per cent of options will lapse over the service period as employees leave the Group.

	3-year plan
Grant date	1 October 2014
Share price at grant date (pence)	450
Exercise price (pence)	360
Option life (years)	3.35
Risk-free rate (%)	1.4
Expected volatility (%)	17.3
Expected dividend yield (%)	4.6
Estimated share price growth (%)	9.2
Fair value of option (pence)	65

11. Dividends

This note provides details on the value of dividends paid to equity holders of the parent Company during the year. Details are also provided on the price per share at which dividends have been paid and proposed.

	Reported 52 weeks 2015	Reported 52 weeks 2014	Reported 52 weeks 2015	Reported 52 weeks 2014
	Pence per share	Pence per share	£m	£m
Dividends on ordinary shares				
Paid final dividend	13.3	–	133	–
Paid interim dividend	6.7	–	67	–
Total dividend	20.0	–	200	–

In addition to the above dividends paid the Directors are proposing a final dividend for the year ending 29 March 2015 of 14.3 pence per share with a total value of £143 million. This dividend will be paid to shareholders on 31 July 2015 subject to approval at the AGM to be held on 23 July 2015.

Other notes – income statement

The notes in this section provide details of people costs and numbers and other operating costs (e.g. pensions, depreciation and amortisation and operating lease charges).

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13. Operating costs	103

Notes to the consolidated financial statements (continued)

12. People information

Of the total Group operating costs, 61 per cent (2013-14 61 per cent) relate to our people. This note provides a breakdown of our people costs and numbers as well as specific disclosures in relation to Directors' emoluments. Further details on Directors' emoluments paid can be found in the Directors' remuneration report.

People costs

	Reported 52 weeks 2015 £m	Reported 52 weeks 2014 £m
Wages and salaries	(4,433)	(4,411)
UK based	(4,138)	(4,120)
GLS	(295)	(291)
Pensions	(552)	(479)
Defined benefit UK	(508)	(448)
Defined contribution UK	(38)	(25)
GLS	(6)	(6)
Social security	(374)	(377)
UK based	(321)	(322)
GLS	(53)	(55)
Group total	(5,359)	(5,267)
Defined benefit pension rate:		
Income statement	23.6%	20.3%
Cash flow	17.1%	17.1%
Defined contribution pension average rate:		
Income statement and cash flow ¹	5.4%	3.8%

¹ Employer contribution rates are one per cent for employees in the entry level category and five to seven per cent for those in the standard level category, depending on the employees' selected contribution rate

People numbers

The number of people employed during the reporting year, on a headcount basis, was as follows:

	Period end		Average employees	
	52 weeks 2015	52 weeks 2014	52 weeks 2015	52 weeks 2014
UKPIL	142,910	148,441	145,205	149,172
GLS – continuing operations	13,754	13,181	13,400	12,980
– discontinued operations ²	655	630	642	612
UK partially owned subsidiaries	3,199	3,999	3,543	4,049
Group total	160,518	166,251	162,790	166,813

² The discontinued operations relates to GLS Germany's subsidiary DPD Systemlogistik GmbH & Co. KG (notes 24 and 31)

Directors' emoluments

	Reported 52 weeks 2015 £000	Reported 52 weeks 2014 £000
Directors' emoluments ³	(3,305)	(3,173)
Amounts earned under Long-Term Incentive Plans (LTIP) ⁴	(877)	(2,654)
Number of Directors accruing benefits under defined benefit schemes	-	-
Number of Directors accruing benefits under defined contribution schemes	1	1

³ These amounts include any cash supplements received in lieu of pension

⁴ The 2014 LTIP amount consists of £1,327,000 for each of the 2010 and 2011 LTIP awards that vested at 30 March 2014

13. Operating costs

Below is an analysis of operating costs in the income statement that because of their materiality or nature require separate disclosure under IFRS.

Operating profit before transformation costs is stated after charging the following operating costs:

	Reported 52 weeks 2015 £m	Reported 52 weeks 2014 £m
Ongoing pension costs (note 8) (included in 'People costs')	(552)	(479)
Post Office Limited charges (included in 'Other operating costs')	(358)	(358)
Depreciation and amortisation (included in 'Infrastructure costs')	(279)	(274)
Depreciation of property, plant and equipment (note 21)	(242)	(241)
Amortisation of intangible assets (mainly software – note 23)	(37)	(33)
Charges from overseas postal administrations (included in 'Distribution and conveyance costs')	(311)	(322)
Fuel costs (included in 'Distribution and conveyance costs')	(186)	(195)
Fuel stock expensed	(115)	(130)
Other fuel costs (non-stock)	(71)	(65)
Other inventory expensed (included in 'Other operating costs')	(43)	(47)
Operating lease charges	(147)	(158)
Property, plant and equipment (included in 'Other operating costs')	(136)	(146)
Vehicles (included in 'Distribution and conveyance costs')	(11)	(12)
VAT credit (resulting from VAT recovery rate changes agreed with HMRC) (included across all cost types)	5	35

Research and development expenditure during the year amounted to £nil million (2013-14 £nil million).

The following disclosure is relevant in understanding the extent of costs in relation to the regulation of the Group.

	Reported 52 weeks 2015 £m	Reported 52 weeks 2014 £m
Regulatory body costs		
Ofcom	(3)	(4)
Citizens Advice/Consumer Council for Northern Ireland (both formerly Consumer Futures)	(4)	(3)
Total	(7)	(7)

Disclosure of statutory audit costs is a requirement of the Companies Act 2006.

	Reported 52 weeks 2015 £000	Reported 52 weeks 2014 £000
Auditor's fees		
Audit of statutory financial statements	(390)	(402)
Other fees to Auditor:		
Statutory audits for subsidiaries	(1,494)	(1,423)
Other services (including regulatory audits)	(231)	(257)
Transaction-related support services	-	(4,025)
Taxation services	(177)	(178)
Total	(2,292)	(6,285)

The Group paid £90,000 additional amounts in 2014-15 in respect of the 2013-14 audit (£90,000 in 2013-14 in respect of the 2012-13 audit).

Notes to the consolidated financial statements (continued)

Other notes – financial assets, financial liabilities and hedging programmes

The notes in this section explain how the Group is financed, including details of associated risks, interest rates, additional loan facilities available and hedging programmes in place to mitigate volatility in commodity prices and foreign currency exchange rates.

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14. Financial assets and liabilities – summary and management of financial risk

Below is a summary of financial assets (e.g. cash, investments and deposits) and liabilities (e.g. loans and finance lease obligations) and details of how the various risks associated with these assets and liabilities are managed. Subsequent notes in this section provide more detailed disclosures on specific financial assets and liabilities.

The Group's financial assets and liabilities are shown in the table below.

	Reported at 29 March 2015			Reported at 30 March 2014		
	Non-current £m	Current £m	Total £m	Non-current £m	Current £m	Total £m
RMSEPP pension escrow investments	20	-	20	20	-	20
Cash and cash equivalents	-	287	287	-	366	366
Other bank and local authority deposits	-	56	56	-	1	1
Derivative assets	2	5	7	3	2	5
Total financial assets	22	348	370	23	369	392
Syndicated bank loans	-	-	-	(600)	-	(600)
€500 million bond – 2.375% Senior Fixed Rate Notes due July 2024	(366)	-	(366)	-	-	-
Total loans and borrowings	(366)	-	(366)	(600)	-	(600)
Finance leases obligations	(179)	(93)	(272)	(255)	(87)	(342)
Derivative liabilities	(14)	(34)	(48)	(5)	(12)	(17)
Total financial liabilities	(559)	(127)	(686)	(860)	(99)	(959)

Financial assets and liabilities – financial risk management objectives and policies

The Group's principal financial assets and liabilities comprise short-term deposits, money market liquidity investments, loans (including bonds), finance leases and cash. The main purposes of these financial instruments are to raise finance and manage the liquidity needs of the business' operations. The Group has various other financial instruments, such as trade receivables and trade payables, which arise directly from operations and are not disclosed further in this section.

The Group enters into derivative transactions, which create derivative assets and liabilities; principally commodity price swaps, interest rate swaps and forward currency contracts. Their purpose is to manage the commodity, interest rate and currency risks arising from the Group's operations and finances.

It is, and has been throughout the year under review, the Group's policy that no speculative trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial assets and liabilities are interest rate risk, liquidity risk, foreign currency risk, commodity price and credit risk. The Board reviews and agrees policies for managing these risks, each of which is summarised below.

Interest rate risk

The Group's exposure to market risk for changes in interest rates arises from the Group's loans, leases and interest bearing financial assets. The €500 million bond valued at £366 million (2013-14 £nil million) is at a fixed interest rate. Drawings under the syndicated bank loan facilities of £nil million (2013-14 £600 million) are at floating rates but interest rates on £150 million of Term Loan A had been fixed over the life of the loan facility by entering into interest rate swaps until the remaining swaps were sold when the term loan was repaid on 9 March 2015. The combined average maturity date of drawn loans is 2024 (2013-14 average maturity date of 2017). The finance lease obligations of £272 million are all at a fixed rate (2013-14 £342 million, all at fixed rate). The total interest bearing financial assets of the Group (excluding the non-current investments) of £269 million (2013-14 £395 million), which consist of the fixed and floating rate cash and cash equivalent investments, plus the current financial asset investments, are at short-dated fixed or variable interest rates with an average maturity of 31 days (2013-14 an average maturity of three days). These short-dated financial instruments are maturity managed to obtain the best value out of the interest yield curve.

The Group's policy is to manage its net interest expense using an appropriate mix of fixed and floating rate financial instruments, combined with external hedging of interest rate risk, as appropriate, to keep a high percentage of its net debt fixed.

Notes to the consolidated financial statements (continued)

14. Financial assets and liabilities – summary and management of financial risk (continued)

Foreign currency transaction risk

The Group is exposed to foreign currency risk due to interest payments on the €500 million bond, trading with overseas postal operators for carrying UK mail abroad and delivering foreign origin mail in the UK, and various purchase contracts denominated in foreign currency (all of these exposures are in UKPIL). GLS' reporting currency is the Euro and most of its revenues and profits are Euro based. There is some exposure to non-Euro currencies, principally in emerging European markets.

These risks are mitigated by hedging programmes managed by Group Treasury. Where possible, exposures are netted internally and any remaining exposure is hedged using a combination of external spot and forward contracts. Hedging will not normally be considered for exposures of less than £1 million and hedging is normally confined to 80 per cent of the forecast exposure where forecast cash flows are highly probable.

Foreign currency risk translational risk

The Group's functional currency is Sterling. GLS' functional currency is the Euro. GLS Euro profits are converted at the average exchange rate for the year, which can result in reported growth or decline that does not relate to underlying performance. GLS' balance sheet is converted at year end exchange rates, and movements related to foreign currency translation are taken to equity.

UKPIL's obligation to settle with overseas postal operators is denominated in Special Drawing Rights (SDRs) – a basket of currencies comprised of US Dollar, Japanese Yen, Sterling and Euro. Group Treasury operates a rolling 18-month hedge programme, which is subsequently reviewed on a quarterly basis.

UKPIL's obligations to settle conveyance charges in US Dollars have been hedged to April 2015, when the exposure ends and the hedge programme finishes.

UKPIL has two active hedge programmes (commenced during the reporting period) and two hedge programmes which completed during the current and previous reporting period, covering obligations to settle Euro invoices on automation projects.

The €500 million bond issued by Royal Mail in July 2014 acts as a hedge of part of the translation exposure created by the net assets of GLS. The bond is revalued at year end exchange rates and the movement taken to equity to offset the movement taken to equity from the revaluation of GLS' balance sheet. The remaining net assets of GLS in excess of €500 million are not hedged. Royal Mail hedges the transactional exposure created by intercompany loans with GLS and uses the translational exposure arising from GLS Euro profits to offset with other transactional exposures.

Commodity price risk

UKPIL is exposed to fuel price risk arising from operating one of the largest vehicle fleets in Europe, which consumes over 130 million litres of fuel per year, and a jet fuel price risk arising from the purchasing of air freight services. The Group's fuel risk management strategy aims to reduce uncertainty created by the movements in the oil and foreign currency markets. The strategy uses over-the-counter derivative products (in both US Dollar commodity price and US Dollar/Sterling exchange rate) to manage these exposures.

In addition, the Group is exposed to the commodity price risk of purchasing electricity and gas. The Group's risk management strategy aims to reduce uncertainty created by the movements in the electricity and gas markets. These exposures are managed by locking into fixed rate price contracts with suppliers and using over-the-counter derivative products.

As the GLS business model works using subcontractors, responsible for purchasing their own fuel, GLS has no direct exposure to diesel costs. The only other significant commodity exposure within GLS is electricity, which is fragmented across its European bases. In view of the other highly hedged positions in Royal Mail, the Group takes the view that the unhedged exposure arising from the commodities in GLS does not add significant risk to the Group.

Credit risk

UKPIL considers that a fair and equitable credit policy is in operation for all its account customers. The level of credit granted is based on a customer's risk profile, assessed by an independent credit referencing agent. The credit policy is applied rigidly within the regulated products area so as to ensure that UKPIL is not in breach of compliance legislation. Assessment of credit for the non-regulated products is based on commercial factors, which are commensurate with the Group's appetite for risk.

UKPIL has a dedicated credit management team, which sets and monitors credit limits, and takes corrective action as and when appropriate. The level of bad debt incurred for the whole Group is 0.1 per cent (2013-14 0.1 per cent) of turnover. An analysis of debtor ageing is included within note 26.

With respect to credit risk arising from other financial assets of the Group, which comprise cash, cash equivalent investments, loans and receivables financial assets and certain derivative instruments, the Group invests/trades only with high-quality financial institutions. The Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

The table below analyses the Group's financial asset and cash equivalent investments and derivatives by credit rating.

14. Financial assets and liabilities – summary and management of financial risk (continued)

	Reported at 29 March 2015						Total
	AAAm/ AAAmf	AAA	AA+ to AA-	A+ to A-	BBB+ and below	No rating	
Cash equivalent investments	110	-	-	30	-	-	140
Other bank and local authority deposits	-	-	-	55	-	1	56
RMSEPP pension escrow investments	20	-	-	-	-	-	20
Derivative assets	-	-	2	5	-	-	7
Total	130	-	2	90	-	1	223

	Reported at 30 March 2014						Total
	AAAm/ AAAmf	AAA	AA+ to AA-	A+ to A-	BBB+ and below	No rating	
Cash equivalent investments	255	-	60	-	-	-	315
Other bank and local authority deposits	-	-	-	-	-	1	1
RMSEPP pension escrow investments	20	-	-	-	-	-	20
Derivative assets	-	-	2	3	-	-	5
Total	275	-	62	3	-	1	341

The deposit with no rating is with a local authority and matures in 2015.

GLS operates a decentralised credit management model whereby each country is responsible for managing the credit risk associated with its customers. Where appropriate, external credit checks are performed for new and existing customers, taking into account the customer profile, expected volume of business and consequent risk to the Company.

Liquidity risk

The Group's primary objective is to ensure that the Group has sufficient funds available to meet its financial obligations as they fall due. This is achieved by aligning short-term investments and borrowing facilities with forecast cash flows. Typical short-term investments include money market funds and term deposits with approved counterparties. Borrowing facilities are regularly reviewed to ensure continuity of funding. The unused facilities for the Group of £1,050 million expire in 2020 (2013-14 £800 million expiring in 2018).

