Royal Mail plc

Annual Report and
Financial Statements
2015–16

CELEBRATING 500 YEARS OF ROYAL MAIL

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Royal Mail has a rich and varied history, characterised by a tradition of service and innovation spanning 500 years.

For five centuries, our postal network has been connecting families and friends, powering business and driving innovation across the country.

In 1516, Henry VIII knighted Brian Tuke, the first Master of the Posts. This act was the catalyst for the creation of the Royal Mail postal service, as we know it today. Tuke had the influence and authority to establish key post towns across the country and set up a formal postal network.

Since its royal beginnings, the postal service has continued to deliver the nation's mail for 500 years, under 21 different monarchs and through two World Wars, employing hundreds of thousands of people along the way.

To mark this momentous anniversary, Royal Mail has launched a special website featuring the people, objects and events that played a key role in the development of the world's first national postal service. Visit: **www.royalmailgroup.com/500years**

Within the pages of this report you will find 'then and now' image captions showcasing how Royal Mail has evolved over the last 500 years.

Welcome

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Who we are

2016 marks 500 years of postal services in the UK. From a few royal messengers in Tudor times to more than 120,000 postmen and women today, connecting people, communities and businesses is part of who we are. Royal Mail is the UK's pre-eminent letters and parcels carrier. As the UK's sole designated Universal Service Provider[1], 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 2015-16, our impact, including key activities like employment and procurement, totalled £10.8 billion in terms of value added. We made the fifth largest contribution to the UK economy of all UK corporations[2]. Through our pan-European parcels delivery business, General Logistics Systems (GLS), we are one of the largest, ground-based deferred parcel delivery service providers in Europe.

Our people

We employ around 156,000 people across our Group. UKPIL employs around 139,000 people and approximately 3,000 people work in our UK partially-owned subsidiaries. On average, one in 175 employed people in the UK works for Royal Mail[3]. GLS employs around 14,000 people.

Our shareholders

In 2015-16, HM Government sold its remaining shareholding in Royal Mail. To date, 11 per cent of Royal Mail shares have been given to eligible employees, for free. A further one per cent will be allocated in due course. This is one of the largest free employee stakes of any major UK privatisation. We are proud to continue to have a large and diverse shareholder base, including a significant proportion of retail shareholders.

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 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

3 Cebr research, conducted for Royal Mail in May 2016

Our position

Letters continue to be a very important part of our business. They account for almost 60 per cent of our UK revenue. We expect continued declines in addressed letter volumes (excluding elections) of around 4-6 per cent per annum in the medium-term. This means that delivering letters and parcels together is a key driver of efficiency and productivity in our Universal Service network.

Royal Mail is the largest parcel delivery operator in the UK. Home delivery is expected to remain customers' preferred delivery option[4]. This is a significant opportunity for Royal Mail, as we are well positioned to deliver to every doorstep in the UK.

Changing relationships between retailers and delivery operators, growing segments – such as 'same-day' delivery – and disruptive technologies reflect an industry which is undergoing profound change. Volume growth in our UK addressable parcel market[5,6] is dependent on the expansion of Amazon Logistics. In addition, there is continued capacity growth. These factors are putting pressure on prices across the industry.

Our transformation

We are changing from a letters company that delivers parcels, to a parcels company that delivers letters. In an environment of rapid change, we need to become more agile and respond quickly to changing customer needs.

4 IMRG Consumer Delivery Report, 2015

5 Internal estimate based on Triangle Management Services/RMG Fulfilment Market Measure (2014); defined as individually addressed parcels and packets, generated and delivered in the UK, weighing up to 30kg, that do not require special handling. Includes access fulfilment large letters & parcels and excludes click and collect, same-day, small local operators and all international traffic

6 Excludes Amazon Logistics and other retailers own-delivery networks

We have made significant investments in our core business and to develop our IT capability.

In the medium-term, the faster areas of growth in the parcels market are expected to be: clothing and footwear[7]; returns[7] and 'same-day'[8]. We are changing our UK operations so we can handle, where appropriate, larger parcels. We are becoming more flexible to accommodate the developing needs of e-retailers and online shoppers. This includes later acceptance times and adding more products to our weekend collections at Mail Centres and Regional Distribution Centres (RDCs), and making customer pick-up and returns easier with our Local Collect network.

We are demonstrating the value of letters to our customers through product and service innovations, such as Mailmark®. This investment has helped us to achieve more accurate billing. Campaigns like MAILMEN, which features 22 leading executives in the advertising industry, help demonstrate the effectiveness of mail as part of a targeted and integrated advertising campaign.

Against a backdrop of innovation and investment, we currently have around 70 projects that focus on cost avoidance and efficiency. Becoming more efficient and productive allows us to be more competitive. This, in turn, helps us to grow our existing customer relationships and win new business. It helps to fund further investment in our growth and to maintain our fair terms and conditions for our people.

7 Verdict research. UK e-retail parcel market growth 2015-2020

8 Triangle Management Services and RMG estimate 2014

Our operations and networks

The Group operates through UKPIL and GLS.

UKPIL

UKPIL comprises Royal Mail's core UK and international parcels and letters 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 Service Provider. Parcelforce Worldwide is a leading provider of express parcel services.

See page 22 for details of UKPIL's performance.

GLS

GLS is the Group's European parcels business. It operates one of the largest ground-based, parcel delivery networks in Europe. The GLS network covers 41 European 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 the Royal Mail Group.

See page 24 for details of GLS' performance.

UKPIL

c.139,000
Employees

6
Regional Distribution Centres

39[9]
Mail Centres

c.1,400
Delivery Offices

c.11,700
Local Collect locations

54
Parcelforce Worldwide depots

c.47,000[10]
Vehicles

GLS

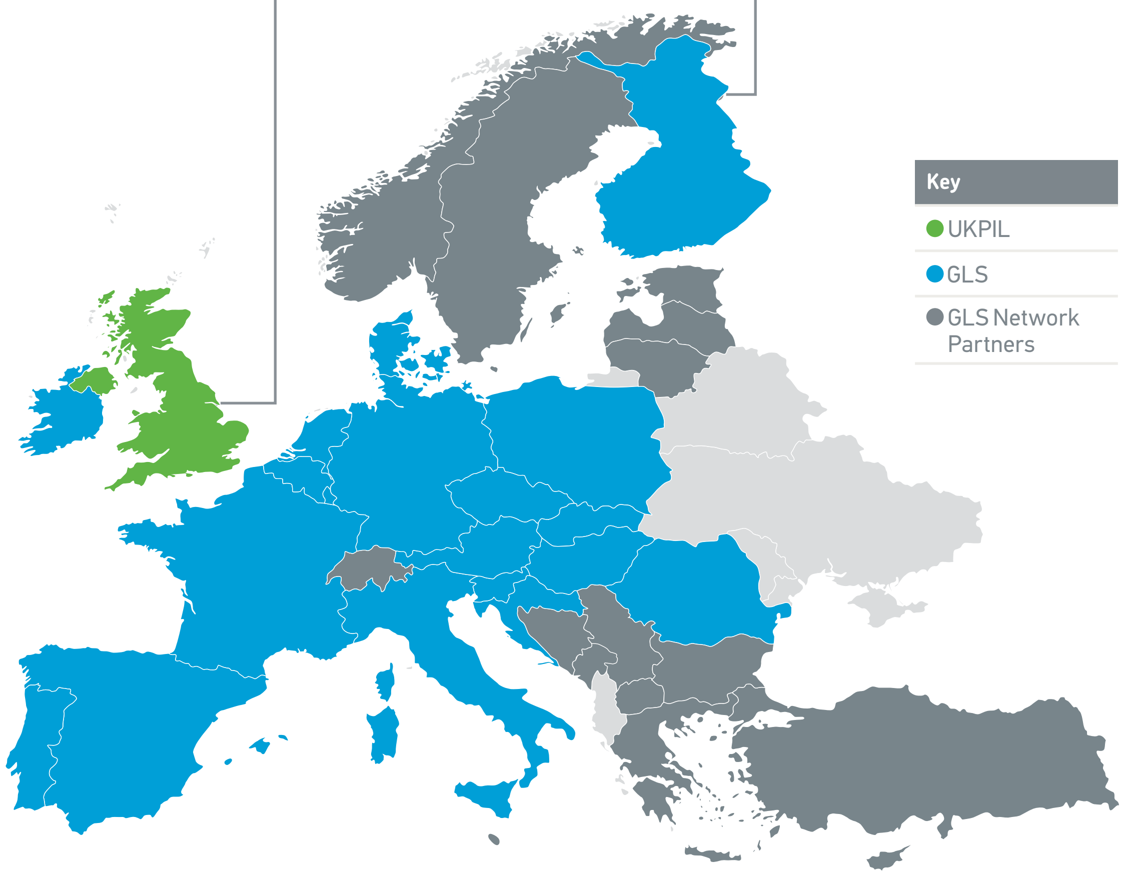
c.14,000
Employees

41
European hubs

c.700
Depots

c.14,000
Parcel shops

c.20,000
Sub-contractor vehicles



[9] Portsmouth Mail Centre closed April 2016
[10] Includes around 2,500 trailers

Financial and operating performance highlights

Group financial highlights

Adjusted[1] results (£m)	52 weeks ended 27 March 2016	52 weeks ended 29 March 2015	Underlying change[2]
Revenue	**9,251**	9,328	1%
Operating profit before transformation costs	**742**	740	5%
Operating profit after transformation costs	**551**	595	(2%)
Margin	***6.0%***	*6.4%*	*(10 bps)*
Profit before tax	**538**	569	
Earnings per share (pence)	**41.3p**	42.8p	
Reported[3] results (£m)			
Operating profit before transformation costs	**485**	611	
Operating profit after transformation costs	**294**	466	
Profit before tax	**267**	400	
Earnings per share (pence)	**21.5p**	32.5p	
In-year trading cash flow	**254**	315	
Net debt	**(224)**	(275)	
Full year proposed dividend per share (pence)	**22.1p**	21.0p	5%

Business units

	Revenue			Adjusted operating profit before transformation costs	
(£m)	52 weeks ended 27 March 2016	52 weeks ended 29 March 2015	Underlying change	52 weeks ended 27 March 2016	52 weeks ended 29 March 2015
UKPIL	**7,666**	7,757	(1%)	**608**	615
GLS	**1,580**	1,557	9%	**117**	115
Other	**5**	14	n/m	**17**	10
Group	**9,251**	9,328	1%	**742**	740

Group financial performance

- Revenue was up one per cent, with growth in GLS offsetting the decline in UKPIL revenue.
- Adjusted operating profit before transformation costs was £742 million, up five per cent.
- Adjusted operating profit margin after transformation costs was down 10 basis points as a result of increased transformation costs due to our cost avoidance and efficiency programme.
- In-year trading cash flow of £254 million reflects increased investment in growth capital expenditure.
- Our strategic focus on costs resulted in a one per cent reduction in underlying UKPIL operating costs before transformation costs.
- Net debt reduced to £224 million due to free cash flow, offset by dividend payments.
- The Board is recommending a final dividend of 15.1 pence per ordinary share giving a total dividend of 22.1 pence per share for 2015-16, up five per cent.