Capital management

The Group actively manages its capital which consists of total assets and liabilities (made up of investment, working capital, provisions and net debt¹) less the pension asset recognised at 29 March 2015. The Group's defined benefit schemes are separately managed by RMPP and RMSEPP Trustees and funded from Group contributions (note 8).

The objective of the Group's capital management policy is to maintain sufficient capital to manage business risk, invest in the business and deliver ongoing returns to shareholders.

The Group targets a capital structure with metrics consistent with an investment grade² credit rating. This ensures the Group's balance sheet is robust enough to manage business risks as well as enabling efficient access to debt capital markets. During the year the Group obtained and maintained a credit rating of BBB with a stable outlook from Standard & Poor's.

The Group regularly monitors working capital and longer-term investment requirements to ensure sufficient liquidity is in place.

The Group ensures it has an appropriate mix of borrowing facilities in place to meet short and long-term funding requirements. During the year the Group took advantage of market conditions to reduce the cost of debt and extend the facilities. The bond issue in July 2014 and the amendments to the syndicated bank loan facility have reduced the cost of debt and extended the average maturity date of the Group's facilities to six years (2013-14 four years) whilst maintaining current levels of liquidity headroom. At 29 March 2015, the Group had undrawn loan facilities of £1,050 million (2013-14 £800 million).

The Group ensures it meets the covenants and other obligations of the loan agreements. The syndicated bank loan facility covenants require the Group to maintain the (leverage) ratio of adjusted net debt to EBITDA below 3:1 and EBITDA to interest (excluding arrangement fees) above 3.5:1. Adjusted net debt consists of net debt plus Letters of Credit (contingent liabilities in respect of the UKPIL insurance programme, where the possibility of an outflow of economic benefits is considered remote³) and is adjusted for exchange rate movements during the year. The Group's leverage ratio at 29 March 2015 was 0.4:1 (2013-14 0.7:1). The Group's ratio of EBITDA to interest (excluding arrangement fees) at 29 March 2015 was 40.4:1 (2013-14 31.4:1).

¹ Net debt consists of loans, borrowings and lease creditors offset by cash and financial asset investments excluding derivatives

² No worse than BBB- under Standard & Poor's methodology

³ The lease arrangement for automation equipment, which required Royal Mail to arrange for the provision of Letters of Credit (2013-14 £37 million), was terminated during the year and the Letters of Credit were cancelled, undrawn

Notes to the consolidated financial statements (continued)

14. Financial assets and liabilities – summary and management of financial risk (continued)

Capital management (continued)

The Group is committed to growing dividends. The Board has recommended a final dividend of 14.3 pence per share. Including the interim dividend of 6.7 pence per share, this represents a total dividend of 21.0 pence per share for 2014-15. This is a five per cent increase on the previous year's notional dividend of 20.0 pence per share.

Sensitivity

As a result of the mix of fixed and variable rate financial instruments and the currency and commodity hedge programmes in place, the Group has no material exposure to operating profit risk from interest rate risk, exchange rate risk or commodity price risk (2013-14 £nil million). The Group has an exposure to the exchange rate risk on translating the GLS net assets into Sterling on consolidation and an offsetting exposure on translating the €500 million bond into Sterling at each balance sheet date. The impact of a five per cent strengthening of Sterling during the reporting period would have been to reduce the Group net assets by £8 million (2013-14 £34 million).

15. Cash and cash equivalents

This note summarises the cash and cash equivalents balances held by the Group.

Cash and cash equivalents at 29 March 2015 and at 30 March 2014 are as follows:

	Reported at 29 March 2015 £m	Reported at 30 March 2014 £m
Cash at bank and in hand	127	37
Client cash	20	14
Cash equivalent investments: Short-term bank and local authority deposits and money market fund investments	140	315
Total cash and cash equivalents	287	366

Cash and cash equivalents comprise amounts held physically in cash, bank balances available on demand and deposits for three months or less, dependent on the immediate cash requirements of the Group. Where interest is earned, this is either at floating or short-term fixed rates based upon bank deposit rates.

Client cash is cash collected from consignees by GLS on behalf of its posting customers.

16. Loans and borrowings

Details of loans and borrowings, including interest rates, additional loan facilities available and any security provided against the loans, are provided below.

Below is a summary of loans and borrowings at the year end, the average interest rate, facility availability and security granted.

	Reported at 29 March 2015						
	Loans and borrowings £m	Further committed facility £m	Total facility £m	Average interest rate of loan drawn down %	Basis of interest rate chargeable at 29 March 2015	Average maturity date of loan drawn down year	Average maturity date of Loan facility year
Syndicated bank loan facilities	-	1,050	1,050	n/a	LIBOR plus 0.55%	n/a	2020
€500 million bond – 2.375% Senior Fixed Rate Notes	366	-	366	2.5	Fixed at 2.5%	2024	2024
Total	366	1,050	1,416	2.5		2024	2021

16. Loans and borrowings (continued)

	Reported at 30 March 2014						
	Loans and borrowings £m	Further committed facility £m	Total facility £m	Average interest rate of loan drawn down %	Basis of interest rate chargeable at 29 March 2015 - LIBOR plus %	Average maturity date of loan drawn down Year	Average maturity date of loan facility Year
Syndicated bank loan facilities							
Term Loan A	300	-	300	1.5	1.00	2018	2018
Term Loan B	300	-	300	1.4	0.90	2016	2016
Revolving credit facilities	-	800	800	-	0.85	-	2018
Total	600	800	1,400	1.4		2017	2018

The Group's blended interest rate on loans and finance leases over the next year is forecast to be approximately three per cent.

The undrawn committed facilities, in respect of which all conditions precedent had been met at the balance sheet date, expire as follows:

	Reported at 29 March 2015 £m	Reported at 30 March 2014 £m
Expiring in one year or less	-	-
Expiring in more than one year, but not more than two years	-	-
Expiring in more than two years	1,050	800
Total	1,050	800

There is no security in place under the syndicated bank loan facilities or the bond. Further details regarding covenants and interest can be seen in note 5.

17. Financial liabilities – net and gross maturity analysis

This note focuses on loans and borrowings, finance leases and derivatives and provides further details of when amounts fall due, both for principal and for total (i.e. including interest) contractual payments.

Below is a summary of when all the financial liabilities fall due.

	Reported at 29 March 2015			
	Loans and borrowings £m	Finance leases £m	Derivative liabilities £m	Total £m
Amounts falling due in:				
One year or less or on demand (current)	-	93	34	127
More than one year (non-current)	366	179	14	559
More than one year but not more than two years	-	74	13	87
More than two years but not more than five years	-	90	1	91
More than five years	366	15	-	381
Total	366	272	48	686

Notes to the consolidated financial statements (continued)

17. Financial liabilities – net and gross maturity analysis (continued)

	Reported at 30 March 2014			Total £m
	Loans and borrowings £m	Finance leases £m	Derivative liabilities £m	
Amounts falling due in:				
One year or less or on demand (current)	–	87	12	99
More than one year (non-current)	600	255	5	860
More than one year but not more than two years	–	76	5	81
More than two years but not more than five years	600	151	–	751
More than five years	–	28	–	28
Total	600	342	17	959

Obligations under finance leases are either unsecured or secured on the leased assets. The average interest rate is 3.5 per cent (2013-14 3.4 per cent). The average maturity date is between four and five years (2013-14 more than five years).

The tables below set out the gross (undiscounted) contractual cash flows of the Group's financial liabilities. For overdrafts, loans and finance lease contracts, these cash flows represent the undiscounted total amounts payable including interest. The cash flows for the €500 million bond represent the undiscounted total amounts payable (annual interest payments and nominal amount repayment on maturity) which have been converted to Sterling at 29 March 2015 market forward exchange rates.

For derivatives that are settled gross, these cash flows represent the undiscounted gross payment due and do not reflect the accompanying inflow. For derivatives that are settled net, these cash flows represent the undiscounted forecast outflow.

	Reported at 29 March 2015					
	Gross loans and borrowings commitments £m	Gross finance lease instalments £m	Sub-total £m	Gross payments on derivatives settled gross £m	Gross payments on derivatives settled net £m	Total £m
Amounts falling due in:						
One year or less or on demand (current)	9	98	107	7	33	147
More than one year (non-current)	494	288	782	–	14	796
More than one year but not more than two years	9	78	87	–	13	100
More than two years but not more than five years	27	96	123	–	1	124
More than five years	458	114	572	–	–	572
Total	503	386	889	7	47	943
Less interest	(93)	(114)	(207)	n/a	n/a	n/a
Less exchange rate adjustment	(44)	–	(44)	n/a	n/a	n/a
Net total	366	272	638	n/a	n/a	n/a

17. Financial liabilities – net and gross maturity analysis (continued)

	Reported at 30 March 2014					
	Gross loans and borrowings commitments £m	Gross finance lease instalments £m	Sub-total £m	Gross payments on derivatives settled gross £m	Gross payments on derivatives settled net £m	Total £m
Amounts falling due in:						
One year or less or on demand (current)	9	94	103	188	11	302
More than one year (non-current)	642	356	998	–	5	1,003
More than one year but not more than two years	13	82	95	–	5	100
More than two years but not more than five years	629	161	790	–	–	790
More than five years	–	113	113	–	–	113
Total	651	450	1,101	188	16	1,305
Less interest	(51)	(108)	(159)	n/a	n/a	n/a
Net total	600	342	942	n/a	n/a	n/a

18. Financial assets and liabilities – additional analysis

This note provides an analysis of the Sterling carrying values of the financial assets and liabilities held in various foreign currencies, along with details of interest rates, interest rate risk and maturity timescales.

Table 1 shows all the financial assets and liabilities in detail and on a net basis. Table 2 shows the net amount by currency. Table 3 shows the respective assets/liabilities by whether they are fixed, floating or non-interest bearing. Table 4 shows the effective interest rate and maturity analysed as fixed rate, floating rate and non-interest bearing.

Carrying amounts and fair values

Trade receivables, payables, prepayments and accruals have been omitted from this analysis on the basis that carrying value is a reasonable approximation of fair value. Pension scheme assets and liabilities are also excluded. Fair values have been calculated using current market prices (bond price, interest rates, forward exchange rates and commodity prices) and discounted using appropriate discount rates. There are no material differences between the fair value (transaction price) of all financial instruments at initial recognition and the fair value calculated using these valuation techniques. The fair value of the €500 million bond (non-current) is £402 million at 29 March 2015 (2013-14 £nil million), calculated as the closing market bond price converted to Sterling using the closing spot exchange rate. The fair value of total 'Obligations under finance leases' is £282 million (2013-14 £341 million). For all other financial instruments fair value is equal to the carrying amount. The tables below also set out the carrying amount of the currency of the Group's financial instruments:

Notes to the consolidated financial statements (continued)

18. Financial assets and liabilities – additional analysis (continued)

The following tables show the currency, classification, maturity and effective interest rate of the Group's financial assets and liabilities.

Table 1	Level	Classification	Reported at 29 March 2015 £m	Reported at 30 March 2014 £m
Financial assets				
Cash			147	51
Cash equivalent investments			140	315
Money market funds		Loans and receivables	110	255
Short-term deposits – bank		Loans and receivables	30	60
Cash and cash equivalents			287	366
Financial assets – investments (current) – bank and local government deposits		Loans and receivables	56	1
Financial assets – pension escrow investments (non-current) – RMSEPP pension escrow – money market funds		Loans and receivables	20	20
Derivative assets – current	2		5	2
Derivative assets – non-current	2		2	3
Total financial assets			370	392
Financial liabilities				
Obligations under finance leases (current)		Amortised cost	(93)	(87)
Financial liabilities – loans and borrowings (non-current)			(366)	(600)
Syndicated bank loans		Amortised cost	–	(600)
€500 million bond		Amortised cost	(366)	–
Obligations under finance leases (non-current)		Amortised cost	(179)	(255)
Derivative liabilities – current	2		(34)	(12)
Derivative liabilities – non-current	2		(14)	(5)
Total financial liabilities			(686)	(959)
Net total financial liabilities			(316)	(567)

There are no financial assets or liabilities designated at fair value through the income statement on initial recognition.

The 'Level' classification in the above table is described in the 'Fair value measurement of financial instruments' section of 'Significant accounting policies'.

Derivative assets of £5 million current, £2 million non-current (2013-14 £2 million current, £3 million non-current) and liabilities of £34 million current, £14 million non-current (2013-14 £12 million current, £5 million non-current) are valued at fair value. Effective changes in the fair value of derivatives, which are part of a designated cash flow hedge under IAS 39, are deferred into equity. All other changes in derivative fair value are taken straight to the income statement.

None of the financial assets listed above is either past due or considered to be impaired. The net total financial assets are held in various different currencies as summarised in the table below. The majority of the non-Sterling financial assets (other than the €500 million bond) are held within cash or derivatives.

Table 2	Sterling £m	US\$ £m	Euro £m	Other £m	Total £m
Reported net total financial (liabilities)/assets at 29 March 2015	(34)	(33)	(271)	22	(316)
Reported net total financial (liabilities)/assets at 30 March 2014	(638)	(4)	57	18	(567)

Interest rate risk

Interest on financial instruments classified as floating rate is re-priced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument.

The tables below set out the carrying amount, by maturity, of the Group's financial instruments that are exposed to interest rate risk. The pension escrow investment represents a money market fund investment established to provide security to the Royal Mail Senior Executives Pension Plan (RMSEPP) in support of a deficit recovery plan agreed with the Trustee in June 2013. The next scheduled review point in the agreement is 30 September 2018 and the investment is therefore disclosed as maturing in two to five years.