Business performance

- UKPIL revenue was down one per cent. A one per cent increase in parcel revenue was offset by a two per cent decline in total letter revenue.
- UKPIL parcel volumes were up three per cent, driven by continued growth in import parcels, new contract wins in account parcels and a strong performance in Parcelforce Worldwide. However, revenue reflected a weaker mix due to declines in high average unit revenue (AUR) parcels.
- Addressed letter volumes[4] declined by three per cent, better than our forecast range, largely due to the return of direct delivery volumes.
- UKPIL collections, processing and delivery productivity improved by 2.4 per cent, within our target range of a 2.0-3.0 per cent improvement per annum.
- We have seen a net reduction in the number of UKPIL employees of around 3,500 this year.
- We narrowly missed the 93.0 per cent regulatory First Class mail target, with 92.5 per cent of this mail delivered the next working day (see page 10). We exceeded our regulatory Quality of Service target of 98.5 per cent for Second Class mail.
- GLS continued to perform strongly. Volumes were up 10 per cent. Revenue was up nine per cent, with growth in almost all markets.

Outlook

- Outlook for UK letter and parcel market trends remains unchanged.
- UKPIL cost avoidance programme on track and we expect to avoid a similar level of costs in 2016-17 as the prior year.
- We continue to seek opportunities to drive efficiency, with transformation costs currently expected to be around £160 million in 2016-17.
- Rate of revenue growth in GLS expected to slow in 2016-17.
- We expect total net investment spend to be within £550-600 million per annum in the medium-term.
- We remain focused on in-year trading cash flow, which underpins our commitment to a progressive dividend policy.

[1] All adjusted results are a non-International Financial Reporting Standards (IFRS) measure and exclude specific items. The commentary in this report, unless specified otherwise, focuses on the operating results on an adjusted basis. 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 results of the Group
[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] Prepared in accordance with IFRS
[4] Excluding election mailings

Chairman's statement

This year marks a milestone in our history. The postal service is celebrating 500 years of connecting people, supporting businesses and driving innovation.

I feel privileged to join such an historic organisation at a pivotal moment in its history. On 1 September 2015, I succeeded Donald Brydon as Chairman. I would like to thank Donald for his hard work and commitment. I look forward to continuing to work with Moya and the Board as the Company continues to transform and meet the challenges that lie ahead.

Peter Long
Chairman
18 May 2016

Dividend and Free Shares

Following the Government's sale of its remaining stake in Royal Mail, the Company is now 100 per cent owned by private shareholders and institutional investors. This includes 11 per cent given to eligible colleagues for free, with a further one per cent to be allocated in due course. This helps to create alignment between the interests of our hard-working colleagues and our broad shareholder base.

Since our flotation on the London Stock Exchange in October 2013, and including our proposed final dividend, eligible full-time colleagues who have received the maximum allocation of 832 Free Shares will have received over £430 in dividend payments.

We remain committed to our progressive dividend policy. The Board recommends the payment of a final dividend of 15.1 pence per ordinary share on 29 July 2016, subject to approval by our shareholders at our 2016 Annual General Meeting (AGM). The proposed total dividend of 22.1 pence per ordinary share is a five per cent increase on the total dividend of 21.0 pence per ordinary share for 2014-15.

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 2015-16, we made the fifth largest contribution to the wider UK economy of all UK corporations[1].

A recent survey[2] found that more than two-thirds of British adults have a favourable view of Royal Mail. This placed us at the top of all the brands featured. The survey also found that we are an important part of local communities (85 per cent), an important part of the UK economy (81 per cent), and an important part of society (83 per cent).

We want to be recognised as an industry leader in the important area of safety. We are delivering a reduction in Lost Time Accidents – one of our 14 Key Performance Indicators (KPIs) for 2015-16. We have reduced sick absence, another of our 2015-16 KPIs, with a five per cent improvement on last year (see page 18 for more information). Our aim is to build a proactive 'zero harm' safety culture.

Our focus on colleague health and wellbeing means we are one of only four companies to have achieved lead company status in the 2015 Business in the Community Wellbeing Benchmark.

[1] Comprising direct and indirect contributions. Cebr research, conducted for Royal Mail in May 2016
[2] Ipsos MORI Corporate Image Survey Winter 2015

A responsible company

2015-16 saw the continuation of our successful partnership with the Stroke Association, for which we have raised £1.1 million so far, including matched funding. By the end of our two-year partnership in August, we hope to have reached our target of raising £2 million to help the charity provide Life After Stroke grants of up to £300 each to help around 10,000 stroke survivors. Our colleagues always go the extra mile to help our charity partners. Every penny they raise is matched by our Company, up to a total of £2,500 per employee.

Our partnership with the charity Missing People provides additional 'eyes and ears' in the search for vulnerable individuals up and down the country. We have made our extensive Postal Digital Assistant (PDA) network available to the charity to distribute alerts for High Risk Missing People and Child Rescue Alerts. By sharing Child Rescue Alerts through our national network, we effectively doubled the number of people who received them.

Celebrating our heritage

We continue to support the Postal Museum (formerly the British Postal Museum and Archive) at an exciting time in its history. The last year has been significant for the Postal Museum; work is now underway on its renovations and the Museum and Mail Rail are due to open to the public in 2017.

We are also delighted that the Postal Museum joined us as a heritage partner for our celebrations marking 500 years of the postal service. Together, we have created an online gallery of 500 objects, people and events at www.royalmailgroup.com/500years. This gallery tells the story not only of the postal service but also of its contribution to social and political history over the last 500 years.

In this historic year for our Company, we were honoured that Her Majesty The Queen visited our delivery office in Windsor to mark our 500 year celebrations. The visit took place on 20 April 2016, the day before her 90th birthday. The occasion was made even more special by her consenting to the office being renamed The Queen Elizabeth Delivery Office.

Our Board

In addition to the stepping down of my predecessor, John Allan resigned from the Royal Mail plc Board of Directors on 30 April 2015. I have felt very welcomed by the Board and would like to thank them for their counsel.

I also have the pleasure of working alongside Royal Mail's Chief Executive Officer, Moya Greene. Her achievements to date in transforming the Company, driving efficiency and steering Royal Mail through a period of significant change – which continues – are impressive. I look forward to continuing to work closely with Moya as we seek to create a more agile, responsive business.

As stated in last year's Annual Report and Financial Statements 2014-15, the effectiveness of the Board, its Committees, the Executive Directors, Non-Executive Directors and the Chairman (Donald Brydon) was assessed in September 2014 by an external consultancy. As such, the Company was not required to carry out an independent evaluation for this reporting year. The same company was engaged to review the effectiveness of the Board and the Remuneration Committee, since my appointment, for the year ended 27 March 2016. More details can be found in the Governance section on page 51.

Journey ahead

I am impressed by the dedication of our people to our Company and to the communities we serve. This continues to be a time of transformation, as we progress along our journey of innovation, change, and growth in new areas, while driving for increased efficiency and embedding a cost conscious culture.

Peter Long
Chairman
18 May 2016

Dow Jones

In 2015, Royal Mail plc was named as global sustainability leader in the Transportation and Transportation Infrastructure Industry in the Dow Jones Sustainability Indices for the second year running. Royal Mail is included in both the Dow Jones Sustainability World Index and Dow Jones Sustainability Europe Index.

We achieved industry-leading scores for corporate citizenship and philanthropy, tax strategy, social reporting and stakeholder engagement, ahead of around 80 other organisations in the transportation sector. This includes ground-based transportation companies in marine, rail, trucking, freight forwarding, and logistics and infrastructure businesses.

The Dow Jones Sustainability Indices are the longest running and one of the most widely-used benchmarks in the field. They are based on the assessments by RobecoSAM, a company that specialises in sustainability investing.

CELEBRATING 500 YEARS OF ROYAL MAIL

The first pillar boxes in the British Isles were erected in Jersey in 1852 as a trial. The trial was considered a success and boxes began appearing across mainland Britain from 1853.
See the inside back page to learn more.

Chief Executive Officer's review

We have delivered a resilient performance in challenging markets. We are continuing to deliver service improvements and product innovations to meet customer needs. We are stepping up our investment in growth, to ensure we are agile and responsive in our fast-changing market place.

Moya Greene
Chief Executive Officer
18 May 2016

Our performance

Group revenue increased by one per cent[1]. GLS revenue growth of nine per cent offset a one per cent reduction in UKPIL revenue.

As a result of our strategic focus on costs across the Group, adjusted[2] Group operating profit before transformation costs was £742 million. Transformation costs were £191 million due to our accelerated efficiency programme. This led to a decline of 10 basis points in the adjusted Group operating profit margin after transformation costs to 6.0 per cent.

In-year trading cash flow of £254 million was £61 million lower than the prior year, reflecting higher investment spend in 2015-16.

Our strategy

We have a plan in place to help us protect our core business and grow in new areas. We are responding to our changing environment by updating our strategic priorities. They are underpinned by putting the customer at the heart of everything we do.

Our strategic priorities are:

- Winning in parcels;
- Defending letters; and
- Growing in new areas.

Enabled by:

- Strategic focus on costs;
- Technology and innovation; and
- An engaged and motivated workforce.

See pages **16–17** for more information.

Winning in parcels

We are the UK's leading parcels carrier. Our scale as the Universal Service Provider means that businesses selling goods online can operate just as effectively from a village in rural North Wales as a business in the centre of London. We provide a vital delivery network that, in particular, supports consumers and small and medium-sized enterprises (SMEs).

[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] All adjusted results are a non-IFRS measure and exclude specific items. The commentary in this report, unless specified otherwise, focuses on the operating results on an adjusted basis. 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 results of the Group

Competitive marketplaces

The UK parcels market remains one of the most competitive in Europe. We estimate that the total blended market[3] volume of parcel deliveries in the UK will grow at four[4] per cent per annum in the medium-term. However, we estimate that annual addressable market volume growth will be impacted depending on the expansion of Amazon Logistics.

In the consumer/SME segment, competition is intense and growing. Increased collection, delivery and return options are giving consumers more choice. We have introduced a wide range of initiatives to maintain our pre-eminent position in this segment. We are seeing an improvement in the volume trend through these channels.

Large retailers are seeking new fulfilment channels by building or expanding delivery and/or collection networks, cutting other delivery operators out of the value chain. Carriers are bringing new capacity online, which is putting pressure on prices. We are also seeing growth in the use of disruptive technologies and fast-growing delivery options, albeit from a low base. Royal Mail is performing well in the account parcels segment. We have won new contracts with John Lewis Partnership, Urban Group, M&S and Waterstones. New contract wins have more than offset lost Amazon volumes, and we are seeing some uptrading to higher revenue tracked services.

International markets are intensely competitive, with UK market dynamics increasingly replicated in international, cross-border services. International accounts for 19 per cent of UKPIL parcel volumes and 18 per cent of revenue. We saw a reduction in export volumes during the year. We have spent a significant amount of time developing strategies to address this. However, it remains a key strategic focus for the next 12 months.

Our performance

Our broad customer base means that we are less exposed to the actions of our larger customers than some of our peers. Our largest parcels customer, the Amazon Group[5], now accounts for around five per cent of UKPIL parcel revenue.

UKPIL parcel volume growth of three per cent was driven by growth in import, Royal Mail account and Parcelforce Worldwide, where volumes increased by 12 per cent. Excluding Amazon volumes, total Royal Mail account parcel volumes increased by seven per cent. This growth more than offset the effects of the competitive environment in consumer/SME and export parcels. Parcel revenue increased by one per cent, due to the impact of this mix.

Our European parcels carrier, GLS, delivered revenue growth in almost all of its markets. Growth continues to be fuelled by increasing cross-border trade, driven by e-retail.