18. Financial assets and liabilities – additional analysis (continued)

	Reported at 29 March 2015			
	Fixed rate £m	Floating rate £m	Non- interest bearing £m	Total £m
Table 3				
Cash	-	73	74	147
Cash equivalent investments	-	140	-	140
Financial asset investments (current)	31	25	-	56
RMSEPP pension escrow investments	-	20	-	20
Derivative – assets	-	-	7	7
– liabilities	-	-	(48)	(48)
€500 million bond	(366)	-	-	(366)
Obligations under finance leases	(272)	-	-	(272)
Net total financial (liabilities)/assets	(607)	258	33	(316)

	Reported at 30 March 2014			
	Fixed rate £m	Floating rate £m	Non- interest bearing £m	Total £m
Table 3				
Cash	17	62	(28)	51
Cash equivalent investments	60	255	-	315
Financial asset investments (current)	1	-	-	1
RMSEPP pension escrow investments	-	20	-	20
Derivative – assets	-	-	5	5
– liabilities	-	-	(17)	(17)
Syndicated bank loans	(150)	(450)	-	(600)
Obligations under finance leases	(342)	-	-	(342)
Net total financial liabilities	(414)	(113)	(40)	(567)

Notes to the consolidated financial statements (continued)

18. Financial assets and liabilities – additional analysis (continued)

	Reported at 29 March 2015					Total £m
	Average effective interest rate %	Within 1 year £m	1-2 years £m	2-5 years £m	More than 5 years £m	
Table 4						
Fixed rate						
Financial assets – investments (current) – bank and local government deposits	0.8	31	-	-	-	31
Financial liabilities:						
€500 million bond	2.5	-	-	-	(366)	(366)
Obligations under finance leases	3.5	(93)	(74)	(90)	(15)	(272)
Total		(62)	(74)	(90)	(381)	(607)
Floating rate						
Cash at bank	0.4	73	-	-	-	73
Cash equivalent investments – money market funds	0.6	110	-	-	-	110
Cash equivalent investments – bank deposits	0.6	30	-	-	-	30
Financial assets – investments (current) – bank deposits	0.7	25	-	-	-	25
Financial assets – pension escrow investments (non-current):						
RMSEPP pension escrow – money market funds	0.4	-	-	20	-	20
Total		238	-	20	-	258
Non-interest bearing						
Cash at bank or in hand		74	-	-	-	74
Derivative assets		5	2	-	-	7
Derivative liabilities		(34)	(13)	(1)	-	(48)
Total		45	(11)	(1)	-	33
Net total financial assets/(liabilities)		221	(85)	(71)	(381)	(316)

18. Financial assets and liabilities – additional analysis (continued)

Table 4	Reported at 30 March 2014					Total £m
	Average effective interest rate %	Within 1 year £m	1-2 years £m	2-5 years £m	More than 5 years £m	
Fixed rate						
Cash at bank	1.0	17	-	-	-	17
Cash equivalent investments – short-term deposits – bank:	0.4	60	-	-	-	60
Financial assets – investments (current) – local government deposit	7.7	1	-	-	-	1
Financial liabilities:						
Syndicated bank loans	2.5	-	-	(150)	-	(150)
Obligations under finance leases	3.4	(87)	(76)	(151)	(28)	(342)
Total		(9)	(76)	(301)	(28)	(414)
Floating rate						
Cash at bank	0.4	62	-	-	-	62
Cash equivalent investments – money market funds	0.4	255	-	-	-	255
Financial assets – pension escrow investments (non-current):						
RMSEPP pension escrow – money market funds	0.4	-	-	20	-	20
Financial liabilities:						
Syndicated bank loans	1.4	-	-	(450)	-	(450)
Total		317	-	(430)	-	(113)
Non-interest bearing						
Cash at bank or in hand		(28)	-	-	-	(28)
Derivative assets		2	-	3	-	5
Derivative liabilities		(12)	(5)	-	-	(17)
Total		(38)	(5)	3	-	(40)
Net total financial assets/(liabilities)		270	(81)	(728)	(28)	(567)

19. Hedging programmes

Information regarding the various hedging programmes in place to mitigate volatility in commodity prices and foreign currency exchange rates is provided below.

The hedging programmes use a number of financial derivative products to manage volatility in commodity prices, interest rates and foreign exchange. If these hedges are 'in the money', i.e. hedged rates are better than the current market rate, then a derivative asset is recognised, and if they are 'out of the money' a derivative liability is recognised. Full disclosures are provided in this note even though the balance sheet amounts are not material in the context of the Group's total assets and liabilities.

The purpose of the Group's hedging programmes is to mitigate volatility in commodity prices, interest rates and foreign exchange rates thereby providing certainty for planning. There are no significant concentrations of credit risk. Accounting rules require the Company to choose whether to designate cash flow hedge programmes or not (subject to various tests). The impact of not designating a cash flow hedge programme is that all gains or losses on the derivatives in the programme have to be taken immediately to the income statement and cannot be deferred into equity.

The Group had the following designated cash flow hedge programmes during the current and previous reporting years:

Hedging activities

- i) The diesel fuel hedge programme uses forward commodity price swaps in US Dollar or Sterling and forward currency purchase contracts to hedge the exposure arising from commodity price and US Dollar/Sterling exchange rates for forecast diesel fuel purchases.
- ii) The jet fuel hedge programme uses forward commodity price swaps in US Dollar or Sterling and forward currency purchase contracts to hedge the exposure arising from commodity price and US Dollar/Sterling exchange rates for forecast jet fuel usage.
- iii) The air conveyance hedge programme uses US Dollar forward currency purchase contracts to hedge the exposure arising from US Dollar/Sterling exchange rates for forecast air conveyance purchases.
- iv) Four capital programmes (one of which completed during 2013-14, one of which completed during 2014-15 and two of which commenced in 2014-15) use Euro forward currency purchase contracts to hedge the exposure arising from Sterling/Euro exchange rates for contracted capital expenditure on automation projects.

Notes to the consolidated financial statements (continued)

19. Hedging programmes (continued)

- v) The electricity hedge programme uses forward commodity price swaps to hedge the exposure arising from electricity prices. In addition the Group uses fixed rate prices contracts with suppliers to set future prices.
- vi) The gas hedge programme uses forward commodity price swaps to hedge the exposure arising from gas prices.
- vii) The interest rate hedge programme uses interest rate swap contracts to hedge the exposure arising from interest rates on borrowings under the syndicated bank loan facilities. The hedge programme finished when the interest rate swap contracts were sold following the repayment on 9 March 2015 of the floating rate term loans.
- viii) UKPIL trades in SDRs with overseas postal operators for delivering UK origin mail abroad and delivering foreign origin mail in the UK. The UKPIL overseas postal operators' hedge programme uses US Dollar and Japanese Yen forward currency purchase contracts to hedge the forecast future net purchases of delivery services. This hedge programme covers the exposure up until the purchases are incurred and recognised on the balance sheet.

The Group had undesignated cash flow hedge programmes for the transactional exposure created by intercompany loans with GLS and the exposure of UKPIL to overseas postal operator liabilities for the period after the purchases have been incurred and recognised on the balance sheet until the time when they are settled. The derivative balances of these programmes are not material.

The Group uses the €500 million bond as a hedge of the net investment in GLS, against movements in the Sterling/Euro exchange rate. Foreign currency exchange differences arising from the translation of the net assets of GLS and of the €500 million bond to closing Sterling/Euro exchange rates are deferred in equity. These exchange differences would be released from equity to the income statement as part of the gain or loss on the sale if GLS were sold. During the year foreign currency exchange gains on the bond of £27 million (2013-14 £nil million) were deferred in equity. There was no ineffectiveness in the hedge during the year.

Commodity price hedging

The Group's normal operating activities result in the consumption of fuel (both diesel and jet), electricity and gas. The prices of these commodities can be volatile so the Group enters into price swap contracts to lock future purchases (at an agreed volume) into a known price. For diesel fuel and jet fuel these price swaps are sometimes entered into on the US Dollar price for the commodity (based upon available market prices), in which case the Group uses forward foreign currency contracts to lock into a combined Sterling price for the commodity. For electricity, the Group also uses fixed price contracts with suppliers to set future prices.

The following table shows the commodity, risk and the percentage of the expected consumption hedged or fixed. The Group hedges the cost of the underlying commodity and any irrecoverable VAT that is incurred on this cost. It does not hedge any fuel duty. The exposures shown in the following table exclude the costs of fuel duty and are based upon the hedges in place combined with market prices at the balance sheet date for the unhedged amounts. Fuel duty (and the associated VAT) adds an additional cost of around £100 million to diesel costs each reporting year. Total fuel costs for 2015-16 are estimated to be £171 million.

Commodity	Risk	Exposure (excluding fuel duty) and expected consumption hedged/fixed 2015					
		52 weeks 2016		52 weeks 2017		52 weeks 2018	
		Exposure £m	% hedged	Exposure £m	% hedged	Exposure £m	% hedged
Diesel fuel	US\$ price and \$/£ exchange rate movements	67	86	52	69	44	24
Jet fuel	US\$ price and \$/£ exchange rate movements	10	100	8	63	7	-
Electricity	£ price movement	16	95	14	60	14	60
Gas	£ price movement	12	98	10	53	9	-

Commodity	Risk	Exposure (excluding fuel duty) and expected consumption hedged 2014					
		52 weeks 2015		52 weeks 2016		52 weeks 2017	
		Exposure £m	% hedged	Exposure £m	% hedged	Exposure £m	% hedged
Diesel fuel	US\$ price and \$/£ exchange rate movements	76	94	74	81	71	9
Jet fuel	US\$ price and \$/£ exchange rate movements	13	86	12	82	11	-
Electricity	£ price movement	17	83	18	65	17	7
Gas	£ price movement	15	75	15	66	14	-

Foreign currency hedging for non-commodity items

As highlighted in note 14, the Group, where possible, nets exposure to foreign currency internally. The remaining net exposure is hedged with external forward foreign currency contracts. For existing currency liabilities, the underlying exposures (e.g. the foreign postal administration liabilities) and the derivatives, are both revalued to current market prices at the balance sheet date, meaning that no net gains or losses arise in the income statement. For forecast future currency exposures, the derivatives are revalued at the balance sheet date and effective movements in value are deferred into equity until the hedged transaction occurs.

19. Hedging programmes (continued)

The following table shows for each hedge programme, the risk and the percentage hedged of the next 12 months' exposure:

Hedge programme	Risk	Percentage of next 12 months' exposure that has been hedged	
		Reported at 29 March 2015	Reported at 30 March 2014
Air conveyance	US\$/£ exchange rate movements	96%	94%
Capital programmes	€/£ exchange rate movements	100%	100%
Overseas postal operator	SDR/£ exchange rate movements	56%	59%
GLS intercompany loan	€/£ exchange rate movements	n/a	100%

The next 12 months' exposure is calculated as the combination of the cost of settling liabilities during the next 12 months and the cost of revaluing unsettled liabilities at the end of 12 months. The GLS intercompany loan was repaid during the year.

As highlighted in note 14, the Company hedges part of the translational exposure created by the net assets of its overseas subsidiaries, mainly GLS, by designating the €500 million bond as a hedge of the net investment in GLS.

Derivative values

At any point in time, the derivatives in these cash flow hedge programmes are either 'in the money' which, means the hedged rates are better than current market rates, or 'out of the money' which means the hedged rates are worse than current market rates. The gains ('in the money') and losses ('out of the money'), as at the balance sheet date are deferred into equity (where the hedge is effective) and an associated financial asset or financial liability is created in the balance sheet. The financial asset/liability is released when the derivative matures. The amounts deferred into equity are released when the hedged transaction occurs. The following tables show the derivative contracts entered into at 29 March 2015 and 30 March 2014 and the associated derivative assets and liabilities.

	Commodity/ currency	Nominal amount	Maturity date	Average contracted commodity price/ exchange rate	Derivative asset non- current fair value £m	Derivative asset current fair value £m	Derivative liability non-current fair value £m	Derivative liability current fair value £m
Reported at 29 March 2015								
Diesel fuel	Diesel fuel	216m litres	Apr 15 – Jan 18	US\$ 0.69/litre	-	-	(8)	(21)
Diesel fuel	US\$	\$149m	Apr 15 – Jan 18	US\$1.58/£	-	-	(3)	(3)
Diesel fuel	Diesel fuel	43m litres	Apr 15 – Apr 17	£0.46/litre	2	3	-	-
Jet fuel	Jet fuel	21m litres	Apr 15 – Mar 16	US\$ 0.75/litre	-	-	-	(3)
Jet fuel	US\$	\$16m	Apr 15 – Jan 18	US\$1.57/£	-	1	-	-
Jet fuel	Jet fuel	13m litres	Apr 15 – Apr 17	£0.45/litre	-	-	(1)	-
Air conveyance	US\$	\$82k	Apr 15	US\$1.63/£	-	-	-	-
Capital programmes	Euro	€9m	Apr 15 – Apr 16	£0.8/€	-	-	-	(1)
Electricity	Electricity	411k MWh	Apr 15 – Apr 17	£55/MWh	-	-	(1)	(3)
Gas	Gas	29m therms	Apr 15 – Apr 17	£0.65/therm	-	-	(1)	(3)
Cash flow hedges					2	4	(14)	(34)
Other derivatives					-	1	-	-
Total					2	5	(14)	(34)

Notes to the consolidated financial statements (continued)

19. Hedging programmes (continued)

	Commodity/ currency	Nominal amount	Maturity date	Average contracted commodity price/ exchange rate	Derivative asset non- current fair value £m	Derivative asset current fair value £m	Derivative liability non- current fair value £m	Derivative liability current fair value £m
Reported at 30 March 2014								
Diesel fuel	Diesel fuel	215m litres	Apr 14 - Apr 16	US\$ 0.77/litre	-	1	(1)	(1)
Diesel fuel	US\$	\$188m	Apr 14 - Jan 17	US\$1.58/£	-	-	-	(1)
Diesel fuel	Diesel fuel	80m litres	Apr 14 - Oct 16	£0.5/litre	-	-	(3)	(3)
Jet fuel	Jet fuel	44m litres	Apr 14 - Mar 16	US\$ 0.76/litre	-	-	-	-
Jet fuel	US\$	\$33m	Apr 14 - Mar 16	US\$1.55/£	-	-	-	(1)
Air conveyance	US\$	\$7m	Apr 14 - Apr 15	US\$1.59/£	-	-	-	-
Capital programmes	Euro	€0.2m	Oct 14	£0.8/€	-	-	-	-
Electricity	Electricity	528k MWh	Apr 14 - Oct 16	£55/MWh	-	-	-	(2)
Gas	Gas	33m therms	Apr 14 - Apr 16	£0.70/therm	-	-	(1)	(2)
Overseas postal operators	US\$	\$43m	Apr 14	US\$1.66/£	-	-	-	-
Overseas postal operators	JPY	780m JPY	Apr 14	JPY172/£	-	-	-	-
Interest rate swaps	GBP	£150m	Apr 14 - Sep 18	1.5% vs 1 month LIBOR	3	-	-	(2)
Cash flow hedges					3	1	(5)	(12)
Other derivatives					-	1	-	-
Total					3	2	(5)	(12)

Other derivatives represent hedges by the Group of other foreign exchange exposures, which are not designated under IAS 39 (including the hedge of the trading balance with overseas postal operators and the hedge of intercompany loans with overseas subsidiaries).

There are timing differences between the maturity of the derivatives and the maturity of the underlying hedged transaction. For example, diesel derivatives that hedge the exposure to purchasing fuel in March 2015 mature in April 2015. At 29 March 2015 therefore, the balance sheet includes the market value of these derivatives but the cumulative gains and losses on these derivatives have been released from the hedging reserve to the income statement to match the exposure to purchasing fuel in March 2015. There are differences therefore between derivative balances (shown above) and the balance on the hedging reserve.

Other notes – balance sheet

The notes in this section provide additional information regarding certain assets and liabilities on the Group balance sheet, most notably provisions – mainly in relation to transformation costs, fixed and intangible assets and goodwill.

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Notes to the consolidated financial statements (continued)

20. Provisions

A summary of the provisions that have been made in the accounts, including in relation to transformation costs, is shown below.

	Transformation costs				Total £m
	Management reorganisation programme £m	Other £m	Specific items £m	Other £m	
At 31 March 2014	(102)	(34)	(87)	(45)	(268)
Arising during the period:					
– charged in transformation costs and operating specific items	-	(87)	(76)	-	(163)
– charged in other operating costs	-	-	-	(18)	(18)
– reclassification	-	-	(4)	4	-
Unused amounts reversed	6	-	7	-	13
Utilised in the period	96	65	8	16	185
Discount rate adjustment	-	-	(2)	-	(2)
Reported at 29 March 2015	-	(56)	(154)	(43)	(253)
Disclosed as:					
Current at 29 March 2015	-	(53)	(58)	(38)	(149)
Non-current at 29 March 2015	-	(3)	(96)	(5)	(104)
	-	(56)	(154)	(43)	(253)
Current at 30 March 2014	(102)	(24)	(19)	(28)	(173)
Non-current at 30 March 2014	-	(10)	(68)	(17)	(95)
	(102)	(34)	(87)	(45)	(268)

Transformation provisions (charged as transformation costs)

Transformation costs provisions of £56 million (2013-14 £136 million) comprise redundancy schemes of £56 million (2013-14 £134 million), including £6 million release (2013-14 £102 million charge) in respect of the management reorganisation programme. Current transformation costs provisions of £53 million are expected to be utilised in 2015-16, with the remainder within two to three years.

Specific items

The specific items provisions of £154 million at 29 March 2015 (2013-14 £87 million) include £81 million (2013-14 £62 million) for potential industrial diseases claims relating to both current and former employees of the Group.

Royal Mail Group's liability in respect of former employees arose in 2010 as a result of a Court of Appeal judgement that held the Group liable for diseases claims brought by individuals who were employed in the General Post Office Telecommunications division and whose employment ceased prior to October 1981. Consequently, a provision was first recognised in 2010-11.

The Group has derived its current provision by using estimates and ranges calculated by its actuary, which are based on current experience of claims, and an assessment of potential future claims, the majority of which are expected to be received over the next 25 to 30 years. The Group has a rigorous process of ensuring that only valid claims are accepted. £3 million of this provision is expected to be utilised in 2015-16.

The remaining £73 million (2013-14 £25 million) mainly relates to IT systems costs associated with Post Office Limited separation, of which £9 million is expected to be utilised in 2015-16, and French Competition Authority investigation costs, of which £42 million is expected to be utilised in 2015-16. An additional £13 million is in respect of a German property tax liability of £4 million, expected to be utilised in 2015-16, and employer's National Insurance associated with the award of Employee Free Shares of £9 million, expected to be utilised within two to five years.

The £4 million reclassification relates to a historic provision in respect of legacy property costs and is therefore deemed to be a specific item. A further £5 million was charged to specific items in the year in relation to this provision. Of the total provision of £9 million, £1 million is expected to be utilised within two to five years and the remaining £8 million over a period greater than five years.

Other provisions (charged as operating costs)

'Other' provisions of £43 million (2013-14 £45 million) mainly comprise onerous lease obligations, decommissioning costs and estimated exposures resulting from legal claims incurred in the normal course of business. The majority of 'Other' provision amounts are expected to be utilised in 2015-16, with £5 million onerous lease obligations expected to be utilised within two to three years.

21. Property, plant and equipment

Below are details of the Group's property, equipment and vehicles, which are recorded at their historic cost (what the Group paid for them) less accumulated depreciation (reflecting their usage within the business over their useful life – from three to 50 years).

	Land and buildings			Plant and machinery £m	Motor vehicles £m	Fixtures and equipment £m	Total £m
	Freehold £m	Long leasehold £m	Short leasehold £m				
Cost							
At 31 March 2014	1,649	265	692	1,184	609	379	4,778
Exchange rate movements	(35)	(2)	-	(18)	(6)	(11)	(72)
Reclassification	(19)	3	15	1	-	-	-
Additions	89	(1)	22	28	94	25	257
Disposals	(14)	(1)	(10)	(133)	(38)	(24)	(220)
Reclassification to non-current assets held for sale	(56)	(1)	-	(14)	(2)	(2)	(75)
Reported at 29 March 2015	1,614	263	719	1,048	657	367	4,668
Depreciation and impairment							
At 31 March 2014	825	167	463	762	296	276	2,789
Exchange rate movements	(10)	(1)	-	(12)	(4)	(9)	(36)
Depreciation (note 13)	43	6	41	62	53	37	242
Disposals	(12)	(1)	(10)	(133)	(34)	(23)	(213)
Reclassification to non-current assets held for sale	(34)	(1)	-	(9)	(1)	(2)	(47)
Reported at 29 March 2015	812	170	494	670	310	279	2,735
Net book value							
Reported at 29 March 2015	802	93	225	378	347	88	1,933
Reported at 30 March 2014	824	98	229	422	313	103	1,989
Net book value comprises:							
Owned assets	802	82 ¹	220 ¹	259	145	88	1,596
Finance leased assets	-	11	5	119	202	-	337
Reported at 29 March 2015	802	93	225	378	347	88	1,933

¹ Amounts relate to business-specific additions to leasehold properties

Depreciation rates are disclosed within 'Significant accounting policies'. No depreciation is provided on land, which represents £202 million (2013-14 £210 million) of the total cost of properties.

The net book value of the Group's property, plant and equipment includes £127 million (2013-14 £116 million) in respect of assets in the course of construction. The net book value of the Group's land and buildings includes £413 million (2013-14 £424 million) in respect of building fit-out.

The £257 million (2013-14 £338 million) additions include £nil million (2013-14 £nil million) borrowing costs capitalised in relation to specific qualifying assets.

Notes to the consolidated financial statements (continued)

21. Property, plant and equipment (continued)

	Land and buildings			Plant and machinery £m	Motor vehicles £m	Fixtures and equipment £m	Total £m
	Freehold £m	Long leasehold £m	Short leasehold £m				
Cost							
At 1 April 2013	1,622	262	650	1,187	538	362	4,621
Exchange rate movements	(5)	-	-	(2)	(1)	(2)	(10)
Reclassification	(26)	1	22	-	-	3	-
Additions	121	3	39	22	117	36	338
Disposals	(40)	(1)	(19)	(23)	(45)	(20)	(148)
Reclassification to non-current assets held for sale	(23)	-	-	-	-	-	(23)
Reported at 30 March 2014	1,649	265	692	1,184	609	379	4,778
Depreciation and impairment							
At 1 April 2013	835	162	432	718	289	269	2,705
Exchange rate movements	(2)	-	-	(1)	-	(2)	(5)
Reclassification	(1)	-	1	-	-	-	-
Depreciation	45	6	45	68	48	29	241
Disposals	(34)	(1)	(15)	(23)	(41)	(20)	(134)
Reclassification to non-current assets held for sale	(18)	-	-	-	-	-	(18)
Reported at 30 March 2014	825	167	463	762	296	276	2,789
Net book value							
Reported at 30 March 2014	824	98	229	422	313	103	1,989
Reported at 31 March 2013	787	100	218	469	249	93	1,916
Net book value comprises:							
Owned assets	824	81 ²	223 ²	290	86	103	1,607
Finance leased assets	-	17	6	132	227	-	382
Reported at 30 March 2014	824	98	229	422	313	103	1,989

² Amounts relate to business-specific additions to leasehold properties

22. Goodwill

This note provides details of the goodwill at the start and end of the reporting year, most of which relates to the Group's acquisition of its overseas subsidiary, General Logistics Systems (GLS).

	2015 £m	2014 £m
Cost		
At 31 March 2014 and 1 April 2013	569	611
Exchange rate movements	(65)	(9)
Acquisition of businesses	8	4
Disposal of business	-	(37)
Reported at 29 March 2015 and 30 March 2014	512	569
Impairment		
At 31 March 2014 and 1 April 2013	372	415
Exchange rate movements	(42)	(6)
Disposal of business	-	(37)
Reported at 29 March 2015 and 30 March 2014	330	372
Net book value		
Reported at 29 March 2015 and 30 March 2014	182	197
Reported at 30 March 2014 and 31 March 2013	197	196

The carrying value of goodwill arising on business combinations of £182 million (2013-14 £197 million) at the balance sheet date includes £177 million (2013-14 £195 million) relating to the GLS business unit. In line with the Group's accounting policy (see 'Significant accounting policies'), this goodwill has been reviewed for impairment. The carrying value of GLS, excluding interest bearing and tax related assets and liabilities, is £434 million (2013-14 £492 million) at 29 March 2015 and the operating profit before transformation costs items is £115 million (2013-14 £106 million) for the period (note 2).

The carrying value of GLS (£434 million) represents a multiple of 3.8 (2013-14 4.6) of operating profit before transformation costs. The net realisable value of GLS, for the purposes of the impairment review (i.e. the 'fair value less costs of disposal'), has been assessed with reference to earnings multiples for quoted entities in a similar sector of 6.8. On this basis, the net realisable value has been assessed to be in excess of the carrying value. The earnings multiples referenced would need to reduce by more than 57 per cent to 2.9 to reduce the net realisable value to below the carrying value.

Notes to the consolidated financial statements (continued)

23. Intangible assets

Intangible assets, mainly software, are recorded in much the same way as our physical assets such as property and vehicles, but with shorter useful lives over which they are amortised (three to ten years).

	2015				2014			
	Master franchise licences £m	Customer listings £m	Software £m	Total £m	Master franchise licences £m	Customer listings £m	Software £m	Total £m
Cost								
At 31 March 2014 and 1 April 2013	23	32	370	425	23	32	287	342
Additions	-	-	166	166	-	-	88	88
Disposals	-	-	(35)	(35)	-	-	(5)	(5)
Acquisition of business	-	3	-	3	-	1	-	1
Reclassification to non-current assets held for sale	-	-	(1)	(1)	-	-	-	-
Exchange rate movements	(2)	(4)	(4)	(10)	-	(1)	-	(1)
Reported at 29 March 2015 and 30 March 2014	21	31	496	548	23	32	370	425
Amortisation and impairment								
At 31 March 2014 and 1 April 2013	23	28	179	230	23	28	152	203
Amortisation (note 13)	-	2	35	37	-	1	32	33
Impairment charge	-	-	24	24	-	-	-	-
Disposals	-	-	(35)	(35)	-	-	(5)	(5)
Reclassification to non-current assets held for sale	-	-	(1)	(1)	-	-	-	-
Exchange rate movements	(2)	(4)	(1)	(7)	-	(1)	-	(1)
Reported at 29 March 2015 and 30 March 2014	21	26	201	248	23	28	179	230
Net book value								
Reported at 29 March 2015 and 30 March 2014	-	5	295	300	-	4	191	195
Reported at 30 March 2014 and 31 March 2013	-	4	191	195	-	4	135	139

The intangible assets outlined above, none of which has been internally generated, have finite lives and are being written down on a straight-line basis. The £166 million (2013-14 £88 million) additions include £1 million (2013-14 £2 million) borrowing costs capitalised in relation to specific qualifying assets.

24. Assets and liabilities held for sale

This note provides details of the assets and liabilities classified as held for sale at the beginning and end of the reporting period. Assets and liabilities are classified in this way when their carrying value is to be recovered principally through a sale transaction and a sale is considered highly probable. Their value in the balance sheet is the lower of their carrying amount and fair value less costs to sell. At the reporting date, the balances comprise the assets and liabilities of GLS Germany's subsidiary DPD Systemlogistik GmbH & Co. KG (DPD SL) and certain surplus property assets.

The balance sheet values of the assets and liabilities held for sale are shown below. The disposal group in this note, as defined in IFRS 5 'Non-current assets held for sale and discontinued operations', relates to GLS Germany's subsidiary, DPD Systemlogistik GmbH & Co. KG (DPD SL).

	Reported at 29 March 2015 £m	Reported at 30 March 2014 £m
Assets of disposal group (DPD SL) held for sale	17	-
Other non-current (property) assets held for sale	15	3
Total non-current assets held for sale	32	3
Total liabilities associated with non-current assets (DPD SL) held for sale	(10)	-

Disposal group (DPD SL) – discontinued operations

On 6 March 2015 an agreement was reached for the sale of GLS Germany's subsidiary, DPD SL, with the sale subsequently completed on 31 March 2015. At the reporting date of 29 March 2015, this entity has been presented as discontinued operations in the consolidated income statement and its assets and liabilities reclassified as held for sale in the consolidated balance sheet, in line with IFRS 5.

24. Assets and liabilities held for sale (continued)

The table below provides a summary of the main categories of assets and liabilities that were reclassified as held for sale at the reporting date. No impairment was required in reclassifying these assets and liabilities as held for sale.

	Reported at 29 March 2015 £m	Reported at 30 March 2014 £m
Property, plant and equipment	7	-
Trade and other receivables	9	-
Cash and cash equivalents	1	-
Assets of disposal group (DPD SL) held for sale	17	-
Trade and other payables	(10)	-
Liabilities associated with disposal group (DPD SL) held for sale	(10)	-

In addition to the above assets and liabilities, an amount of £2 million within the foreign currency translation reserve also relates to DPD SL. Details of DPD SL's trading results for the reporting period are shown below.

	Reported 52 weeks 2015 £m	Reported 52 weeks 2014 £m
Revenue	96	99
Operating costs	(96)	(97)
People costs	(16)	(15)
Distribution and conveyance costs	(72)	(73)
Infrastructure costs	(4)	(4)
Other operating costs	(4)	(5)
Profit before tax from discontinued operations	-	2
Tax charge	-	-
Profit from discontinued operations	-	2
Basic earnings per share from discontinued operations	0.0p	0.2p
Diluted earnings per share from discontinued operations	0.0p	0.2p

The net cash flows relating to DPD SL can be summarised as follows:

	Reported 52 weeks 2015 £m	Reported 52 weeks 2014 £m
Operating cash flow	1	3
Investing cash flow	(1)	(1)
Financing cash flow	-	-
Impact of foreign exchange	-	-
Net cash flow impact	-	2

Property assets held for sale

Other non-current assets held for sale of £15 million at 29 March 2015 (at 30 March 2014 £3 million) relate to land and buildings which are being actively marketed with a view to a sale within 12 months. An assessment of the fair value of these properties was made at the time of their reclassification to 'held for sale' and no adjustment to the carrying amount of these properties was necessary.

Notes to the consolidated financial statements (continued)

25. Investment in associate

This note provides details of the Group's associate company, including the Group's share of the revenue, profit and net assets of this entity. Quadrant Catering Limited.

Quadrant Catering Limited (Quadrant), the Group's 51 per cent owned associate company, has a reporting date of the last day of September each year. Accordingly, to ensure that the reported share of the profit of this company aligns with the Group's reporting year ended 29 March 2015 (2013-14 30 March 2014) the cumulative profit figure for this period is taken from the Company's management reporting systems, although this includes an estimated profit figure for the month of March.

The majority of Board membership and voting power to direct relevant activities in Quadrant, a company incorporated in the United Kingdom, providing catering services for the UK businesses, is held by the other investor company. For this reason it is Management's view that the Group does not have power over Quadrant and so it is not considered to be a subsidiary in line with IFRS 10. The Group's investment in Quadrant is held by Royal Mail Group Limited. There are no significant restrictions on the ability of Quadrant to transfer funds to the Group in the form of cash dividends, repayment of loans or advances.

The Group's share of Quadrant's revenue for the reporting year was £16 million (2013-14 £19 million) and its share of Quadrant's profit after tax was £1 million (2013-14 £3 million). This share of profit after tax is credited against 'Other operating costs' in the income statement. The Group's share of the net assets of Quadrant at 29 March 2015 was £5 million (at 30 March 2014 £4 million).