Winning in parcels: key points

- **Pursuing faster growing areas of the UK and international markets;**
- **Adding value by improving our products and services; and**
- **Expanding and automating our networks.**

Pursuing faster growing areas of the UK and international markets

We are successfully targeting the faster growing areas of the UK parcels market and are developing initiatives to address the impact of increased competition in the consumer/SME and export markets.

We are increasing our capability, where appropriate, to handle larger parcels. Leeds Mail Centre is piloting a mechanised parcel conveyor that can safely, and more efficiently, handle larger parcels – a growing segment of our parcels mix.

Our returns volumes have grown by 24 per cent this year. We are improving and extending our Tracked Returns® service to contract customers, including eBay merchants. We are also growing our business with existing customers, such as ASOS.

We are developing initiatives to address the impact of increased competition in the export market. In February 2016, Parcelforce Worldwide extended its tracked globalpriority® return service to retailers sending items to Australia, which is the first country outside the EU to benefit from this express returns service. The service is currently available in 18 countries.

We have a range of international delivery options designed to make exporting as simple and cost effective as possible, as part of the Government's Exporting is GREAT campaign. International postage can now also be purchased through Click & Drop, our easy to use online postage service. We have expanded this service across more than 200 international destinations. Royal Mail International Tracked & Signed is now available in 54 destinations.

We have extended our strategic service with Alibaba, linking Chinese exporters with UK online shoppers, and allowing them to supply goods for UK delivery much more quickly. We have increased the number of brands on the Tmall shop front to 34 since we launched the partnership in March 2015.

Adding value by improving our products and services

We are becoming more flexible to suit the needs of our sending and receiving customers. For example, we have extended latest acceptance times in our Mail Centres and RDCs for our Tracked 24®/48® products, reflecting customer demand.

We are expanding the support we offer to key business customers and online marketplace traders, including eBay sellers. In October 2015, we launched and have subsequently extended a trial of doorstep collections in North West England. This service offers marketplace sellers and SMEs next day parcel collection from their address. Around 300 sellers are participating in the trial.

We have reduced our prices for Second Class medium parcels under two kilograms and we are maintaining the online price of small and medium parcels for 2016-17.

We are working with Post Office Limited to improve our customers' experience. This includes more Post Office branches being open for longer, and on Sundays, and our expanded Local Collect network. Local Collect is the largest UK network of click and collect locations. It has been extended to Enquiry Offices to create a network of more than 11,700 sites. Royal Mail Local Collect has more collection points across the UK than the next two largest competitor click and collect networks combined.

Expanding and automating our networks

Parcel automation is one of the next stages on our transformation journey. The first parcel sortation machine has been installed in Swindon. The roll-out to further sites will continue over the next two years.

[3] Internal estimate based on Triangle Management Services/RMG Fulfilment Market Measure (2014); defined as individually addressed parcels and packets, generated and delivered in the UK, weighing up to 30kg, that do not require special handling. Includes access fulfilment large letters & parcels and excludes click and collect, same-day, small local operators and all international traffic. Includes Amazon Logistics and other retailers own-delivery networks

[4] Based on Verdict UK E-retail survey and RMG market insight

[5] Amazon Group includes Amazon Logistics, Lovefilm and Book Depository

We are working with our customers to put 2D barcodes on as many parcels as possible. Nearly 100 per cent of parcel volumes through the Post Office network now use Royal Mail 2D barcodes. Around 50 per cent of all our UKPIL parcels now carry a barcode and one-third can be tracked by customers in some way.

GLS is setting new standards in the German parcels market. Together with DPD and Hermes, it has founded ParcelLock GmbH, which operates carrier-neutral parcel boxes for private customers. With the secure parcel box system, delivery operators can leave items in the parcel box for the customer to pick up. GLS' FlexDeliveryService is continuing to roll-out and is now available in 13 countries.

Defending letters

Addressed letter volumes decreased by three per cent – better than our forecast range of a 4-6 per cent decline per annum – due to the one-off return of direct delivery volumes.

Marketing mail revenue was flat. This follows growth of three per cent in the first six months and reflects a slowing in UK economic activity. Direct mail is the fourth largest advertising medium in the UK. Overall, UK direct mail advertising spend grew one per cent during 2015, the first increase in four years, while print advertising media declined 11 per cent[6].

Defending letters: key points

- **Promoting the value of mail;**
- **Optimising mail handling to increase efficiency; and**
- **Participating in Ofcom's consultation on the Fundamental Regulatory Review, to ensure the provision of the Universal Service in the UK.**

Promoting the value of mail

Since 2005, Ofcom has tracked consumer ratings of value for money in eight sectors. Postal services and delivery is the only sector to see an increase in customers' perception of value for money from 2005 to 2015.

The Keep Me Posted campaign aims to give every consumer the right to choose, without disadvantage, how they are contacted by companies. To date, 10 service providers have been awarded a Keep Me Posted Mark of Distinction – the most recent recipients being Royal Bank of Scotland, NatWest and Ulster Bank, which have a combined customer base of around 16 million. This means these consumers are now realising the value and opportunities of retaining mail as a customer communications channel.

Marketing mail revenue is important for our business – it provides access to revenue pools to support the delivery of the Universal Service. Through our MarketReach business, we are increasing awareness of the value of advertising mail, through campaigns like MAILMEN (see case study).

We are launching MailshotMaker, a new online tool that enables SMEs to design and implement direct mail campaigns. We have also launched a new digital stamp indicia for business customers. They can now add high quality, full-colour printed versions of some of Royal Mail Special Stamps range and our iconic blue Second Class stamp – to their business mailings. We intend to extend the range of designs available over time.

Royal Mail's stamp prices are amongst the best value in Europe. In February 2016, we announced price increases of one penny for First Class and Second Class consumer stamps. We carefully considered the impact on our customers and our business before deciding to apply the lowest possible increase in stamped letter prices. We believe these changes are necessary to help ensure the sustainability of the Universal Service.

Optimising mail handling

We continue to implement processes to ensure that mail is handled as efficiently as possible. We have improved large letter sorting machines and will be upgrading Optical Character Reading technology to sort more mail automatically. We began a pilot to optimise the processing of mail through our collection hubs, working closely with our unions. Our Bristol and Jubilee Mail Centres will handle this pre-processed mail allowing us to streamline the sorting and trunking process.

Regulation

We await the publication of Ofcom's proposals under the Fundamental Regulatory Review. We will actively participate in the consultation process.

[6] WARC UK expenditure report, April 2016. Data from January to December 2015

Promoting the value of direct mail

Tess Macleod Smith, vice president of publishing and media at Net-a-Porter on making the company's print magazine, Porter, shoppable.

'Porter has revolutionised print. Eighty-five per cent of our core audience – who are devoted digital shoppers – say that print is the number one influencer in telling them what to buy and from where.

'Porter is sent out in the post to our highest spenders. These days, many of us simply don't have time to go to a newsstand, so mail is the best medium for reach as well as impact. In a world of convenience and online shopping, having things delivered directly to us is the new norm.

'We use direct mail because we know it works – we invested in two very successful campaigns in the UK and US this year – and they can be directly attributed to an uplift in Porter subscribers.

'The mag, like mail, is a great acquisition tool. We know that once someone is a subscriber to Porter, they visit the site 25 per cent more often and spend 120 per cent more with us. You can't argue with figures like that.'

Growing in new areas

Growing in new areas: key points

- **Making the most of our existing assets;**
- **Targeted investments to build our presence in growing areas of the market; and**
- **Becoming a digital organisation and building e-commerce capability.**

As part of our focus on growth, we are seeking ways to generate more value from our existing assets. The UK vehicle service, maintenance and repair market is estimated to be worth around £3.4 billion per annum[7]. We have around 100 fleet workshops that are expert in vehicle maintenance services. We are conducting a pilot offering third parties access to our vehicle maintenance services.

We are launching a new app – Swapshots – which aims to capture growth in the printed image market. Royal Mail is believed to be the first European postal operator to launch an app of this kind. Swapshots integrates digital technology, printing and delivery in order to print, post and deliver photos within three days. The app will sit alongside Mallzee, the 'personal shopping' app which aggregates inventory from over 150 fashion brands, as part of Royal Mail's growing digital portfolio.

We are also targeting higher growth areas. In particular, we are looking to leverage GLS' expertise and reach and to strengthen partnerships with marketplaces, e-retailers and other operators. In March 2016, we acquired Intersoft, a provider of carrier management software for international parcel shipments. This complements the purchases of data management and labelling provider NetDespatch and delivery software developer Storefeeder, further enhancing our in-house IT capabilities.

Strategic focus on costs

Becoming more efficient and productive allows us to be more competitive. This, in turn, helps us to grow our existing customer relationships and win new business. It helps to fund investment in our growth and maintain our fair terms and conditions for our people.

UKPIL operating costs before transformation costs declined by one per cent, in line with our expectations. We have avoided around £180 million in operating costs during the year. We achieved productivity[8] improvements of 2.4 per cent, within our 2.0-3.0 per cent target range. This builds on a productivity improvement of 2.5 per cent in 2014-15 and 1.7 per cent in 2013-14.

With more than 47,000 vehicles on the road, we have the biggest fleet in the UK. New driver technology has been installed in approximately 13,000 small, high-mileage vans. The new technology promotes better driving behaviour, keeping them safe and reducing fuel usage and maintenance costs.

We are extending Collections on Delivery, by which our postmen and women collect letters from low-volume postboxes. Alongside this, a nationwide review of our national and regional routes will help us to reduce mileage.

Technology and innovation

We are strengthening our technology backbone so that we can support our objectives to win in parcels, defend letters and grow in new areas.

In parcels, we have begun the roll-out of 76,000 new PDAs across our operation. These handheld devices provide management data through functions like the scanning of 2D barcodes, and the capture of signatures on delivery. Three thousand finger scanners have already been introduced across our Mail Centres and RDCs. With better management information, we can benefit from more accurate billing for the services we provide and identify efficiency opportunities. Customers will enjoy easier signature capture and, in time, better tracking information.

In our letters business, we are continuing the rollout of Mailmark®, which provides barcode technology and online-reporting for machine-readable business, advertising and publishing mail. Over three billion letters have now been sent using Royal Mail Mailmark® and around 50 per cent of machine-readable mail currently carries the Mailmark® barcode. We are targeting 90 per cent of suitable letters by 2016-17.

We are focusing on improving our customer experience by rolling out improved technologies across our network. We have deployed the 'Service-Point-System' (online booking-in tool) to 460 Enquiry Offices. The tool allows colleagues to locate customers' items quickly and easily, providing a faster service.

Engaged and motivated workforce

Our people are at the heart of our continued success. We want our workforce to reflect the communities we serve. We are pleased that Royal Mail has been named in The Times Top 50 Employers for Women 2015, for our commitment to gender equality in the workplace, for the second consecutive year.

Through our Together for Growth programme, over 6,000 managers and union representatives took part in joint training over a 16 month period from July 2014 to October 2015. The programme was designed jointly with Communication Workers Union (CWU) and Unite/CMA and is one of the UK's largest ever investments in this form of training.

Royal Mail takes its Quality of Service very seriously. We are extremely disappointed that our full year regulatory First Class performance of 92.5 per cent narrowly missed the 93.0 per cent target. We again exceeded our Second Class target, with a performance of 98.8 per cent.

We are committed to delivering a high Quality of Service while seeking to become ever more efficient. In doing so, we actively review the absorbable rate of change and the appropriate balance between quality and efficiency. In the second half of the year, we increased the already very considerable resources deployed to improve our delivery performance.