During the reporting year the Group received no dividend (2013-14 £2 million) from Quadrant.

26. Current trade and other receivables

The following details relate to amounts owed to the Group by third parties and also the level of bad and doubtful debts that the Company has provided for in the financial statements.

	Reported at 29 March 2015 £m	Reported at 30 March 2014 £m
Trade receivables	836	809
Prepayments and accrued income	108	111
Income tax receivable	5	6
Total	949	926

Movements in the provision for bad and doubtful debts were as follows:

	Reported 2015 £m	Reported 2014 £m
At 30 March 2014 and 31 March 2013	(27)	(30)
Receivables provided for during the period	(4)	(8)
Release of provision	4	4
Utilisation of provision	5	7
Exchange difference on foreign denominated provision	1	-
At 29 March 2015 and 30 March 2014	(21)	(27)

The amount of trade receivables that were past due but not impaired are shown below.

	Reported at 29 March 2015 £m	Reported at 30 March 2014 £m
Not yet overdue	766	726
Past due not more than one month	49	61
Past due more than one month and not more than two months	11	8
Past due more than two months	10	14
Total	836	809

27. Current trade and other payables

The following details relate to amounts owed by the Group to third parties.

	Reported at 29 March 2015 £m	Reported at 30 March 2014 £m
Trade payables and accruals	(1,215)	(1,156)
Advance customer payments (mainly for stamps held, not yet used by customers)	(286)	(322)
Social security	(98)	(104)
Capital expenditure payables	(53)	(60)
Other	(16)	(10)
Total	(1,668)	(1,652)

The fair value of trade and other payables is not materially different from the carrying value.

28. Issued share capital and reserves

	Reported at 29 March 2015 £m	Reported at 30 March 2014 £m
Authorised share capital		
1,000,000,000 ordinary shares of £0.01 each	10	10
Total	10	10

	Reported at 29 March 2015 £m	Reported at 30 March 2014 £m
Issued and fully paid share capital		
1,000,000,000 ordinary shares of £0.01 each	10	10
Total	10	10

For earnings per share purposes, the 1,000,000,000 ordinary shares are deemed to have been authorised and in issue for the entirety of the comparative reporting year even though the shares were listed on the London Stock Exchange part way through that year - October 2013 (note 9).

Of the issued ordinary shares, a total of 40,935 are held by the Employee Benefit Trust (EBT). These are treated as treasury shares in the consolidated balance sheet in accordance with IAS 32 'Financial Instruments: Presentation'. As such, calculations of earnings per share for the Group exclude these shares. The Company, however, does not hold any shares in treasury.

Reserves included in the consolidated statement of changes in equity

Foreign currency translation reserve

The Foreign currency translation reserve is used to record the gains and losses arising since 29 March 2004 on translation of assets and liabilities of subsidiaries denominated in currencies other than the reporting currency.

Hedging reserve

The Hedging reserve is used to record gains and losses arising from cash flow hedges since 28 March 2005.

Notes to the consolidated financial statements (continued)

29. Commitments

The information below includes details of committed future rental payments for the use of assets which the Group does not legally own, and are either not recognised on the Group's balance sheet (operating leases) or are recognised on the Group's balance sheet (finance leases) on the basis that the risks and rewards incidental to ownership of the finance leased assets lie with Royal Mail plc Group.

Operating lease commitments

The Group is committed to the following future minimum lease payments under non-cancellable operating leases:

	Land and buildings		Vehicles and equipment		IT equipment		Total	
	Reported at 29 March 2015 £m	Reported at 30 March 2014 £m	Reported at 29 March 2015 £m	Reported at 30 March 2014 £m	Reported at 29 March 2015 £m	Reported at 30 March 2014 £m	Reported at 29 March 2015 £m	Reported at 30 March 2014 £m
Within one year	(117)	(115)	(10)	(12)	(3)	(9)	(130)	(136)
Between one and five years	(365)	(373)	(12)	(12)	(1)	(10)	(378)	(395)
Beyond five years	(441)	(470)	(2)	(8)	-	-	(443)	(478)
Total	(923)	(958)	(24)	(32)	(4)	(19)	(951)	(1,009)

Existing leases for UK land and buildings have an average term of 18 years and lease renewals are agreed with the lessor as appropriate. Existing land and buildings leased overseas by the GLS subsidiary have an average lease term of eight years. Vehicle leases generally have a term of between one and seven years, depending on the asset class, with the average term being one year. The existing leases have an average term remaining of one year. The majority of the IT commitments relate to 10-year contracts, with an average term remaining of less than one year.

Finance lease commitments

	Reported at 29 March 2015		Reported at 30 March 2014	
	Minimum lease payments £m	Present value of minimum lease payments £m	Minimum lease payments £m	Present value of minimum lease payments £m
Within one year	(98)	(93)	(94)	(87)
Between one and five years	(174)	(164)	(243)	(227)
Beyond five years	(114)	(15)	(113)	(28)
Total minimum lease payments	(386)	(272)	(450)	(342)
Less future finance charges	114	-	108	-
Total finance lease obligations	(272)	(272)	(342)	(342)

The Group has finance lease contracts for vehicles, land and buildings and plant and equipment. The leases have no terms of renewal, purchase options, escalation clauses or restrictions concerning dividends, borrowings or additional leases. Vehicle leases have a term of between one and seven years, depending on the class of vehicle, with the average term being three years. Property leases have a term of between 10 and 110 years with the average term being 48 years. The terms of the plant and equipment leases range from five to eight years with the average being five years.

Capital commitments

The Group has commitments of £63 million at 29 March 2015 (at 30 March 2014 £35 million), which are contracted for but not provided for in the financial statements.

30. Related party information

This note provides details of amounts owed to and from related parties, which include the Royal Mail Pension Plan (RMPP), the Group's associate company, and payments to key management personnel. Details of the Group's principal subsidiaries and associate are also provided.

Related party transactions

During the reporting year the Group entered into transactions with related parties:

	Reported 52 weeks 2015 £m	Reported 52 weeks 2014 £m
Sales/recharges to:		
- RMPP	5	6
Purchases/recharges from:		
- Associate undertaking (Quadrant Catering Limited)	14	22
Amounts owed to:		
- Associate undertaking (Quadrant Catering Limited)	1	2

In view of HM Government's retained stake in Royal Mail plc, the Group has taken advantage of the exemption conferred by IAS 24 Related Party Disclosures, not to disclose transactions between the Group and HM Government-related entities, including Post Office Limited, and with HM Government itself.

UKPIL provides collection and delivery services to a significant number of HM Government-related entities. An arrangement is also in place whereby Post Office Limited charges the Group for the sale of Royal Mail products e.g. stamps and philatelic items, through its network of Post Office branches.

The sales to and purchases from related parties are made at normal market prices. Balances outstanding at the year end are unsecured, interest free and settlement is made by cash.

Key management compensation

	Reported 52 weeks 2015 £000	Reported 52 weeks 2014 £000
Short-term employee benefits	(10,202)	(9,587)
Post-employment benefits	-	-
Other long-term benefits	(2,846)	(5,072)
Total compensation earned by key management	(13,048)	(14,659)

In addition to the inclusion of the Executive and Non-Executive Directors of Royal Mail plc, from the beginning of the 2014-15 year 2014-15, the 'key management personnel' population has been extended to include all other members of the Chief Executive's Committee (see page 58) and the remainder of the Persons Discharging Managerial Responsibilities.

In view of the above, the 2013-14 comparative numbers have been restated to include the remuneration received by this extended population.

The ultimate parent and principal subsidiaries

Royal Mail plc is the ultimate parent Company of the Group. The consolidated financial statements include the financial results of Royal Mail Group Limited and the other principal subsidiaries listed below:

Company	Principal activities	Country of incorporation	% equity interest 2015	% equity interest 2014
General Logistics Systems B.V.	Parcel services holding company	Netherlands	100	100
Royal Mail Estates Limited	Property holdings	United Kingdom	100	100
Royal Mail Investments Limited	Holding company	United Kingdom	100	100
Romec Limited	Facilities management	United Kingdom	51	51

Notes to the consolidated financial statements (continued)

30. Related party information (continued)

Associate

Company	Principal activities	Country of incorporation	% ownership 2015	% ownership 2014
Quadrant Catering Limited	Catering services	United Kingdom	51	51

The majority of Board membership and voting power in Quadrant Catering Limited is held by the other investor company, and it is therefore not a subsidiary of the Group. The investment in Quadrant Catering Limited is held by Royal Mail Group Limited.

The Company has taken advantage of the exemption under section 410 of the Companies Act 2006 allowing a schedule of interests in all undertakings to be filed with the Annual Return.

31. Events after the reporting period

This note confirms whether or not there have been any material events occurring between the end of the financial reporting period on 29 March 2015, and the publication date of the Annual Report and Financial Statements 2014-15.

On 31 March 2015, after the financial year end, GLS Germany disposed of its wholly-owned subsidiary, DPD Systemlogistik GmbH & Co. KG (DPD SL) to DPD GeoPost (Deutschland) GmbH. The disposal resulted in a post-tax profit of around €40 million (£29 million) which will be reflected as a specific item in the Group's 2015-16 financial statements.

Significant accounting policies

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiary undertakings. The financial statements of the major subsidiaries are prepared for the same reporting year as the Company, using consistent accounting policies.

All intra-Group balances and transactions, including unrealised profits arising from intra-Group transactions, have been eliminated in full. Transfer prices between business segments are set on a basis of charges reached through negotiation with the respective businesses.

Subsidiaries are consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is no longer held by the Group. Where the Group ceases to hold control of a subsidiary, the consolidated financial statements include the results for the part of the reporting year during which the Group held control.

Non-controlling interests represents the portion of profit/loss, gains/losses and net assets relating to subsidiaries that are not attributable to members of the Company. The non-controlling interests balance is presented within equity in the consolidated balance sheet, separately from parent shareholders' equity.

Changes in accounting policy and disclosures

The accounting policies applied in the preparation of these financial statements are consistent with those in the Annual Report for the year ended 30 March 2014, except for the adoption of amended/revised and new accounting standards with effect from 31 March 2014 as detailed below:

IFRS 10 Consolidated Financial Statements

This new standard identifies the concept of control as the determining factor in deciding which entities should be included within the consolidated financial statements. This standard replaces all the previous guidance on control and consolidation which was given in IAS 27. The application of this new standard has no impact on the consolidation decisions made by the Group.

IFRS 11 Joint Arrangements

This standard (which supersedes IAS 31) provides a new set of definitions which reduces the types of joint arrangements that can be recognised to two (previously three). The standard also stipulates that equity accounting is mandatory for all participants in joint ventures. At the reporting date the Group has no joint arrangements and currently therefore, this new standard has no impact on the financial performance or position of the Group.

IFRS 12 Disclosure of Interests in Other Entities

This new standard sets out the disclosure requirements arising from the new IFRS 10 and IFRS 11 standards. This standard requires additional disclosures in respect of the Group's associate investment (note 25), but has no impact on the financial performance or position of the Group.

IAS 28 Investments in Associates and Joint Ventures (Amended)

The main impact of this new standard is to make it a requirement for associates and joint ventures to be accounted for using the equity method following the issue of IFRS 11. It is already Group policy to account for such entities using the equity method and so this amendment will have no impact on the Group.

IAS 32 Financial Instruments: Presentation (Amended)

This amendment was made to clarify some of the requirements for offsetting financial assets and liabilities on the balance sheet. The amendment makes no changes to the current offsetting model and therefore has no impact on the Group's financial position.

IAS 36 Impairment of Assets (Amended)

This amendment relates to the disclosure of information regarding the recoverable amount of impaired assets if that amount is based upon fair value less costs of disposal. This amendment to the standard has no impact on the Group's financial position or related disclosures.

Key sources of estimation uncertainty and critical accounting judgements

The preparation of consolidated financial statements necessarily requires Management to make estimates and assumptions that can have a significant impact on the financial statements. These estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed below.

Pensions

The value of defined benefit pension plan liabilities and assessment of pension plan costs are determined by long-term actuarial assumptions. These assumptions include discount rates (which are based on the long-term yield of high-quality corporate bonds), inflation rates and mortality rates. Differences arising from actual experience or future changes in assumptions will be reflected in the Group's consolidated statement of comprehensive income. The Group exercises its judgement in determining the assumptions to be adopted, after discussion with a qualified actuary. Details of the key actuarial assumptions used and of the sensitivity of these assumptions are included within note 8.

Significant accounting policies (continued)

Deferred revenue

The Group recognises advance customer payments on its balance sheet, relating to stamps and meter credits purchased by customers but not yet used at the balance sheet date (note 27). The valuation of this deferred revenue is based on a number of different estimation and sampling methods using external specialist resource as appropriate.

The majority of this balance is made up of stamps sold to the general public. For sales to the general public, estimates of stamp volumes held are made on the basis of monthly surveys performed by an independent third party. In order to avoid over-estimation of the typical number of stamps held, Management applies a cap to the results to exclude what are considered to be abnormal stamp holdings from the estimate. The level at which holdings are capped is judgemental and is currently set at 99 of each stamp type per household. The impact of applying alternative capping values on the year end public stamp deferred revenue balance is shown in the table below.

	Capped			Uncapped
	30	As reported 99	300	
At 29 March 2015				
Public stamp holdings value (£m)	165	198	223	227

The value of stamps and meter credits held by retail and business customers are more directly estimated through the analysis of sales volumes and monthly meter sampling. Further adjustments are also made for each type of sale to take into account volume purchasing of stamps when price changes are announced.

The results of the above procedures are reviewed by Management in order to make a judgement of the carrying amount of the accrual. The total accrual is held within current trade and other payables but a portion (which cannot be measured) will relate to stamps and meter credits used one year or more after the balance sheet date.

Deferred tax

Assessment of the deferred tax asset requires an estimation of future profitability. Such estimation is inherently uncertain in a market subject to various competitive pressures. Should estimates of future profitability change in future years, the amount of deferred tax recognised will also change accordingly. Prior to recording deferred tax assets for tax losses, relevant tax law is considered to determine the availability of the losses to offset against the future taxable profits. The carrying values of the deferred tax assets and liabilities are included within note 6.

Provisions

Due to the nature of provisions, a significant part of their determination is based upon estimates and/or judgements concerning the future. Of the provisions in place the transformation and industrial diseases claims provisions are considered to be the areas where the application of judgement has the most significant impact.

Transformation provisions, including for redundancy and property costs, are derived based upon the most recent business plan for direct expenditure where plans are sufficiently detailed and appropriate communication to those affected has been undertaken. These plans include the expected number of employees impacted, expected rate of compensation per employee, expected period of properties remaining vacant and their rental costs as well as expected dilapidation costs.

The industrial diseases claims provision arose as a result of a Court of Appeals judgement in 2010 and relates to individuals who were employed in the General Post Office Telecommunications division prior to October 1981. The provision requires estimates to be made of the likely volume and cost of future claims and is based on the best information available as at the year end, which incorporates independent expert actuarial advice. The carrying values of the provisions are included within note 20.

Revenue

Revenue reported in the income statement is net of value added tax and comprises turnover which principally relates to the rendering of services as follows:

UK Parcels, International & Letters

Account revenue is derived from specific contracts and recognised when the delivery of an item is complete. Contracted services that have not yet been rendered at the balance sheet date are designated as deferred income.

Revenue from direct sales of products or services is recognised when services are rendered, goods are delivered and the amount of revenue that will flow to the Group can be measured reliably. Where payments are received for a service to be provided over a specified length of time, payments received are recognised as deferred revenue and released to the income statement over the period that the service is performed.

Revenue derived from Network Access agreements is recognised when the delivery of the related items is complete. Where products are sold through third party agents, the revenue receivable is recognised gross with any commission payments being charged to operating costs.

Revenue relating to public, retail and business stamp and meter sales is recognised when the sale is made, adjusted to reflect a value of stamp and meter credits held but not used by the customer. Further details on this 'deferred revenue' adjustment are provided in the 'Key sources of estimation uncertainty and critical accounting judgements' section above.

General Logistics Systems

Revenue is derived from specific contracts and is recognised when the delivery of an item is complete.

Distribution and conveyance costs

Distribution and conveyance costs relate to non-people costs incurred in transporting and delivering mail. These include conveyance by rail, road, sea and air, together with costs incurred by international mail carriers and Parcelforce Worldwide delivery operators and GLS. These costs are disclosed separately on the face of the income statement.

Share-based payments

The Group operates a number of equity settled, share-based compensation schemes under which the Group receives services from employees as consideration for equity instruments (shares) of the Company. These include the HMRC-approved (Employee Free Shares) Share Incentive Plan (SIP) and the Save As You Earn (SAYE) scheme. Both schemes are based on non-market conditions and do not vest until the employee completes a specific period of service. Share-based payments awarded as part of Long-Term Incentive Plans (LTIP) vest based on market conditions. The fair value of the employee services received in exchange for the grant of the shares is recognised as an expense in the income statement, with a corresponding credit entry in equity, as per the requirements of IFRS 2 'Share-based Payment'. The total amount expensed is determined by reference to the fair value of the equity instruments at the date on which they are granted. The fair value of each award is measured using the Black-Scholes model where appropriate.

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. No expense is recognised for awards that do not ultimately vest. At each balance sheet date before vesting the cumulative expense is calculated, representing the extent to which the vesting period has expired and Management's best estimate of the achievement or otherwise of service conditions and of the number of equity instruments that will ultimately vest. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity. The social security contributions payable in connection with the grant of Shares is considered an integral part of the grant itself, and the charge is treated as a cash-settled transaction.

Non-GAAP measures of performance

In the reporting of financial information, the Group uses certain measures that are not defined under IFRS, the Generally Accepted Accounting Principles (GAAP), under which the Group reports. The Directors believe that these non-GAAP measures assist with the understanding of the performance of the business.

These non-GAAP measures are not a substitute, or superior to, any IFRS measures of performance but they have been included as Management considers them to be an important means of comparing performance year-on-year and they include key measures used within the business for assessing performance.

Transformation costs

These costs relate to the ongoing transformation of the business, and include voluntary redundancy, project costs and other transformation-related payments.

Reported operating profit before transformation costs

This is the operating profit including the 'pension charge to cash difference' operating specific item (see below for definition) and before transformation costs. This is a key performance indicator in the Corporate Balanced Scorecard which is used to determine employee incentives.

Reported operating profit after transformation costs

This is the operating profit including the 'pension charge to cash difference' operating specific item and after transformation costs.

Operating specific items

These are recurring or non-recurring items of income or expense of a particular size and/or nature relating to the operations of the business that in Management's opinion require separate identification. These items are included within 'reported' results but are excluded from 'adjusted' results.

These items include: the recurring 'pension charge to cash difference' (resulting from the increasing difference between the Group's income statement pension charge and the actual cash cost of pensions, including deficit payments); and other items that have resulted from events that are non-recurring in nature, even though related income/expense can be recognised in subsequent periods. These items currently include the charge for Employee Free Shares and impairment and legacy costs (for example, movements in the industrial diseases provision).

Non-operating specific items

These are recurring or non-recurring items of income or expense of a particular size and/or nature which do not form part of the Group's trading activity and in Management's opinion require separate identification. These items include profit on disposal of property, plant and equipment and businesses, and the IAS 19 non-cash pension interest credit/charge.

Adjusted operating profit before transformation costs

This is operating profit excluding the 'pension charge to cash difference' operating specific item and before transformation costs.

Adjusted operating profit margin before transformation costs

This is operating profit excluding the 'pension charge to cash difference' operating specific item and before transformation costs, expressed as a percentage of revenue.

Significant accounting policies (continued)

Adjusted operating profit after transformation costs

This is operating profit excluding the 'pension charge to cash difference' operating specific item and after transformation costs.

Adjusted operating profit margin after transformation costs

This is operating profit excluding the 'pension charge to cash difference' operating specific item and after transformation costs, expressed as a percentage of revenue.

Adjusted earnings per share

Basic earnings per share, excluding operating and non-operating specific items.

Free cash flow

Free cash flow is based on statutory (reported) net cash flow before financing activities, adjusted to include finance costs paid and exclude net cash generated from the purchase/sale of financial asset investments.

Net debt

Net debt is calculated by netting the value of financial liabilities (excluding derivatives) against cash and other liquid assets.

Underlying change

Management focuses on movements in volume, revenue, costs, profits and margins on an 'underlying' basis. Underlying movements take into account differences in working days in UKPIL and movements in foreign exchange in GLS. In addition, adjustments are made for non-recurring or distorting items, which by their nature may be unpredictable. These adjustments are made to the prior year 'adjusted' figures to derive 'underlying change'. A schedule of the adjustments to the 2013-14 'adjusted' results to derive 'underlying change' is shown in the Financial review on pages 29-30.

Income tax and deferred tax

The charge for current tax is based on the results for the reporting year as adjusted for items that are non-assessable or disallowed. It is calculated using rates that have been substantively enacted at the balance sheet date.

Deferred income tax assets and liabilities are recognised for all taxable and deductible temporary differences and unused tax assets and losses except:

- Initial recognition of goodwill;
- The initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit and loss;
- Taxable temporary differences associated with investments in subsidiaries, associates and interest in joint ventures, where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future; and
- Deferred tax assets are recognised only to the extent that it is probable that taxable profit will be available against which they can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and increased or reduced to the extent that it is probable that sufficient taxable profit will be available to allow them to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the tax asset is realised or the liability is settled, based on tax rates (and tax laws) that have been substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

Current and deferred tax is charged or credited directly to equity if they relate to items that are credited or charged directly to equity, otherwise it is recognised in the income statement.

Earnings per share (EPS)

Basic earnings per share (EPS) from continuing operations is calculated by dividing the profit/loss from continuing operations (adjusted for non-controlling interests' share of profit) by the weighted average number of ordinary shares in issue. The Group EPS is calculated in the same way, except that it also includes profit or loss from discontinued operations.

Diluted EPS is calculated by adjusting the weighted average number of ordinary shares in issue on the assumption of conversion of all potentially dilutive ordinary shares arising from share-based payment schemes. These potential shares are treated as dilutive only when their conversion to ordinary shares would decrease EPS from continuing operations.

Segment information

The Group's operating segments are organised and managed separately according to the nature of the products and services provided, with each segment representing a business unit that offers different products and serves largely different markets. Management monitors the operating results of its main business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit before and after transformation costs.

There is no aggregation of operating segments. The main statutory entities that make up the three operating segments are included in note 2.

The operating segments comprise operations in both the UK and other parts of Europe, the latter being relevant to the GLS business unit.

The UK operations comprise the UKPIL business unit plus the Other operating segment.

Segment revenues have been attributed to the respective countries based on the primary location of the service performed.

Transfer prices between segments are set at arm's length/fair value on a basis of charges reached through negotiation with the respective business units that form part of the segments.

There are no differences in the measurement of the respective segments' profit/loss and the consolidated financial statements prepared under IFRS.

Property, plant and equipment

Property, plant and equipment is recognised at cost, including directly attributable costs in bringing the asset into working condition for its intended use. Depreciation of property, plant and equipment is provided on a straight-line basis by reference to net book value and to the remaining useful economic lives of assets and their estimated residual values. The useful lives and residual values are reviewed annually and adjustments, where applicable, are made on a prospective basis. The lives assigned to major categories of property, plant and equipment are:

Land and buildings:	
Freehold land	Not depreciated
Freehold buildings	Up to 50 years
Leasehold buildings	The shorter of the period of the lease, 50 years or the estimated remaining useful life
Plant and machinery	3-15 years
Motor vehicles and trailers	2-12 years
Fixtures and equipment	2-15 years

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising at derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year that the asset is de-recognised. Gains or losses from the disposal of assets are recognised in the income statement when all significant risks and rewards of ownership are transferred to the customer.

All subsequent expenditure on property, plant and equipment is capitalised if it meets the recognition criteria, and the carrying amount of those parts replaced is derecognised. All other expenditure including repairs and maintenance expenditure is recognised in the income statement as incurred.

Goodwill

Business combinations on or after 29 March 2004 are accounted for under IFRS 3 'Business Combinations' using the purchase method. Any excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities at the date of acquisition is recognised in the balance sheet as goodwill and is not amortised.

After initial recognition, goodwill is stated at cost less any accumulated impairment losses. Goodwill arising from business combinations is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of such impairment reviews, goodwill is allocated to the relevant cash generating units.

An impairment loss is recognised in the income statement for the amount by which the carrying value of the goodwill (or cash generating unit) exceeds its recoverable amount, which is the higher of an asset's net realisable value and its value in use.

Goodwill arising on the acquisition of equity accounted entities is included in the cost of those entities and therefore not reported in the balance sheet as goodwill.

Intangible assets

Intangible assets acquired as part of a business combination are capitalised separately from goodwill if the fair value can be measured reliably on initial recognition. Intangible assets acquired separately or development costs that meet the criteria to be capitalised are initially recognised at cost and are assessed to have either a finite or indefinite useful life. Those with a finite life are amortised over their useful life and those with an indefinite life are reviewed for impairment annually or more frequently if events, or changes in circumstances, indicate that the carrying value may be impaired. An impairment loss is recognised in the income statement for the amount by which the carrying value of the intangible asset exceeds its recoverable amount, which is the higher of an asset's net realisable value and its value in use.

Significant accounting policies (continued)

Amortisation of intangible assets with finite lives is charged annually to the income statement on a straight-line basis as follows:

Customer listings	3 to 4 years
Master franchise licences	7 to 10 years
Software	3 to 10 years

Investment in associate

The Group's investment in its associate company is accounted for under the equity method of accounting. Under the equity method, the investment is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of the net assets of the associates, less any impairment in value. The income statement reflects the Group's share of annual post-tax profits from the associate (netted off other operating costs as the values are not material enough for separate disclosure).

Any goodwill arising on acquisition of an associate, representing the excess of the cost of the investment compared to the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities acquired, is included in the carrying amount and not amortised.

Non-current assets held for sale and discontinued operations

Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction, rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Following their classification as held for sale, the assets (including those in a disposal group) cease being depreciated.

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations, that has been disposed of, or that meets the criteria to be classified as held for sale. Discontinued operations are presented in the consolidated statement of comprehensive income as a single line which comprises the post-tax profit or loss of the discontinued operation up to the date of disposal, and the post-tax gain or loss recognised on any remeasurement of the disposal group to fair value less costs to sell, or on disposal of the assets or disposal groups constituting discontinued operations.

Impairment reviews

Unless otherwise disclosed in these accounting policies, assets and cash generating units are reviewed for impairment if events or changes in circumstances indicate that the carrying value may be impaired. The Group assesses at each reporting date whether such indications exist. Where appropriate, an impairment loss is recognised in the income statement for the amount by which the carrying value of the asset (or cash generating unit) exceeds its recoverable amount, which is the higher of an asset's net realisable value and its value in use.

Leases

Finance leases, where substantially all the risks and rewards incidental to ownership of the leased item have passed to the Group, are capitalised at the inception of the lease with a corresponding liability recognised for the fair value of the leased item or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and capital element of the lease liability to achieve a constant rate of interest on the remaining balance of the liability. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term.

Leases where substantially all the risks and rewards of ownership of the asset are retained by the lessor, are classified as operating leases and rentals are charged to the income statement over the lease term. The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

A leasehold land payment is an upfront payment to acquire a long-term leasehold interest in land. This payment is stated at cost and is amortised on a straight-line basis over the period of the lease.

In addition to lease contracts, other significant arrangements or contracts are assessed (by reference to IFRIC 4) to determine whether, in substance, they are, or contain, a lease. This assessment is based on the substance of the arrangement at inception date, including whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Trade receivables

Trade receivables are recognised and carried at the original invoice amount less an allowance for any non-collectable amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable with the amount of the loss recognised in the income statement within operating costs. When a bad debt is recognised, it is written off against the allowance for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating costs in the income statement.

Inventories

Inventories are valued on a weighted average cost basis and carried at the lower of cost and net realisable value. Cost includes all direct expenditure and other costs attributable in bringing inventories to their present location and condition. The principal stock balance consists of engineering spare parts.

Trade payables

Trade payables are recorded initially at fair value and subsequently measured at amortised cost. Generally this results in their recognition at their nominal value.

Financial instruments

Financial assets within the scope of IAS 39 'Financial Instruments: Recognition and Measurement' are classified as: financial assets at fair value through the income statement (held for trading); held to maturity investments; loans and receivables or available for sale financial assets as appropriate. Financial liabilities within the scope of IAS 39 are classified as either financial liabilities at fair value through the income statement or financial liabilities measured at amortised cost.

The Group determines the classification of its financial instruments at initial recognition and re-evaluates this designation at each reporting date. When financial instruments are recognised initially, they are measured at fair value, being the transaction price plus, in the case of financial instruments not at 'fair value through the income statement', any directly attributable transactional costs. The Group only has loans and receivables, financial liabilities measured at cost and derivative asset and liabilities.

The subsequent measurement of financial instruments depends on their classification as follows:

Loans and receivables

Non-derivative financial assets with fixed or determinable payments, that are not quoted on an active market, do not qualify as trading assets and have not been designated as either 'fair value through the income statement' or available for sale, are carried at amortised cost using the effective interest rate method if the time value of money is significant. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Financial liabilities measured at amortised cost

All non-derivative financial liabilities are classified as financial liabilities measured at amortised cost. Non-derivative financial liabilities are initially recognised at the fair value of the consideration received, less directly attributable issue costs. After initial recognition, non-derivative financial liabilities are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the liabilities are derecognised or impaired, as well as through the amortisation process.

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits (cash equivalents) with an original maturity date of three months or less. In addition, the Group uses money market funds as a readily available source of cash, and these funds are also categorised as cash equivalents. For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of bank overdrafts. Cash equivalents are classified as loans and receivables financial instruments.

Financial assets – pension escrow investments

Financial assets – pension escrow investments comprise a money market fund investment established to provide security to the Royal Mail Senior Executive Pension Plan (RMSEPP) in support of a deficit recovery plan agreed with the Trustee in 2013.

Financial assets – other investments

Financial assets – other investments comprise short-term deposits (other investments) with HM Government, local government or banks with an original maturity of three months or more. Short-term deposits are classified as loans and receivables financial instruments.