We note that Ofcom is launching an investigation into our Quality of Service for 2015-16. We believe the full year outcome was impacted by events outside our control. These include Cyber Week, which this year fell outside the Christmas exemption period, and significant disruption in parts of the network due to poor weather and road closures. Royal Mail believes that if the 2015-16 performance was adjusted for these two factors, an additional 0.31 per cent would be added to the 92.5 per cent performance. We are asking Ofcom to take these issues into consideration.

At Royal Mail, we strive to deliver a consistently high quality, value for money service. While our performance improved in two out of our four[9] main complaint categories, we were disappointed to see that an increase in other complaint categories offset this.

We take complaints seriously and have developed a 'root cause' approach to complaints management. This helps us to resolve customer issues quickly, while identifying hotspots and issues. Underpinning this, there is also a focus on first time delivery within our operation and constantly driving improved performance in our operational units. We are making it as easy

[7] Estimate based on analysis performed by OC&C Strategy Consultants

[8] Collections, processing and delivery in UKPIL core network

[9] Redirections, redeliveries, misdeliveries and 'Something For You' cards. Performance improved in 'Something For You' and redirection complaints

as possible for customers to receive their parcels through services such as Delivery to Neighbour and Nominate a Neighbour.

We are tackling other complaints through our Operations Standards, which give us a standard approach to key processes and tasks. These Standards are split into four key categories – safety, quality, efficiency and people – helping us to work more efficiently and consistently across the business.

Customer and You, a two-year programme which completed in March 2016, modernised our Enquiry Offices to create more welcoming and well-maintained environments, improved and standardised processes to ensure greater consistency in quality across sites and equipped our people with more customer facing skills. We completed Customer and You training for a total of 3,980 employees, exceeding our overall target of 3,500.

Subject to shareholders approving the final dividend, eligible employees with a maximum allocation of 832 Free Shares will have received dividend payments of over £430 by 29 July 2016.

Outlook

Our outlook for UK letter and parcel market trends remains unchanged. However, we will need to meet the challenges caused by slowing economic growth, the current low inflationary environment, and continuing developments in the highly competitive markets in which we operate. In particular, in the first three months of 2016-17 we will be lapping the impact of elections in letter revenue in the prior period.

Our cost avoidance programme in UKPIL is on track and we expect to avoid a similar level of costs in 2016-17 as the prior year. We continue to target avoiding around £500 millon of annualised costs, cumulative over the three financial years to 2017-18.

That said, we have additional challenges to manage in the coming year, in particular the negotiation of pay and pensions, while maintaining the climate of positive engagement with our people that we have created over the past five years. We will continue to seek opportunities to drive efficiency across the organisation such that transformation costs are likely to be above the previously indicated range of £120-140 million per annum over the period of the cost avoidance programme, with around £160 million currently expected in 2016-17.

We expect that the rate of revenue growth in GLS will slow in 2016-17, given the particularly strong performance this year. Competitive pressures continue to intensify in our key markets, such as Germany.

We have invested heavily over the last five years in rebuilding our legacy IT systems and resizing the core network. We expect to keep total net investment spend, which includes replacement and growth capital expenditure and the cash cost of transformation, net of operational asset disposals, within the range of £550-600 million per annum in the medium-term. Within this we will be targeting an increased skew towards projects and initiatives supporting growth.

We remain focused on our in-year trading cash flow, which underpins our commitment to a progressive dividend policy.

Thank you

2016 commemorates 500 years since Henry VIII knighted Brian Tuke, the first Master of the Posts, in 1516. This act was the first step in the creation of the Royal Mail. The history of the postal service in the UK reflects the tremendous societal and political change that has taken us from sixteenth century Tudor England to the United Kingdom of today.

We are proud to celebrate the heritage of this great Company. Against this backdrop of continued change, Royal Mail's people have been a constant presence. They are the heart of this Company. I hope that, through them, we will continue to deliver the Universal Service and play an instrumental role in people's lives for many years to come.

Moya Greene
Chief Executive Officer
18 May 2016

CELEBRATING 500 YEARS OF ROYAL MAIL

During 500 years of the postal service, new ways of working have been embraced to deliver mail faster and more efficiently.
Visit www.royalmailgroup.com/500years to find out more.

Market overview

Royal Mail operates in a marketplace which is undergoing profound change, driven by a structural decline in addressed letter volumes and continued growth in e-commerce. E-substitution in letters and disintermediation in the parcels market have changed our role in the value chain. In some areas, change has resulted in new opportunities. In others, our role has reduced.

UK letters market

The UK, like many other countries, is experiencing ongoing structural decline in addressed letter volumes. This decline is driven by e-substitution and growth in mobile and online advertising. Large businesses continue to adopt online communication methods and are strongly incentivising paperless billing. However, independent research shows that people understand information better, are more likely to take appropriate action and make better financial decisions as a result of receiving information by post rather than electronically[1].

We are seeing different types of letters experiencing different rates of decline due to this structural shift. As the leading letters delivery operator in the UK, the decline in addressed letter volumes means we need to deliver letters and parcels together and seek alternative revenue pools to underpin the Universal Service network.

Direct mail provides revenue that supports the Universal Service. Research shows that direct mail advertising spend grew by one per cent during 2015, while other forms of print advertising declined around 11 per cent. Direct mail is the fourth largest advertising medium in the UK, behind TV, internet and print[2]. Forty-two per cent of people say they have taken direct action (e.g. purchased, spent, ordered, renewed) having received a targeted mailing[3].

The UK postal access market has developed rapidly since its introduction in 2004 and is now by far the biggest and most developed mail access market in the EU[4]. Access operators handle about 70 per cent of all addressed letters posted by large businesses. Royal Mail continues to work with access operators to ensure sending and receiving customers enjoy a great service. Access Quality of Service was 95.7 per cent in 2015-16.

1 London Economics behavioural economics study for Keep Me Posted
2 WARC UK expenditure report, April 2016. Data from January to December 2015
3 Quadrangle, Valued Mail 2014
4 FTI consulting, September 2015

UK parcels market

The UK parcels market is one of the most competitive in Europe, with 16 major players. It is also one of the most evolved parcel markets in Europe; it has the highest per capita spend on e-retail and this is increasing. Approximately 14 per cent of all UK retail sales are estimated to be conducted online and e-commerce expenditure per head is over 50 per cent higher than in the US[5].

E-retail continues to drive overall growth in UK parcels. The rapid pace of change in the parcels industry is expected to continue, due to low barriers to entry, greater disintermediation and disruptive business models. The actions of Amazon Logistics remain the most fundamental driver of change in the market. In a highly competitive retail landscape, the delivery experience has become a key differentiator for many online retailers. They are increasing shoppers' expectations regarding the convenience, speed and price of delivery. Several parcel carriers have invested significantly in expanding their capacity in recent years. This puts downward pressure on prices.

Growth areas

Clothing and footwear represents the majority of online non-food sales growth, due to frequency of purchase and a higher value per spend. Parcel returns continue to grow more quickly than deliveries, driven by the clothing and footwear sector in particular. Sales of physical books are showing some sign of resilience. This is partially offsetting the continued decline in music, film and video game sales[6].

In the consumer/SME segment, there has been a very rapid expansion of click and collect, parcel shop networks and parcel locker stations, albeit from a low base. There are now more than 30,000 parcel drop off and pick up locations across the UK. Although there has been an increase in awareness and usage of click and collect and parcel shop deliveries, home delivery remains the preferred option for the vast majority of consumers[7].

Consumers are increasingly shopping at a time and place which suits them. UK industry experts have stated that, for the second year running, mobile platforms accounted for all growth in overall e-retail sales in 2015[8]. Many retailers are adopting a mobile-first channel strategy. Fashion retailer ASOS reported that almost half of its orders came through on a mobile device in February 2016.

5 Ofcom IMRC 2015
6 Verdict e-Retail 2015

International parcels

E-commerce is similarly driving European parcels market growth. E-commerce Europe research estimates that European B2C e-commerce grew 14 per cent in 2015 to €424 billion, with four billion parcels sent annually. This growth is uneven across Europe, due to varying economic performance and e-commerce adoption. The largest parcels markets outside the UK are Germany, France and Italy.

Consumers expect a seamless cross-border delivery and returns experience. Within Europe, cross-border online purchasing is growing faster than domestic online purchasing[9].

The cross-border e-commerce trend[10] is expected to continue in all major European countries in the future. A recent Royal Mail study into the international ambitions of small UK e-retailers found small businesses were confident in the current climate and were looking towards new markets, building on their existing international success. It found that Europe remains the main target for exports and almost 50 per cent of small e-retailers aim to sell their products in Europe in 2016, up from 30 per cent in 2015[11].

Outside the EU, Chinese e-commerce marketplaces Tmall and AliExpress significantly gained in popularity among online shoppers. Chinese customers spent over £9 billion through Alibaba in 24 hours on 'Singles Day' on 11 November 2015 and many analysts predict that a new record will be set again this year.

7 IMRG UK consumer home delivery review 2016
8 Capgemini mRetail Sales Index, March 2016
9 PostEurop December 2015
10 Forrester research. Online cross border retail forecast 2016-2021
11 Royal Mail Group SME seasonal research, December 2015

Mail drives customers online

And mobile is making it easier than ever for people to access and use the internet[12]. Having received a mailing:

92% driven to online or digital activity

86% connected with business

43% download something

87% influenced to make online purchases

54% engaged in social media

[12] Source: Royal Mail MarketReach, Mail and Digital Part 2, Quadrangle, 2014

Delivery matters

Home delivery is expected to remain our customers' preferred delivery option.

80% of online shoppers would prefer to have items delivered to their home[13].

[13] Source: IMRG consumer home delivery review 2016

Leading in e-commerce

£1,591 per head

The UK has the highest spending per capita on e-commerce and this is increasing[14].

[14] Source: Ofcom ICMR 2015

Our business model

Our business model leverages our resources and relationships (e.g. our networks, people and brand) to deliver high-quality, value for money services for customers wanting to send and receive letters and parcels. In our core network, we benefit when we deliver letters and parcels together – making the most of the Universal Service network and providing services at the lowest possible cost. Parcelforce Worldwide provides more parcel fulfilment options – particularly for business customers. Our European business, GLS, provides geographical diversification of our earnings and exposure to markets where revenues are growing above GDP. GLS' experience and focus on parcel delivery means it is a core component of Royal Mail's vision of being recognised as the best delivery company in the UK and across Europe. Through this, we generate cash flow to pay dividends to our shareholders, and reinvest in our business to generate sustainable growth over time.

Resources and relationships

We focus on delivering our customers' expectations in the most efficient way possible, maximising the funds available to reinvest in the business and to pay progressive dividends to shareholders.

Our networks

As the Universal Service Provider, Royal Mail has the capability to visit every address in the UK, delivering letters and parcels. Through our long-term relationship with the Post Office, we have the largest retail network for parcels and letters. We are using our footprint to increase collection and delivery options for our customers. For example, we are making returns easier with Local Collect, the largest UK click and collect network. Parcelforce Worldwide, our express delivery business, provides additional fulfilment options and is a leading provider of express parcel services. GLS, one of the largest European ground-based delivery networks, offers reliable, high-quality parcel services across Europe, complemented by logistics and express services.

Our people

We are proud to be a responsible employer, with a total workforce of around 156,000. One in 175 working people in the UK is employed by Royal Mail[1]. This number increases when we look at disadvantaged regions where jobs are scarce. We are also committed to ensuring that our workforce reflects the communities we serve. We were pleased to have been named in The Times Top 50 Employers for Women 2015 for our commitment to gender equality in the workplace. We have been named as the global sustainability leader of the Transportation and Transportation Infrastructure Industry in the Dow Jones Sustainability Indices for the second year running.

Our customers and our brand

We have a very broad customer base. In the UK, our role as the Universal Service provider means we are able to deliver to more than 29 million businesses and consumers. GLS, our European business, has more than 220,000 customers across 41 European countries and nation states.

Our brand helps define our culture; it shapes the experiences our customers have with us and it is a unique reflection of who we are. We are the UK's most trusted delivery company[2]. The trust that our stakeholders place in our people to deliver the Universal Service is down to the continuous dedication of our postmen and women across the UK. At the 2015 World Branding Awards, we were named as a national brand of the year[3].

Investment in our business

In 2015-16, we invested a net £656 million, of which £253 million was in areas to support growth. We also spent £18 million on targeted investments mainly to enhance our IT capability.

[1] Cebr research, conducted for Royal Mail in May 2016
[2] Delivery Matters, 2015
[3] Royal Mail winner in Logistics-Postal Services category: https://awards.brandingforum.org/brands/royal-mail/

Inputs

Continually improving our efficiency and productivity allows us to be more competitive. This helps us to **meet changing customer needs**, which means we can grow our existing customer relationships and win new business. This in turn allows us to **maintain financial flexibility** to fund investment in our growth and maintain our fair terms and conditions to ensure we continue to employ **engaged and motivated people**.

Continually improving efficiency
- Continuing to deliver efficiency improvements and meet our productivity targets.
- Rolling out parcel sorting machines to gather better management information and identify efficiency opportunities.
- Getting paid fairly for what we do through using new technologies, like Mailmark® and 2D barcodes.
- Nationwide review of national and regional routes to help us reduce mileage.
- Targeted cost reduction through streamlined delivery process and network optimisation in GLS.

Maintaining financial flexibility
- Since 2012-13, we have invested approximately £1.3 billion designed to grow and make the business more effective.
- Over the same time period, net debt has reduced by around £700 million, providing the headroom to invest further as opportunities arise.
- Over 70 scoped and resourced projects across UKPIL are targeted to avoid around £500 million of annualised costs by 2017-18.

Meeting changing customer needs
- Offering later acceptance times and opening up our network for longer, including weekends.
- Demonstrating the value of letters through our MarketReach business and campaigns.
- Investment in innovative B2C delivery solutions in GLS.

Engaged, motivated people
- Increasing employee engagement and alignment through initiatives like our Together for Growth programme. Over 6,000 managers and union representatives have taken part.
- Continuing to provide market-leading rewards and fair terms and conditions to our people.
- In total, each eligible full-time employee has received a maximum of 832 Free Shares in our Company.

Outputs

- Continuing to deliver a high-quality, financially-sustainable Universal Service, and therefore maintaining our trusted brand.
- Delivering a consistently high-quality, flexible service to grow existing relationships, win new business and make sure we are fairly paid for our services.
- Driving the generation of cash to support progressive dividends for our shareholders.
- Continuing to invest in our business and our people, through effective management of our financial resources, including a strategic focus on costs.

Investing in our business and our people

Our strategy

We have a clear vision to be recognised as the best delivery company in the UK and across Europe. Our strategy to achieve this leverages our strengths while aiming to deliver sustainable shareholder value and our Universal Service commitment.

Our strategic priorities

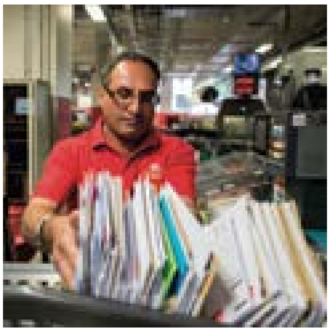
Winning in parcels

We are maintaining our pre-eminent position by pursuing faster growing parts of the UK parcels market while making it easier for customers to use Royal Mail. We are building our capability to handle increased numbers of larger parcels and are winning new volumes. We are investing in tracking and automation to help us target faster-growing areas of the market.

Key initiatives:

- Opening our network for longer and pushing back our latest acceptance times
- Rolling out sorting machines for smaller parcels to gain better management information and identify efficiency opportunities
- Piloting a mechanised parcel conveyor at Leeds Mail Centre, building our capability to handle larger parcels
- Rolled out GLS ParcelLock System to four countries in Eastern Europe. New options for private customers to send, pick-up and pay for parcels

Defending letters



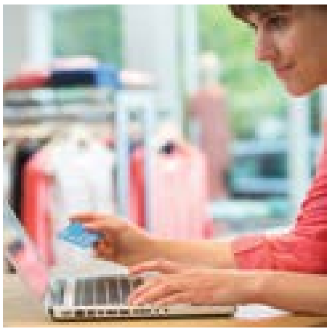
Our letters business accounts for almost 60 per cent of our UK revenue. We continue to anticipate a decline of 4-6 per cent in addressed letter volumes in the medium-term. Royal Mail is managing this decline by continuing to promote the value of mail, and increase the efficiency and effectiveness of our delivery operation.

Key initiatives:

- MarketReach's MAILMEN campaign is demonstrating the value of mail
- Recovering revenue and preventing revenue leakage, for example, through stamp cancellations
- We have improved large letter sorting machines and we are upgrading Optical Character Reading technology to sort more mail automatically
- Keep Me Posted campaign support base has broadened to 87 charities, trade unions, businesses and consumer groups

Strategic priorities, enabled by...

Growing in new areas



We are making the most of our existing assets. At the same time, we are focused on service developments and increasing our capability through selected investments. We are becoming a digital organisation and acting at pace to increase our e-commerce capability to retain and attract marketplace sellers.

Key initiatives:

- Trialling third-party vehicle maintenance services for vehicles at our fleet workshops
- Secured a stake in Market Engine, an online marketplace specialist that integrates the world's largest e-commerce sites. This follows our investment in Mallzee, the personal shopping app
- Furthering our in-house IT capability, providing customers with e-commerce solutions to better manage the shipping and tracking of parcels
- Acquired Intersoft, a provider of delivery management software for international parcel shipments, complementing the purchases of data management and labelling provider NetDespatch and delivery software developer Storefeeder

Enabling our strategic priorities

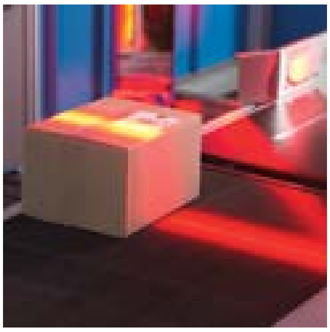
Strategic focus on costs

The highly competitive parcels market, coupled with the ongoing structural decline in letters, has resulted in increased revenue pressures for the Group. We are focusing on costs, driving efficiency in our operations and embedding a cost conscious culture throughout the organisation. We will continue to adopt a strategic approach and to seek new initiatives to control costs.

Key initiatives:

- Over 70 scoped and resourced projects across UKPIL targeted to avoid around £500 million of annualised costs by 2017-18
- We continue to target 2.0-3.0 per cent productivity[1] improvements per annum
- Extending Collections on Delivery and continuing to deploy Operations Standards across the core network
- Reducing costs in the logistics network
- Optimising property portfolio and facilities management savings
- Targeted cost reduction through streamlined delivery process and network optimisation in GLS

Technology and innovation



We are strengthening our technology backbone so that we can support our priorities to win in parcels, defend letters and grow in new areas. We continue to promote the value of mail, and increase the efficiency and effectiveness of our delivery operation.

Key initiatives:

- Rolled out 3,000 finger scanners and commenced the rollout of 76,000 new PDAs across our operation
- Approximately one-third of our parcels traffic is currently tracked by customers in some way. In time, we will increase the number of items we scan in Mail Centres and on the doorstep
- Continued roll out of Mailmark®, targeting 90 per cent of suitable letters by 2016-17
- We have deployed an online booking-in tool 'Service-Point-System' in 460 Enquiry Offices. The tool allows colleagues to locate customers' items quickly and easily, providing a better, more efficient service
- GLS FlexDelivery Service now available in 13 countries. This delivery notification service includes a delivery date and time window

An engaged and motivated workforce

Our employees drive the continued success of the Royal Mail Group. We strive to create a supportive, inclusive work environment where our people have the necessary tools and training to perform their duties at their best. This is underpinned by a proactive relationship with the unions.

Key initiatives:

- Over 6,000 managers and union representatives took part in joint training through the Together for Growth programme
- Around 23,000 colleagues involved in the 'Big Conversation', used to identify improvements we can make to be better and more efficient
- Full support pledged for mental health campaign, Time to Change, which aims to reduce the stigma associated with mental health issues
- Customer and You training rolled out to around 4,000 employees
- Operations Standards give us a standard approach to key processes and tasks, helping colleagues tackle complaints
- Focusing on first time delivery through Nominate a Neighbour, With your Neighbour and Safeplace

[1] Collections, processing and delivery in UKPIL core network

Key performance indicators

Our Key Performance Indicators (KPIs) for 2015-16 are divided into People, Customer, Efficiency and Financial segments, as represented in our business model and our Corporate Balanced Scorecard. As the business transforms and faces new challenges, we may adapt our KPIs.

In 2015-16, we made the following changes to our KPIs: sick absence was introduced under People; composite parcels Quality of Service was moved to Customer; the Performance quadrant was replaced with a new Efficiency quadrant, which includes UKPIL people and non-people costs in place of total UKPIL costs; and Group revenue was moved to the Financial quadrant.

Further details relating to the link between our KPIs and Executive Remuneration, and the Corporate Balanced Scorecard for 2016-17, can be found in the Directors' remuneration report on page 75.

Key

Link to strategy	Winning in parcels	Defending letters	Growing in new areas

Below threshold | Threshold | Target/stretch

People

KPI and strategic link(s)	Measured by	Key activities and achievements in the year	Performance against target
Safety (%) Winning in parcels, Defending letters	The year-on-year reduction in the number of work-related accidents resulting in an absence on the next day or shift per 100,000 hours worked[1].	• **We continue to deliver reductions to Lost Time Accident Frequency Rate** • Reduced number of road traffic collisions • Driver training programmes, directed by a Road Safety Taskforce of vehicle operators across Royal Mail, including our unions • Upgraded Royal Mail Group Safety, Health and Environment (SHE) Management System • Established a Dog Working Group to undertake a national review of the Group Management of Dog Attack Risk Standard and to identify best practice engagement	**2015-16** Actual: 30% (Target/stretch) 2014-15: 14%[2] (above target) 2013-14: 31%[2] (above target)
Sick Absence (%) Winning in parcels, Defending letters, Growing in new areas	Sick Absence hours as a percentage of expected working hours.	• **We have reduced Sick Absence across Royal Mail** • Focus on compliance with management procedures and wellbeing support • One of only four companies to have achieved number one company status in BITC (Business in the Community) Wellbeing benchmark • 'Time to Change' pledge affirms our commitment to our mental health programme, First Class Mental Health	**2015-16** Actual: 4.51% (Threshold) 2014-15: not a KPI 2013-14: not a KPI
Employee engagement (score) Winning in parcels, Defending letters, Growing in new areas	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.	• **We achieved our employee engagement index score** • Promoted employee engagement within the business through: 'My Future', a career development website accessible to all employees; 'Appreciate', a recognition scheme to recognise our people for a job well done; and 'My Bundle', a new employee benefits portal • 'Big Conversation' with 23,000 colleagues • Embedding our Operations Standards, with a focus on safety quality; efficiency; and people	**2015-16** Actual: 57 (Target/stretch) 2014-15: 56 (above target) 2013-14: 54 (above target)
Employee customer focus (score) Winning in parcels, Defending letters, Growing in new areas	An annual survey by Ipsos MORI measuring how focused our people are on delivering improvements in customer service.	• **Our employee customer focus index score reduced in 2015-16** • Introduced new and improved products and services at pace for sending and receiving customers • Last acceptance times in Mail Centres and RDCs now as late as midnight • Delivered a great Christmas – even better than last year. Extensive planning ensured we had the capacity to accommodate additional volumes from retail customers and other delivery operators	**2015-16** Actual: 67 (Below threshold) 2014-15: 69 (threshold) 2013-14: 69 (above target)