Financial liabilities – interest-bearing loans and borrowings

All loans and borrowings are classified as financial liabilities measured at amortised cost. The €500 million bond is measured at amortised cost in Euro and converted to Sterling at the closing spot Sterling/Euro exchange rate.

Financial liabilities – obligations under finance leases

All obligations under finance leases are classified as financial liabilities measured at amortised cost.

Derivative financial instruments and hedging programmes

The Group uses derivative instruments such as foreign currency contracts in order to manage the risk profile of any underlying risk exposure of the Group, in line with the Group's treasury management policies. Such derivative financial instruments are initially stated at fair value. For the purpose of hedge accounting, hedges are classified as cash flow hedges where they hedge exposure to variability in cash flows that is attributable either to a particular risk associated with a recognised asset or liability, or to a highly probable forecast transaction.

In relation to cash flow hedges to hedge the interest rate, foreign exchange or commodity price risk of firm commitments that meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to relate to an effective hedge is recognised directly in equity and the ineffective portion is recognised in the income statement.

When the hedged firm commitment results in the recognition of a non-financial asset or non-financial liability, then at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in equity are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability. For all other cash flow hedges, the gains or losses that are recognised in equity are transferred to the income statement in the same reporting year in which the hedged firm commitment affects the net profit/loss, for example when the hedged transaction actually occurs.

Significant accounting policies (continued)

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the income statement in the period.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point, any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement for the reporting year.

Fair value measurement of financial instruments

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value of quoted investments is determined by reference to bid prices at the close of business on the balance sheet date.

Where there is no active market, fair value is determined using valuation techniques. These include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; and discounted cash flow analysis and pricing models. Specifically, in the absence of quoted market prices, derivatives are valued by using quoted forward prices for the underlying commodity/currency and discounted using quoted interest rates (both as at the close of business on the balance sheet date). Hence derivative assets and liabilities are within Level 2 of the fair value hierarchy as defined within IFRS 13.

The Group determines whether any transfers have occurred between levels in the hierarchy by reassessing categorisation at the end of each reporting period. For the purposes of disclosing the fair value of investments held at amortised cost in the balance sheet, in the absence of quoted market prices, fair values are calculated by discounting the future cash flows of the financial instrument using quoted equivalent interest rates as at close of business on the balance sheet date. For the €500 million bond, the disclosed fair value is calculated as the closing market bond price converted to Sterling using the closing spot Sterling/Euro exchange rate.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at an appropriate pre-tax rate. Accounting estimates used in calculating the provisions are discussed further in the 'Key sources of estimation uncertainty and critical accounting judgements' part of this accounting policies section.

Dividends

Distributions to owners of the Company are not recognised in the income statement under IFRS, but are disclosed as a component of the movement in shareholders' equity. A liability is recorded for a dividend when the dividend is approved by the Company's shareholders but not paid at the year end. Interim dividends are recognised as a distribution when paid.

Pensions and other post-retirement benefits

The pension assets for the defined benefit schemes are measured at fair value. Liabilities are measured on an actuarial basis using the projected unit credit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term. The resulting defined benefit asset or liability is presented separately on the face of the balance sheet. Full actuarial valuations are carried out at intervals not normally exceeding three years as determined by the Trustees and, with appropriate updates and accounting adjustments at each balance sheet date, form the basis of the surplus disclosed. All active members of defined benefit schemes are contracted out of the earnings-related part of the State Second pension scheme.

For defined benefit schemes, the amounts charged to operating profit are the current service costs and any gains and losses arising from settlements, curtailments and past service costs. The amount resulting from applying the Plan's discount rate (for liabilities) to the pension surplus at the beginning of the reporting year is recognised as net pension interest in the income statement. Actuarial gains and losses are recognised immediately in the statement of comprehensive income. Any deferred tax movement associated with the actuarial gains and losses is also recognised immediately in the statement of comprehensive income.

For defined contribution schemes, the Group's contributions are charged to operating profit within people costs in the period to which the contributions relate. Overseas subsidiaries make separate arrangements for the provision of pensions and other post-retirement benefits.

Foreign currencies

The functional and presentational currency of Royal Mail plc is Sterling (£). The functional currency of the overseas subsidiaries in Europe is mainly the Euro (€).

The assets and liabilities of foreign operations are translated at the rate of exchange ruling at the balance sheet date. The trading results of foreign operations are translated at the average rates of exchange for the reporting year, being a reasonable approximation to the actual transaction rate. The exchange rate differences arising on the translation, since the date of transition to IFRS, are taken directly to the foreign currency translation reserve in equity.

Foreign currency exchange differences arising from translation of the €500 million bond (designated as a hedge of the net investment in GLS) to closing Sterling/Euro exchange rates are deferred to the foreign currency translation reserve in equity. These exchange differences would be released from equity to the income statement as part of the gain or loss on the sale if GLS was sold.

Transactions in foreign currencies are initially recorded in the functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. Currently hedge accounting is not claimed for any monetary assets and liabilities. All differences are therefore taken to the income statement, except for differences on monetary assets and liabilities that form part of the Group's net investment in a foreign operation. These are taken directly to equity until the disposal of the net investment occurs, at which time they are recognised in profit or loss.

Non-monetary items that are measured in terms of their historic cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Accounting standards issued but not yet applied

The following new and amended/revised accounting standards are relevant to the Group and are in issue but were not effective (and in some instances have not yet been adopted by the EU) at the balance sheet date:

IAS 1 (Amended) Improving the Effectiveness of Disclosure in Financial Reporting*

IAS 16 (Amended) and IAS 38 (Amended) Acceptable Methods of Depreciation and Amortisation*

IAS 19 (Amended) Employee benefits: Employee contributions

IAS 27 (Amended) Equity Method in Separate Financial Statements*

IAS 39 (Amended) Financial Instruments: Recognition and Measurement

IFRS 9 Financial Instruments*

IFRS 10 (Amended) and IAS 28 (Amended) Sale of Assets between an Investor and its Associate or Joint Venture*

IFRS 11 (Amended) Accounting for Acquisitions of Interests in Joint Operations*

IFRS 15 Revenue from Contracts with Customers*

Annual Improvements 2010-2012, Annual Improvements 2011-2013 and Annual Improvements 2012-2014*

The Directors do not expect that the adoption of the standards listed above will have a material impact on the financial performance or position of the Group in future periods.

* Not yet endorsed by the EU

Group five year summary (unaudited)

The following information has been prepared on a 52 week basis and excludes, for the 2011 to 2013 comparative years, the Group's former Post Office Limited (POL) subsidiary, which was transferred to Royal Mail Holdings plc (subsequently renamed Postal Services Holding Company Limited) on 1 April 2012. The Directors are of the view that this presentation provides a meaningful comparative history of the current Group excluding POL.

This five year summary includes the financial performance and position of the DPD SL subsidiary, which was reclassified as discontinued operations at the reporting year end date of 29 March 2015.

	Financial reporting year (52 weeks) ending March				
	2015 £m	2014 £m	2013 £m	2012 £m	2011 £m
Income statement – Adjusted					
Revenue	9,424	9,456	9,146	8,764	8,415
Operating profit/(loss) before transformation costs	740	729	595	372	(53)
Transformation costs	(145)	(241)	(195)	(229)	(192)
Operating profit/(loss) after transformation costs	595	488	400	143	(245)
Finance costs	(26)	(67)	(99)	(100)	(84)
Profit/(loss) before tax	569	421	301	43	(329)
Tax	(138)	(110)	(81)	(13)	115
Profit/(loss) after tax	431	311	220	30	(214)

	Financial reporting year (52 weeks) ending March				
	2015 £m	2014 £m	2013 £m	2012 £m	2011 £m
Income statement – Reported					
Revenue	9,424	9,456	9,146	8,764	8,415
Operating profit before transformation costs	611	671	598	381	210
Transformation costs	(145)	(241)	(195)	(229)	(192)
Operating profit after transformation costs	466	430	403	152	18
Operating specific items	(248)	1,213	(77)	(57)	(48)
Non-operating specific items	133	21	4	182	104
Earnings before interest and tax (EBIT)	351	1,664	330	277	74
Finance income/(costs) – mainly net pension interest (non-operating specific item)	75	69	52	(230)	(419)
Finance costs	(26)	(67)	(99)	(100)	(84)
Profit/(loss) before tax	400	1,666	283	(53)	(429)
Tax (specific items and other)	(72)	(386)	246	(51)	(123)
Profit/(loss) after tax	328	1,280	529	(104)	(552)

	Financial reporting year (52 weeks) ending March				
	2015 £m	2014 £m	2013 £m	2012 £m	2011 £m
Free cash flow¹ – Reported					
EBITDA before transformation costs	889	940	915	681	493
Pension charge to cash difference	129	58	(3)	(9)	(263)
Trading working capital movements	1	(57)	(60)	(19)	(58)
Total investment	(658)	(617)	(665)	(615)	(584)
Other (dividends, tax, interest)	(50)	(67)	(81)	(87)	(59)
In-year trading cash inflow/(outflow)	311	257	106	(49)	(471)
Other working capital movements	11	140	202	-	-
Cash cost of operating specific items	(8)	(35)	(26)	(37)	(5)
Proceeds from disposal of assets/business	139	36	52	240	230
Free cash inflow/(outflow)	453	398	334	154	(246)

¹ An explanation of free cash flow is provided in note 7

	At March financial reporting year end date				
	2015 £m	2014 £m	2013 £m	2012 £m	2011 £m
Balance sheet - Reported					
Property, plant and equipment	1,933	1,989	1,916	1,822	1,829
Intangible assets (mainly software)	300	195	139	135	126
Inventories	20	22	24	32	33
Trade and other receivables	960	939	1,012	1,036	906
Trade and other payables	(1,708)	(1,683)	(1,647)	(1,548)	(1,423)
Other net (liabilities)/assets	(31)	(20)	-	4	40
Provisions	(253)	(268)	(246)	(217)	(252)
Goodwill (mainly relates to GLS)	182	197	196	189	197
Investments in associates	5	4	3	3	9
Net operating assets and investments in associates	1,408	1,375	1,397	1,456	1,465
Cash and cash equivalents	287	366	351	473	319
Pension escrow investments	20	20	20	149	87
Loans and borrowings	(366)	(600)	(973)	(1,522)	(1,478)
Other net financial liabilities	(216)	(341)	(304)	(286)	(200)
Net debt	(275)	(555)	(906)	(1,186)	(1,272)
Deferred tax (liabilities)/assets	(466)	(142)	89	(9)	(2)
Net assets before pension deficit and pension escrow investments	667	678	580	261	191
Pension surplus/(deficit)	3,179	1,723	825	(2,716)	(4,185)
Net assets/(liabilities)	3,846	2,401	1,405	(2,455)	(3,994)
	Financial reporting year (52 weeks) ending March				
	2015	2014	2013	2012	2011
People numbers - period end employees					
UKPIL	142,910	148,441	149,940	151,156	155,181
GLS	14,409	13,811	13,646	13,362	13,167
UK partially owned subsidiaries	3,199	3,999	4,030	3,926	4,254
Group total	160,518	166,251	167,616	168,444	172,602

Statement of Directors' responsibilities in respect of the Group financial statements

The Directors are responsible for preparing the Annual Report and Financial Statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each reporting year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and Article 4 of the IAS Regulation. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state that the Group has complied with IFRS as adopted by the EU, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's and Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for preparing the Directors' report, the Corporate Governance report and the Directors' remuneration report in accordance with the Companies Act 2006 and applicable regulations, including the Listing Rules and the Disclosure and Transparency Rules.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

Each of the Directors, whose names and functions are disclosed on pages 43–45, confirms that, to the best of their knowledge:

- the financial statements, prepared in accordance with applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the Group taken as a whole; and
- the Management report, which is incorporated into the Strategic report, and the Directors' report includes a fair review of the development and performance of the business and the Group taken as a whole, together with a description of the principal risks and uncertainties that they face.

In addition, the Board considers that the Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

By Order of the Board

Moya Greene
Chief Executive Officer
20 May 2015

Matthew Lester
Chief Finance Officer

Independent Auditor's Report to the members of Royal Mail plc

Opinion on financial statements

In our opinion:

- the Group financial statements give a true and fair view of the state of the Group's affairs as at 29 March 2015 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union; and
- the Group financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

What we have audited

We have audited the Group financial statements of Royal Mail plc for the period ended 29 March 2015 which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated statement of changes in equity, the Consolidated statement of financial position, the Consolidated statement of cash flows statement and the related notes 1 to 31. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 142, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the Group financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the Group financial statements. In addition, we read all the financial and non-financial information in the Annual Report 2014-15 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Our assessment of risk of material misstatement

The table below shows the risks we identified that have had the greatest effect on the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team, together with our audit response to the risk:

Risk	How the scope of our audit addressed the risk
<p>Revenue recognition, including the accounting for advance customer payments; (as described on page 52 of the Audit and Risk Committee Report and note 27 of the financial statements).</p> <p>Market expectations and profit based targets may place pressure on Management to distort revenue recognition.</p> <p>This may result in overstatement or deferral of revenues to assist in meeting current or future targets or expectations. Recorded revenue is adjusted for sales of stamps and meter credits that have been sold but not yet used.</p> <p>The adjustment is based on external third party surveys.</p>	<p>We performed controls testing over revenue recognition as well as detailed transaction testing, including the timing of revenue recognition.</p> <p>We challenged Management's underlying assumptions and methodology used in its deferred revenue calculations, as well as assessing whether the revenue recognition policies adopted complied with IFRS as adopted in the EU.</p> <p>We have independently assessed the methodology of the external surveys with the use of our internal specialists, including consideration of survey size and caps in place to address the impact of abnormal holdings.</p> <p>We performed analytical procedures and journal entry testing in order to identify and test the risk of fraud arising from management override of controls.</p>

Independent Auditor's Report to the members of Royal Mail plc (continued)

Risk	How the scope of our audit addressed the risk
<p>Accounting and valuation of the Group's pension scheme; (as described on page 52 of the Audit and Risk Committee Report and note 8 of the financial statements).</p> <p>Both the defined benefit schemes (the Royal Mail Pension Plan and the Royal Mail Senior Executive Pension Plan) are sensitive to long-term assumptions which can result in material fluctuations in amounts recorded in the financial statements.</p>	<p>Using the knowledge and expertise of our own actuarial specialists, we challenged Management's key assumptions and estimates used in its pension accounting to evaluate the appropriateness of the methodology. Specifically, we tested Management's estimate of the discount rate, inflation rates (RPI and CPI), salary increases, mortality, retirement age and commutation.</p> <p>We have agreed the pension schemes assets to independent fund manager confirmations as well as sample tested the asset valuations.</p> <p>We have performed detailed testing on the membership data provided by Management to the external actuaries.</p> <p>We also considered whether the Group's pension disclosures are appropriate and in accordance with IFRS as adopted in the EU.</p>
<p>Accounting and measurement of the Group's provisions, including costs associated with the French Competition Authority investigation and the industrial diseases provision; (as described on pages 51 and 52 of the Audit and Risk Committee Report and note 20 of the financial statements).</p> <p>The Group's provisions are based on management's best estimate of outcomes using assumptions that require judgement.</p> <p>The outcome of the French Competition Authority investigation is not yet known and as such, the provision in the financial statements for the year ended 29 March 2015 is based on external legal advice.</p> <p>The value of the provision in relation to the industrial diseases is based on external third party actuarial advice.</p>	<p>We reviewed the Group's provisions to understand the appropriateness of assumptions supporting Management's estimates, challenging Management's accounting treatment and disclosures.</p> <p>We have reviewed the external legal advice in relation to the French Competition Authority investigation, including consideration of the correspondence received from the Authority.</p> <p>We reviewed the scenarios presented by legal advisors, which included a range of probable outcomes. We reassessed the amount considered by Management to represent a best estimate of expenditure required, based on legal advice.</p> <p>Using the knowledge and expertise of our own specialists, we challenged Management's key assumptions and estimates used to evaluate the appropriateness of the industrial diseases actuarial methodology.</p> <p>We also considered the completeness of the Group's provisions and contingent liability disclosures and compliance with IFRS as adopted in the EU.</p>

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements on our audit and on the financial statements. For the purposes of determining whether the financial statements are free from material misstatement we define materiality as the magnitude of misstatement that makes it probable that the economic decisions of a reasonably knowledgeable person, relying on the financial statements, would be changed or influenced. We also determine a level of performance materiality which we use to determine the extent of testing needed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole. We determined planning materiality for the Group to be £27.1 million, which is approximately five per cent of adjusted profit before tax (2013-14: five per cent of adjusted profit before tax). This provided a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement is that overall performance materiality for the Group should be 75 per cent of planning materiality, namely £20.3 million. Our objective in adopting this approach is to ensure that, together with qualitative considerations, total detected and undetected audit differences do not exceed our planning materiality of £27.1 million for the financial statements as a whole.