[1] For 2015-16 the lost time accident KPI was changed from an absolute in-year metric to a year-on-year reduction metric
[2] Prior year results are stated on a year-on-year reduction basis as per the 2015-16 KPI metric definition

Customer

KPI and strategic link(s)	Measured by	Key activities in the year	Performance against target
First Class Quality of Service (%)	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[3].	• **We narrowly missed the 93.0 per cent First Class mail target** • Exceeded 98.5 per cent Second Class mail target • Met or exceeded the minimum target of 91.5 per cent for First Class delivery in 104 out of 118 postcode areas	**2015-16** Actual: 92.6% 2014-15: 93.1% (above target) 2013-14: 93.3% (above target)
Composite Parcels Quality of Service (%)	A measure of the overall Quality of Service performance of core network parcels delivered by their service specification, weighted by traffic volume.	• **Embedding our Operations Standards to support high Quality of Service** • Improvements in first time delivery rates through Delivery to Neighbour, Nominate a Neighbour and With your Neighbour	**2015-16** Actual: 94.4% 2014-15: 95.0% (above threshold) 2013-14: 95.1% (target)
Mean business customer satisfaction (score)	Mean business customer satisfaction scores include the impact of a number of issues including price, service quality and customer experience.	• **We maintained good levels of satisfaction amongst our business customers** • Expanded support to key business customers and online marketplace traders, including eBay sellers • Extended e-retailers' access to our network to seven days a week • More flexible about the size and shape of parcels we can deliver	**2015-16** Actual: 76 2014-15: 76 (stretch) 2013-14: 75 (target)
Customer complaints ('000)	Number of complaints (not claims) opened by our Customer Service team.	• **Customer complaints have increased in two out of our four major categories: redirections, redeliveries, misdeliveries and 'Something for You' cards** • Operations Standards help us to work more efficiently and consistently across the business • Rolling out Customer and You training to around 4,000 employees as we seek to improve our customers' experiences at the Enquiry Office	**2015-16** Actual: 476 2014-15: 453[4] (above target) 2013-14: 466 (stretch)

Efficiency

KPI and strategic link(s)	Measured by	Key activities in the year	Performance against target
Productivity for collections, processing and delivery (%)	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).	• **An improvement in productivity was achieved through a reduction in frontline hours despite an increase in workload**	**2015-16** Actual: 2.4% 2014-15: 2.5% (above target) 2013-14: 1.7% (threshold)
UKPIL people costs (£m)	Adjusted people costs for UKPIL.	• **UKPIL people costs reduced by one per cent due to a 2.0 per cent reduction in frontline hours, savings from the management reorganisation programme last year and the impact of our cost avoidance programme**	**2015-16** Actual: £4,764m 2014-15: not a KPI 2013-14: not a KPI
UKPIL non-people costs (£m)	Total non-people costs for UKPIL.	• **Total non-people costs reduced three per cent, driven by our cost avoidance programme**	**2015-16** Actual: £2,294m 2014-15: not a KPI 2013-14: not a KPI

[3] This accounts for the impact of factors which are beyond Royal Mail's control, such as weather
[4] Total number of complaints for 2014-15 has been restated from 445,476 to 452,538 to include 7,062 complaints relating to mail consumables

Financial

KPI and strategic link(s)	Measured by	Key activities in the year	Performance against target
Group revenue (£m)	Group revenue adjusted for budgeted foreign exchange rate.	• **Group revenue increased by one per cent** • Revenue growth in GLS offset a decline in UKPIL revenue	**2015-16** Actual: £9,191m 2014-15: £9,556m (above threshold) 2013-14: £9,436m (above threshold)
Group operating profit before transformation costs (£m)	Adjusted Group operating profit before transformation costs, adjusted for budgeted foreign exchange rate.	• **Adjusted Group operating profit before transformation costs increased** • Tight cost control meant that UKPIL underlying operating costs before transformation costs reduced by one per cent	**2015-16** Actual: £738m 2014-15: £620m[5] (target) 2013-14: £670m[5] (above threshold)
Free cash flow (£m)	Free cash flow before cash flows relating to London development property portfolio.	• **Free cash flow before net cash flows from the London development property portfolio was £315 million**	**2015-16** Actual: £315m 2014-15: £353m (above target) 2013-14: £398m (stretch)

[5] Prior year results are on a Reported basis, adjusted for budgeted foreign exchange rate

Adding value and convenient services

The journey so far...

Easier shipping and tracking platform for e-retailers

Piloting fleet maintenance services to third parties

Opened network for longer and pushed back latest acceptance times

3,000 finger scanners deployed in Mail Centres and RDCs

Extended Local Collect network over 11,700 sites

What's in our plan...

Over next two years, further rollout of parcel sortation machines

Rolling out 76,000 new PDAs

Increasing number of parcels we barcode and scan

UK Parcels, International & Letters (UKPIL)

Summary trading results (£m)	**Adjusted[1] 52 weeks ended 27 March 2016**	Adjusted 52 weeks ended 29 March 2015	Underlying change[2]
Letters & other mail	**3,312**	3,400	(2%)
Marketing mail	**1,158**	1,167	Flat
Total letters	**4,470**	4,567	(2%)
Parcels	**3,196**	3,190	1%
Revenue[3]	**7,666**	7,757	(1%)
Operating costs before transformation costs	**(7,058)**	(7,142)	(1%)
Operating profit before transformation costs	**608**	615	3%
Transformation costs	**(191)**	(145)	
Operating profit after transformation costs	**417**	470	(6%)
Margin	***5.4%***	*6.1%*	*(30 bps)*
Volumes (m)			
Addressed letters	**12,563**	13,009	(3%)
Unaddressed letters	**2,993**	3,157	(5%)
Parcels			
Core network	**1,034**	1,015	2%
Parcelforce Worldwide	**96**	86	12%
Total	**1,130**	1,101	3%

Revenue and volumes

UKPIL revenue was down one per cent, with parcels revenue up one per cent and total letter revenue down two per cent.

Total parcel volumes increased by three per cent. Parcel volume growth was driven by import parcels, Royal Mail account parcels and Parcelforce Worldwide more than offsetting the decline in higher AUR consumer/SME volumes and export parcels. We continue to see higher volumes of lower AUR import parcels, largely from China. Our improved product offering in account parcels resulted in new contract wins, which more than replaced lost Amazon traffic. Royal Mail account parcel volumes, excluding Amazon, grew by seven per cent. Parcelforce Worldwide continued to perform strongly with volume growth of 12 per cent due to new customer wins and increased business from existing customers. Given this particularly strong performance, we expect that the rate of growth will slow in 2016-17. The decline in international export parcel volumes was driven by difficult market conditions, including unfavourable exchange rate movements and an increasingly competitive environment. Parcel revenue was up one per cent, largely as a result of the change in mix.

Addressed letter volumes declined by three per cent (excluding the impact of election mailings), better than our forecast range. The one-off return of direct delivery volumes had a positive impact of around one percentage point. Overall, this was a good performance given the absence of a year-on-year improvement in general economic conditions. Total letter revenue (including marketing mail) decreased by two per cent. Price increases and growth in lower AUR network access and import letters were offset by declines in higher AUR consumer/SME and export letters.

Revenue from election mailings, relating to the general election in 2015-16, was slightly lower than the prior year. We are expecting a smaller benefit from election mailings in 2016-17, which will have a disproportionately negative impact on letter revenue in the first three months of the financial year.

Marketing mail revenue, which includes revenue from our data business, redirections, Address Management Unit, and addressed and unaddressed advertising mail, was flat. We saw an increasing slow-down in activity in the second half of the year, reflecting the softening economic conditions. Unaddressed letter volumes declined by five per cent, better than the performance in the first half, which was impacted by a reduction in door-to-door marketing spend in certain sectors in that period.

Operating costs

Total adjusted operating costs before transformation costs declined by one per cent on an underlying basis, in line with our expectations and reflecting our strategic focus on cost avoidance and efficiency. Our cost avoidance programme, which targets avoiding around £500 million of annualised costs cumulative over the three financial years to 2017-18, is on track. We avoided £182 million of costs in the year, split broadly evenly between people (£89 million) and non-people (£93 million) costs.

People costs declined by one per cent. This was driven by a 2.4 per cent improvement in productivity[4] and £40 million

1 All adjusted results are a non-IFRS measure and exclude specific items. The commentary in this report, unless specified otherwise, focuses on the operating results on an adjusted basis. 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 results of the Group

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 Stamp, 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

4 Collection, processing and delivery in the UKPIL core network

Operating costs (£m)	Adjusted 52 weeks ended 27 March 2016	Adjusted 52 weeks ended 29 March 2015	Underlying change	Change after reclassification
People costs	**(4,764)**	(4,789)	(1%)	n/a
Non-people costs	**(2,294)**	(2,353)	(3%)	n/a
Distribution and conveyance costs	**(776)**	(821)	(5%)	n/a
Infrastructure costs	**(890)**	(919)	(3%)	Flat
Other operating costs	**(628)**	(613)	2%	(2%)
Total operating costs before transformation costs	**(7,058)**	(7,142)	(1%)	n/a

Transformation costs (£m)	Adjusted 52 weeks ended 27 March 2016	Adjusted 52 weeks ended 29 March 2015
Voluntary redundancy	**(117)**	(81)
Project costs	**(72)**	(55)
Business transformation payments	**(2)**	(9)
Total	**(191)**	(145)

savings in relation to the management reorganisation programme implemented in 2014-15. These offset pay increases, largely the 2.8 per cent frontline pay award, and an increase in volume-driven costs in Parcelforce Worldwide. The improvement in productivity was achieved through a 2.0 per cent reduction in core network hours, despite an increase in workload, partly driven by an increase in tracked products and the increasing size of parcels. We continue to target productivity improvements of 2.0-3.0 per cent per annum.

As previously disclosed, as a result of the new single-tier state pension scheme 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 around £70 million from 2016-17. In addition, other wage legislation such as the Working Time Directive, Apprentice Levy and increased costs relating to redundancy payments will impact people costs in the future. We would expect to exclude the first year impact of such legislative changes from underlying movements if material.

Non-people costs declined by three per cent. Distribution and conveyance costs reduced by five per cent. This was driven by a reduction in terminal dues, partly as a result of lower export volumes, improved fleet management and a reduction in the usage of UK air routes leading to lower jet fuel costs. Total diesel and jet fuel costs of £172 million were £14 million lower than 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 £155 million in 2016-17. The overall reduction in distribution and conveyance costs was partly offset by costs associated with the increasing size of parcels in our network. Infrastructure costs were flat, after the reclassification of internal costs, as savings on facilities management, utilities and lower depreciation were offset by increases in IT costs in relation to the IT transformation programme. We have invested significantly in IT and other assets as part of the transformation programme and as a result, the depreciation and amortisation charge is expected to increase going forward, with an increase of around £20 million in 2016-17. Other operating costs were down two per cent, after the reclassification of internal costs, due to reductions in amounts payable to Post Office Limited and our continued focus on discretionary costs.

As a result of the acquisition of the minority shareholding in Romec Limited on 31 March 2016, the costs of Romec Limited, previously reported in the 'Other' segment, will be incorporated into UKPIL people and non-people costs from 2016-17, replacing the facilities management charge within infrastructure costs.

On a reported[5] basis, UKPIL operating costs before transformation costs increased by £44 million to £7,315 million. This was mainly as a result of the increase in the IAS 19 non-cash pension service charge caused by a decrease in AA corporate bond yields.

[5] Prepared in accordance with IFRS

Transformation costs

Transformation costs increased as expected, mainly due to higher voluntary redundancy costs. There was a net reduction of around 3,500 employees in UKPIL in the period, equivalent to around 2,800 full-time equivalents (FTEs). The reduction was largely driven by voluntary redundancies and was weighted towards the first half. Project costs increased by £17 million, largely in relation to projects supporting the cost avoidance and efficiency programmes.

Operating profit after transformation costs

Adjusted operating profit after transformation costs was £417 million, giving a margin of 5.4 per cent, down 30 basis points due to the increase in transformation costs.

Reported operating profit after transformation costs was £160 million, giving a margin of 2.1 per cent, reflecting the IAS 19 pension charge.

General Logistics Systems (GLS)

Summary trading results (continuing operations) (€m)	Year ended March 2016	Year ended March 2015[1]	Change
Revenue	**2,158**	1,978	9%
Operating costs	**(1,998)**	(1,832)	9%
Operating profit	**160**	146	9%
Margin	***7.4%***	*7.4%*	*Flat*
(£m)			
Revenue	**1,580**	1,557	
Operating costs	**(1,463)**	(1,442)	
Operating profit	**117**	115	
Volumes (m)	**431**	391	10%

Operating costs (€m)	Year ended March 2016	Year ended March 2015	Change
People costs	**(489)**	(450)	9%
Non-people costs	**(1,509)**	(1,382)	9%
Distribution and conveyance costs	**(1,312)**	(1,199)	9%
Infrastructure costs	**(143)**	(130)	10%
Other operating costs	**(54)**	(53)	2%
Total operating costs	**(1,998)**	(1,832)	9%

Revenue and volumes

GLS performed strongly throughout the year. Volumes were up 10 per cent, with continued strong growth in international volumes. Revenue increased by nine per cent as pricing was impacted by lower average parcel weights. Revenue growth was achieved in almost all markets and from a broad customer base, with no one customer accounting for more than two per cent of total GLS revenue. The three major markets, Germany, Italy and France, accounted for 68 per cent of total GLS revenue.

Operating costs

Total operating costs were up nine per cent, driven by volume growth.

People costs increased by nine per cent as a result of increased semi-variable costs linked to volume, additional headcount associated with the operational response to the German minimum wage legislation, pay increases and the impact of acquisitions. Non-people costs grew broadly in line with volume growth. Distribution and conveyance costs reflected higher volumes and the impact of German minimum wage legislation on subcontractor costs.

Infrastructure costs increased by 10 per cent, largely due to higher depreciation and amortisation charges following increased investment in IT.

Operating profit

Operating profit of €160 million benefited from one-off provision releases of around €3 million, largely in relation to the successful resolution of historical litigation claims. Excluding these, the operating profit margin was 7.3 per cent, compared with the margin (including discontinued operations) of 7.0 per cent for 2014-15. Reported profit was impacted by exchange rate movements of £8 million.

Summary of performance

Germany

Germany remains the largest market for GLS by revenue. Revenue in GLS Germany grew by four per cent. Profitability has been impacted by the German minimum wage legislation but this was partly mitigated by planning and operational initiatives and better than expected volumes from new and existing customers. As previously reported, on 31 March 2015 GLS Germany sold its entire holding in its subsidiary DPD Systemlogistik GmbH & Co. KG (DPD SL) resulting in a profit on disposal of £31 million.

Italy

GLS Italy performed strongly throughout the year. Better than expected revenue growth of 18 per cent was driven by strong business-to-consumer (B2C) volume growth, market share gains and the benefit of acquisitions. This was reflected in a strong profit growth. Given the strong performance over the last two years, it will be challenging to maintain this rate of growth going forwards.

France

GLS France delivered revenue growth of six per cent from existing and new customers. Operating losses reduced by €3 million to €13 million. The pace of the turnaround programme has slowed due to challenging market conditions. As a result, we now expect to reach break-even in 2017-18.

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

Revenue growth was achieved in the majority of other developed European markets, which represent 22 per cent (2014-15 22 per cent) of total GLS revenue.

Other developing/emerging European markets (including Croatia, Czech Republic, Hungary, Poland, Romania, Slovakia, Slovenia)

We saw revenue growth in all developing/emerging European markets, with particularly strong growth in Hungary, Poland and Romania. In addition, the start-up company launched in Croatia in August 2013 more than doubled its revenue in 2015-16. In total, developing/emerging markets represent 10 per cent (2014-15 nine per cent) of total GLS revenue.

[1] All results for 2014-15 have been adjusted to reflect the sale of DPD SL on 31 March 2015. Revenue €122 million; operating costs €122 million; volumes 45 million

Financial review

Reported results

Reported results are prepared in accordance with IFRS. Reported Group revenue reduced to £9,251 million (2014-15 £9,328 million). Operating costs before transformation costs increased to £8,766 million (2014-15 £8,717 million). Group operating profit before transformation costs reduced to £485 million (2014-15 £611 million) and operating profit after transformation costs decreased to £294 million (2014-15 £466 million). The reduction was mainly driven by the year-on-year increase in the IAS 19 pension service charge, which is treated as a specific item. The total charge for other operating specific items reduced to £156 million (2014-15 £248 million) mainly due to lower legacy costs. As a result, Group operating profit after operating specific items was £138 million (2014-15 £218 million). Profit before tax reduced to £267 million (2014-15 £400 million) as the prior year benefited from the profit on disposal of the Paddington site. Earnings per share for continuing operations reduced from 32.5 pence to 21.5 pence.

Presentation of results

The remaining commentary in this financial review, unless otherwise indicated, focuses on the adjusted results (continuing operations). The adjusted basis reflects the cash cost of providing pensions, which Management believes is a more meaningful basis upon which to analyse business performance. Movements in revenue, costs, profits and margins are on an underlying basis. This is consistent with the way that financial performance is measured by Management and reported to the Board. Again, this assists in providing a meaningful analysis of the trading results of the Group. The analysis of underlying movements in adjusted results is set out at the end of this section.

Group revenue

(£m)	**Adjusted 52 weeks ended 27 March 2016**	Adjusted 52 weeks ended 29 March 2015	Underlying change
UKPIL	**7,666**	7,757	(1%)
GLS	**1,580**	1,557	9%
Other[1]	**5**	14	
Total revenue	**9,251**	9,328	1%

The main factors impacting revenue in the year are described in the sections entitled 'UK Parcels, International & Letters (UKPIL)' and 'General Logistics Systems (GLS)'. 'Other' revenue reduced due to the expiration of a contract to provide facilities management services to Post Office Limited.

Group operating costs

(£m)	**Adjusted 52 weeks ended 27 March 2016**	Adjusted 52 weeks ended 29 March 2015	Underlying change
People costs	**(5,199)**	(5,230)	Flat
Non-people costs	**(3,310)**	(3,358)	1%
Distribution and conveyance costs	**(1,736)**	(1,764)	2%
Infrastructure costs	**(995)**	(1,019)	(2%)
Other operating costs	**(579)**	(575)	1%
Total operating costs	**(8,509)**	(8,588)	Flat

Group operating costs were flat on an underlying basis as lower UKPIL costs were offset by increases in GLS. The main factors impacting operating costs in the year are described in the sections entitled 'UK Parcels, International & Letters (UKPIL)' and 'General Logistics Systems (GLS)'.

Group operating profit after transformation costs

(£m)	**Adjusted 52 weeks ended 27 March 2016**	Adjusted 52 weeks ended 29 March 2015
UKPIL	**417**	470
GLS	**117**	115
Other	**17**	10
Group operating profit after transformation costs	**551**	595
Margin	***6.0%***	*6.4%*

[1] 'Other' revenue excludes inter-segment revenue of £141 million (2014-15 £152 million)

Group operating profit before transformation costs grew by five per cent. The increase in operating profit from the Other segment relates largely to improved trading performance in Romec Limited. Group operating profit after transformation costs declined by two per cent as a result of higher transformation costs. Operating profit margin after transformation costs decreased by 10 basis points on an underlying basis to 6.0 per cent.

Specific items

Operating specific items in the period related mainly to the 'pension charge to cash difference' of £257 million (2014-15 £129 million) and the Employee Free Shares charge of £158 million (2014-15 £169 million). The difference between the pension charge and cash cost represents the difference between the income statement pension charge rate of 29.8 per cent and the actual cash payments into the schemes. Year-on-year, the increase in the difference has been driven by a decrease in AA corporate bond yields, which increases the income statement charge but not the cash payments. The IAS 19 pension service charge rate for 2016-17 is 28.8 per cent which means that the pension charge to cash difference is expected to reduce to around £230 million. The charge for the Employee Free Shares will reduce over time reflecting the phasing of the charge over the vesting period. For 2016-17 the Employee Free Shares charge is expected to be around £110 million, taking into account the further one per cent of Free Shares to be allocated in due course and an estimate of the level and mix of leavers.

Non-operating specific items include a profit on disposal of property, plant and equipment of £29 million (2014-15 £133 million) mainly arising from the sale of the Croydon Delivery Office. The net pension interest credit was £113 million (2014-15 £75 million). This is higher than the prior year due to the increase in the accounting surplus at 29 March 2015 and the impact of the change in pension accounting policy (see Note 1 to the financial statements). For 2016-17 the pension interest credit is expected to be around £120 million due to the increase in the accounting surplus at 27 March 2016. Profit on disposal of discontinued operations of £31 million (2014-15 £nil) relates to the sale of DPD SL, a subsidiary of GLS Germany.

Net finance costs

	Rate	Facility (£m)	Drawn (£m)	Facility end date
€500 million bond	2.5%	392	392	2024
Revolving credit facility	LIBOR+0.55%	1,050	–	2020-21
Total		**1,442**	**392**	

Net finance costs were £13 million compared with £26 million in the prior year. The reduction was mainly due to improved terms on our borrowing facilities and leases and lower outstanding balances of gross debt following the amendment of the syndicated bank facilities in the prior year.

The blended interest rate on gross debt (including finance leases) for 2016-17 is expected to be approximately three per cent.

Tax

(£m)	**Adjusted 52 weeks ended 27 March 2016**	Adjusted 52 weeks ended 29 March 2015
UK tax charge	**(84)**	(102)
Foreign tax charge	**(34)**	(36)
Total tax charge	**(118)**	(138)
Effective tax rate	**22%**	24%

The Group effective tax rate on adjusted profit before tax was 22 per cent. The UK effective tax rate of 20 per cent is broadly in line with the UK Corporation Tax rate. GLS effective tax rate of 29 per cent (2014-15 31 per cent) has reduced mainly due to changes in tax rules in certain territories, particularly Italy.

Earnings per share (EPS)

Basic adjusted EPS for continuing operations was 41.3 pence compared with 42.8 pence in the prior year, reflecting the increase in transformation costs.