We agreed with the Audit and Risk Committee that we would report to the Committee all adjusted and unadjusted audit differences in excess of £1.4 million. We also agreed to report differences below those thresholds that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

Following our assessment of the risk of material misstatement to the Group financial statements, we selected 11 components which represent the principal business units within the Group's reportable segments and account for 99 per cent of the Group's revenue and 99 per cent of the Group's profit before tax. Two of these components were subject to a full audit and four were subject to audits of specific account balances (together accounting for 92 per cent of revenue and 98 per cent of profit before tax). Five were subject to review procedures and for the remaining components, we performed other procedures to confirm there were no significant risks of material misstatement in the Group financial statements.

The audit work for locations subject to a statutory audit was executed at levels of materiality applicable to each individual entity which were much lower than Group materiality. The Group audit team continued to follow a programme of planned visits that has been designed to ensure that the Senior Statutory Auditor or his designate visits each of the two full scope locations at least once a year. This year, the Group audit team visited the UK and overseas full scope locations. For all full scope entities, the Group audit team reviewed key working papers and participated in the component team's planning including the component team's discussion of fraud and error.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- is otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 63, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the ten provisions of the UK Corporate Governance Code specified for our review.

Other matter

We have reported separately on the parent company financial statements of Royal Mail plc for the period ended 29 March 2015 and on the information in the Directors' remuneration report that is described as having been audited.

Richard Wilson (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

London

20 May 2015

Royal Mail plc – parent Company financial statements

The majority of the Annual Report and Financial Statements relates to the Royal Mail plc Group consolidated accounts, which comprise the aggregation of all the Group's trading entities. This mandatory section reports the individual balance sheet and notes of the ultimate holding company, Royal Mail plc (the Company).

Company balance sheet

At 29 March 2015 and 30 March 2014

	Notes	At 29 March 2015 £m	At 30 March 2014 £m
Fixed assets			
Investment in subsidiary	6	1,759	1,591
Total fixed assets		1,759	1,591
Current assets			
Debtors – amounts falling due in less than one year	7	375	-
Current liabilities			
Creditors – amounts falling due in less than one year		(6)	(4)
Provisions for liabilities and charges	8	-	-
Net current assets		369	(4)
Creditors – amounts falling due after more than one year	9	(366)	-
Net assets		1,762	1,587
Capital and reserves			
Called up share capital	10/11	10	10
Retained earnings	11	1,752	1,577
Shareholders' funds		1,762	1,587

The balance sheet was approved and authorised for issue by the Board of Directors on 20 May 2015 and signed on its behalf by:

Matthew Lester
Chief Finance Officer

Notes to the parent Company financial statements

1. Parent Company accounting policies

Financial reporting year

The financial reporting year ends on the last Sunday in March and, accordingly, these financial statements are made up for 52 weeks ended 29 March 2015 (2013-14 52 weeks ended 30 March 2014).

Basis of preparation

The financial statements of the Company were authorised for issue by the Board on 20 May 2015.

The financial statements and notes on pages 146 to 148 have been prepared in accordance with applicable UK accounting standards and law, including the requirements of the Companies Act 2006. Unless otherwise stated in the accounting policies below, the financial statements have been prepared under the historic cost accounting convention.

The Company has not presented its own profit and loss account as permitted by section 408 of the Companies Act 2006. However, the results of the Company are presented in notes 4 and 11 to these financial statements.

The Company has taken advantage of paragraph 2D of FRS 29 (IFRS 7) 'Financial instruments' and has not disclosed information required by that standard as the Group's consolidated financial statements, in which the Company is included, provide equivalent disclosures for the Group under IFRS 7.

No new UK accounting standards which affect the presentation of these financial statements have been issued.

Investment in subsidiary

The investment in subsidiary is stated at cost less any accumulated impairment losses.

Debtors

Debtors are recognised with an allowance for any non-collectable amounts, including where collection is no longer probable.

Adoption of FRS 101 in 2015-16

In 2012, the FRC, being the standard setting body in the UK, published FRS 101 'Reduced Disclosure Framework' which is available to qualifying entities that prepare their Annual Report and Accounts under EU adopted IFRS (International Financial Reporting Standards). This outlines a reduced disclosure framework available to qualifying entities and all UK entities will be required to adopt this or an alternative standard in 2015. Royal Mail plc intends to prepare its accounts under FRS 101 for the first time in 2015. This change is not expected to have a significant impact on the Royal Mail plc parent Company accounts. The consolidated accounts for the Group will continue to be prepared under full IFRS. The Board considers that it is in the best interests of the Group for Royal Mail plc to adopt FRS 101 'Reduced Disclosure Framework'. A shareholder or shareholders holding in aggregate five per cent or more of the total allotted shares in Royal Mail plc may serve objections to the use of the disclosure exemptions on Royal Mail plc, in writing, to its registered office (100 Victoria Embankment, London, EC4Y 0HQ) not later than 30 September 2015 and, if so received, Royal Mail plc may not use these disclosure exemptions.

2. Directors' emoluments

The Directors of the Company are not paid any fees by the Company for their services as Directors of the Company. The Directors are paid fees by other companies of the Group. These emoluments are disclosed in the Group financial statements.

3. Auditor's remuneration

The auditor of the Company is not paid fees by the Company. The auditor of the Company is paid fees by other companies of the Group. This remuneration is disclosed in the Group financial statements (note 13).

4. Profit and loss account

The Company is a non-trading company. The profit for the period of £207 million (2013-14 £4 million loss) is primarily in respect of £210 million of dividends received from Royal Mail Group Limited, offset by management charges to and from Royal Mail Group Limited and certain transaction-related costs.

5. Taxation

There is no tax charge/credit for the period.

6. Investment in subsidiary

	At 29 March 2015 £m	At 30 March 2014 £m
At 31 March 2014 and 12 September 2013	1,591	1,500
Investment in subsidiary – charge for Employee Free Shares/LTIP/SAYE ¹	168	91
At 29 March 2015 and 30 March 2014	1,759	1,591

¹ Excludes £7 million (2013-14 £3 million) associated National Insurance costs

Notes to the parent Company financial statements (continued)

7. Debtors – amounts falling due within one year

This balance mainly consists of an intercompany loan to Royal Mail Group Limited of the proceeds from the issue of the €500 million bond (note 9).

8. Provisions for liabilities and charges

In relation to the transfer of Royal Mail Group Limited to the Company in 2013-14, a provision for liabilities and charges of less than £1 million remains.

9. Creditors – amounts falling due after more than one year

In July 2014 the Company issued €500 million 2.375 per cent Senior Fixed Rate Notes due July 2024 with a fixed annual interest coupon of 2.375 per cent. The proceeds raised were transferred to Royal Mail Group Limited.

10. Called up share capital

	At 29 March 2015 £m	At 30 March 2014 £m
Authorised		
1,000,000,000 ordinary shares of £0.01 each	10	10
Total	10	10
Allotted and issued		
1,000,000,000 ordinary shares of £0.01 each	10	10
Total	10	10

Of the issued ordinary shares, a total of 40,935 are held by the Employee Benefit Trustee (EBT). These are treated as treasury shares in the consolidated balance sheet in accordance with IAS 32 'Financial Instruments: Presentation'. As such, calculations of earnings per share for the Group exclude these shares. However, the Company does not hold any shares in treasury for the purposes of these separate Company financial statements.

11. Shareholders' funds

	Called up share capital £m	Retained earnings £m	Total £m
At 6 September 2013 (incorporation)	-	-	-
Loss for the period	-	(4)	(4)
Issue of shares in consideration for the transfer of Royal Mail Group Limited shares	1,500	-	1,500
Reduction of capital	(1,490)	1,490	-
Investment in subsidiary	-	91	91
At 30 March 2014	10	1,577	1,587
Profit for the period	-	207	207
Investment in subsidiary	-	168	168
Dividend paid	-	(200)	(200)
At 29 March 2015	10	1,752	1,762

Statement of Directors' responsibilities in respect of the parent Company financial statements

The Directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland') and applicable law. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether applicable United Kingdom (UK) Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Matthew Lester
20 May 2015

Independent Auditor's Report to the members of the parent Company

Royal Mail plc

We have audited the parent Company financial statements of Royal Mail plc for the period ended 29 March 2015 which comprise the parent Company balance sheet and the related notes 1 to 11. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

As explained more fully in the Statement of Directors' responsibilities statement set out on page 149, the Directors are responsible for the preparation of the parent Company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the parent Company financial statements sufficient to give reasonable assurance that the parent Company financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the parent Company financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the parent Company financial statements:

- Give a true and fair view of the state of the Company's affairs as at 29 March 2015;
- Have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- Have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion:

- The part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- The information given in the Strategic report and the Directors' report for the financial period for which the financial statements are prepared is consistent with the parent Company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- Adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- The parent Company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- Certain disclosures of Directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the Group financial statements of Royal Mail plc for the period ended 29 March 2015.

Richard Wilson (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor
London
20 May 2015

Shareholder information

Financial calendar

Trading update – 21 July 2015

Annual General Meeting – 23 July 2015

Dividend dates

Ex-dividend date – 2 July 2015

Record date – 3 July 2015

Payment date – 31 July 2015

Shareholder information online

The Company's registrars, Equiniti, are able to notify shareholders by email of the availability of an electronic version of shareholder information.

Whenever new shareholder information becomes available, such as the Company's half year and full year results, Equiniti will notify you by email and you will be able to access, read and print documents at your own convenience.

To take advantage of this service for future communications, please go to www.shareview.co.uk and select 'Shareholder Services', where full details of the shareholder portfolio service are provided. When registering for this service, you will need to have your 11-digit shareholder reference number to hand, which is shown on your dividend tax voucher, share certificate or form of proxy.

Should you change your mind at a later date, you may amend your request to receive electronic communication by entering your shareview portfolio online and amending your preferred method of communication from 'email' to 'post'.

Shareholder fraud

Fraudsters use persuasive and high-pressure tactics to lure investors into scams. They may offer to sell shares that turn out to be worthless or non-existent, or to buy shares at an inflated price in return for an upfront payment. While high profits are promised, if you buy or sell shares in this way you will probably lose your money.

5,000 people contact the Financial Conduct Authority (FCA) about share fraud each year, with victims losing an average of £20,000. If you are approached by fraudsters please tell the FCA using the share fraud reporting form at www.fca.org.uk/scams, where you can find out more about investment scams. You can also call the FCA Consumer Helpline on 0800 111 6768. If you have already paid money to share fraudsters you should contact Action Fraud on 0300 123 2040.

Advisers

Corporate Brokers

Barclays Bank plc, The North Colonnade, London, E14 4BB
Bank of America Merrill Lynch, 2 King Edward Street, London, EC1A 1HQ

Independent Auditor*

Ernst & Young LLP (EY), 1 More London Place, London SE1 2AF

Trustee of The Royal Mail Share Incentive Plan

Equiniti Share Plan Trustees Limited, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA
www.royalmailemployeeeshares.co.uk
Tel: 0800 012 1213

Information for investors

Information for investors is provided on the internet as part of the Group's website which can be found at: www.royalmailgroup.com/investor-centre

Investor enquiries

Enquiries can be directed via our website or by contacting:

Registrars

Equiniti

Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA

www.shareview.co.uk

Tel: 0871 384 2656 (from outside the UK: +44 (0)121 415 7086)

Calls to this number cost 8 pence per minute from a BT landline, other providers' costs may vary. Lines are open 8.30am to 5.30pm UK time, Monday to Friday.

Registered office

Royal Mail plc

100 Victoria Embankment

London EC4Y 0HQ

Registered in England and Wales

Company number 08680755

Corporate websites

Information made available on the Group's websites does not, and is not intended to, form part of this Annual Report and Financial Statements.

* EY will hold office until the conclusion of the 2015 AGM. At the AGM a resolution is tabled to appoint KPMG as Auditors of the Company

Forward-looking statements

Disclaimers

This document contains certain forward-looking statements concerning the Group's business, financial condition, results of operations and certain of the Group's plans, objectives, assumptions, projections, expectations or beliefs with respect to these items. Forward-looking statements are sometimes, but not always, identified by their use of a date in the future or such words as 'anticipates', 'aims', 'due', 'could', 'may', 'will', 'should', 'expects', 'believes', 'intends', 'plans', 'potential', 'targets', 'goal' or 'estimates'.

Forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the Group's actual financial condition, performance and results to differ materially from the plans, goals, objectives and expectations set out in the forward-looking statements included in this document. Accordingly, readers are cautioned not to place undue reliance on forward-looking statements.

By their nature, forward-looking statements relate to events and depend on circumstances that will occur in the future and are inherently unpredictable. Such forward-looking statements should, therefore, be considered in light of various important factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. These factors include, among other things: changes in the economies and markets in which the Group operates; changes in the regulatory regime within which the Group operates; changes in interest and exchange rates; the impact of competitive products and pricing; the occurrence of major operational problems; the loss of major customers; undertakings and guarantees relating to pension funds; contingent liabilities; the impact of legal or other proceedings against, or which otherwise affect, the Group; and risks associated with the Group's overseas operations.

All written or verbal forward-looking statements, made in this document or made subsequently, which are attributable to the Group or any persons acting on their behalf are expressly qualified in their entirety by the factors referred to above. No assurance can be given that the forward-looking statements in this document will be realised; actual events or results may differ materially as a result of risks and uncertainties facing the Group. Subject to compliance with applicable law and regulation, the Company does not intend to update the forward-looking statements in this document to reflect events or circumstances after the date of this document, and does not undertake any obligation to do so.

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