Cash flow

(£m)	52 weeks 2016	52 weeks 2015[2]
EBITDA before transformation costs	**756**	889
Pension charge to cash difference	**257**	129
Adjusted EBITDA before transformation costs	**1,013**	1,018
Trading working capital movements	**(26)**	(5)
Share-based awards (SAYE and LTIP) charge to cash difference	**13**	5
Dividends received from associate	**1**	–
Total investment	**(694)**	(648)
Income tax paid	**(40)**	(37)
Net finance costs paid	**(13)**	(18)
In-year trading cash flow	**254**	315
Other working capital movements	**6**	17
Cash cost of operating specific items	**(6)**	(8)
Proceeds from disposal of property (excluding London property portfolio), plant and equipment	**38**	39
Proceeds from disposal of discontinued operations	**41**	–
Acquisition of business interests	**(18)**	(10)
Cash flows relating to London property portfolio	**(23)**	100
Free cash flow	**292**	453

Adjusted EBITDA before transformation costs was broadly flat at £1,013 million.

Trading working capital movements were an outflow of £26 million largely as a result of the change in international sales mix, a trend which is expected to continue.

In-year trading cash flow was an inflow of £254 million, £61 million lower than the prior year mainly driven by an increase in investment.

Investment

(£m)	52 weeks 2016	52 weeks 2015
Growth capital expenditure	**(253)**	(168)
Replacement capital expenditure	**(208)**	(252)
Transformation operating expenditure	**(233)**	(228)
Voluntary redundancy – ongoing	**(159)**	(62)
Voluntary redundancy – management reorganisation	**–**	(96)
Project costs	**(72)**	(61)
Business transformation payments	**(2)**	(9)
Total investment	**(694)**	(648)
Proceeds from disposal of property (excluding London property portfolio), plant and equipment	**38**	39
Net investment	**(656)**	(609)

Total gross investment increased to £694 million, mainly due to an increase in expenditure on projects and initiatives to support growth. Growth capital expenditure increased by £85 million with the principal investments being in relation to parcel IT systems, parcels automation, the purchase of new PDAs and investment in GLS. Replacement capital expenditure decreased by £44 million. The main investment in the period related to IT, in particular IT transformation, with reduced spend on vehicles. Transformation spend increased by £5 million to £233 million, mainly as a result of increased spend in relation to project costs largely due to the cost avoidance programme. Total spend in relation to voluntary redundancy was in line with the prior year. Proceeds from the disposal of property, plant and equipment (excluding London property portfolio), mainly relating to the sale of the Croydon Delivery Office, were £38 million, giving a total net investment of £656 million. This was slightly higher than expected due to timing of certain projects.

Tax payments of £40 million largely relate to amounts paid in Europe. In the UK, we continue to be able to offset the majority of taxable profits with capital allowances and brought forward losses. This is now expected to normalise in 2018-19, mainly due to relief available from additional Employee Free Shares allocations.

[2] 52 weeks 2015 has been restated to move change in GLS client cash of £6 million from 'Trading working capital movements' to 'Other working capital movements' and to extract £10 million in respect of 'Acquisition of business interests' from 'Growth capital expenditure' within 'Total investment'

Cash cost of operating specific items related to legacy and legal costs. Going forward, the Company is liable to pay National Insurance contributions on any Free Shares that are sold by employees prior to the end of each of the Share Incentive Plans' five year terms. The amounts and timing of any such cash payments are uncertain but will be treated as operating specific items.

As previously reported, on 31 March 2015 GLS Germany sold its entire holding in its subsidiary DPD SL resulting in proceeds from sale of discontinued operations of £41 million.

Acquisition of business interests cash flows of £18 million relate to amounts paid in respect of investments made in the year, mainly NetDespatch Ltd, Mallzee Ltd, Intersoft Systems & Programming Limited and acquisitions in GLS, including deferred consideration paid in relation to acquisitions made in prior periods.

Cash flows relating to the London property portfolio of £23 million largely relate to remediation work, reprovisioning costs and professional fees at the Nine Elms and Mount Pleasant sites.

Net debt

(£m)	Balance sheet category	52 weeks 2016	52 weeks 2015
Obligations under finance leases	Current liabilities	**(84)**	(93)
Interest-bearing loans and borrowings	Non-current liabilities	**(392)**	(366)
Obligations under finance leases	Non-current liabilities	**(136)**	(179)
Total gross debt		**(612)**	(638)
Cash and cash equivalents		**368**	287
Cash at bank and in hand	Current assets	**185**	127
Client cash	Current assets	**13**	20
Cash equivalent investments	Current assets	**170**	140
Financial assets – short-term deposits	Current assets	**–**	56
Pension escrow investments (RMSEPP)	Non-current assets	**20**	20
Total net debt		**(224)**	(275)

Net debt was £224 million at 27 March 2016, £51 million lower than at 29 March 2015. The decrease in net debt was driven by the in-year trading cash flow and proceeds from the disposal of assets, partially offset by dividend payments to equity holders of the parent Company.

We continue to target investment grade credit metrics, that is, no lower than BBB- under Standard & Poor's methodology.

A reconciliation of net debt is shown below.

(£m)	52 weeks 2016	52 weeks 2015
Net debt brought forward	**(275)**	(555)
In-year trading cash flow	**254**	315
Other working capital movements	**6**	17
Cash cost of operating specific items	**(6)**	(8)
Proceeds from disposal of property (excluding London property portfolio), plant and equipment	**38**	39
Proceeds from disposal of discontinued operations	**41**	–
Acquisition of business interests	**(18)**	(10)
Cash flows relating to London property portfolio	**(23)**	100
Dividends paid to equity holders of the parent Company	**(213)**	(200)
Dividends paid to non-controlling interests	**(7)**	(1)
Decrease in finance lease obligations (non-cash)	**–**	8
Foreign currency exchange impact	**(21)**	20
Net debt carried forward	**(224)**	(275)

Pensions

The IAS 19 pension position at 27 March 2016 was a surplus of £3,430 million, compared with a surplus of £3,049 million at 27 September 2015 and £3,367 million (restated – see Note 1 to the financial statements) at 29 March 2015. The IAS 19 accounting position and key assumptions for the valuation are provided in Note 10.

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. The Royal Mail Senior Executives Pension Plan (RMSEPP) triennial valuation at 31 March 2015 has been completed, based on the assumptions agreed as part of the Funding Agreement made between the Company and the Trustee in 2013. If the assumptions used for the 2012 triennial valuation of the RMPP and the 2015 triennial valuation of the RMSEPP are rolled forward to 31 March 2016, the combined actuarial surplus would be £1,777 million, compared with £1,525 million at 30 September 2015 and £1,793 million at 31 March 2015. It is this basis that the Pension Trustee and the Company use to assess the ongoing funding needs of these schemes. 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. The Trustee increased this hedging further during 2015-16, and on an actuarial basis the amount of the surplus at March 2016 relating to the liabilities hedged in advance of those accrued to the same date, was approximately £550 million. This element of the surplus will unwind over time.

Under the 2012 triennial valuation of the 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. This was made possible by 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, or 30 per cent of pensionable pay. Accordingly, the surplus was expected to decline over time.

Although market conditions for defined benefit schemes have been very volatile over the past 12 months, the funding position of the RMPP at the end of the 2015-16 financial year is broadly in line with that at the end of 2014-15, largely due to increases in the market value of gilts and derivative assets held to hedge interest rate and inflation risks. We continue to expect that the RMPP actuarial surplus will reduce over time, although the pace of this reduction will only be confirmed once the 2015 triennial valuation process has been concluded.

As part of the March 2012 actuarial valuation, the Company agreed to pay additional contributions of up to £50 million a year from April 2016 onwards if the Trustee considers these necessary to maintain the Plan's projected funding position in March 2019. Until the Trustee has carried out its assessment of liabilities at 31 March 2016, we will not know if any payment will become due for 2016-17.

Dividends

The final dividend of 14.3 pence per share in respect of the 2014-15 financial year was paid on 31 July 2015, following shareholder approval.

The Board is recommending a final dividend of 15.1 pence per ordinary share, payable on 29 July 2016 to shareholders on the register at the close of business on 1 July 2016, subject to shareholder approval at the AGM on 21 July 2016. This gives a total dividend for the year of 22.1 pence, an increase of five per cent.

As previously stated, given the seasonality of the Group's business, the Board would expect to pay an interim dividend each year equal to approximately one-third of the prior year's total dividend and to set the final dividend for each year in light of the full year performance of the Group.

Property

We continue to adopt a flexible approach in relation to our large London development sites at Nine Elms and Mount Pleasant and continue to explore options to realise value from them. Proceeds from the sale of the Paddington site will be reinvested into these larger sites to enable development.

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 2016-17 operating profit to changes in commodity prices and fuel duty.

2016-17 Exposure	Forecast total cost £m	Fuel duty (incl irrecoverable VAT) – not hedged £m	Underlying commodity exposure (incl irrecoverable VAT) £m	Underlying commodity volume hedged %	Residual unhedged underlying commodity exposure (incl irrecoverable VAT) £m	Impact on 2016-17 operating profit of a further 10% increase in commodity price £m	Impact on 2016-17 operating profit of a further 10% increase in fuel duty £m
Diesel	148	94	54	90	3	–	(9)
Jet	8	–	8	77	2	–	n/a
Total	156	94	62	88	5	–	(9)

As a result of hedging it is anticipated that the diesel commodity cost for 2016-17 will reduce by £12 million. Without hedging the cost reduction would have been £31 million (based upon closing fuel prices at 27 March 2016). Due to the policy of hedging in advance, the current oil prices will result in anticipated lower effective diesel commodity cost in the future.

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

In 2015-16, the average exchange rate between Sterling and the Euro was £1/€1.37 representing an eight per cent strengthening in Sterling compared with £1/€1.27 in 2014-15, which resulted in a £8 million reduction in GLS' reported operating profits.

The Group manages its interest rate risk through a combination of fixed rates loans and leasing, floating rate loans/facilities and floating rate financial investments. At 27 March 2016, all of the gross debt of £612 million was at fixed rate to maturity.

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

Events after the reporting year

Romec Limited (Romec) – acquisition of 49 per cent shareholding

On 31 March 2016, Royal Mail Group Limited (RMG), the main operating subsidiary of Royal Mail plc, acquired the 49 per cent of shares in Romec that it did not already own, from ENGIE (formerly Cofely Workplace Limited), making RMG the sole shareholder of Romec. The financial terms of the acquisition are not considered by Management to be material in the context of the Group as a whole.

Settlement of French Competition Authority fine

Following the results of an investigation by the French Competition Authority (Autorité de la Concurrence) in respect of alleged breaches of antitrust laws by one of its subsidiaries, GLS France, a settlement amount of €55 million was paid by the Group on 15 April 2016. This amount is fully provided for in the Group financial statements at 27 March 2016 and at 29 March 2015.

Auditor

Following the audit tender process explained on page 50 of the Annual Report and Financial Statements 2014-15, the proposal to appoint KPMG LLP as external auditor was approved by shareholders at the 2015 AGM.

Underlying change

Movements in revenue, costs, profits and margins are shown on an underlying basis. Underlying movements take into account differences in working days in UKPIL (2015-16 303; 2014-15 304) and movements in foreign exchange in GLS (2015-16 £1/€ 1.37; 2014-15 £1/€ 1.27). In addition, adjustments are made for non-recurring or distorting items, which by their nature may be unpredictable. For volumes, underlying movements are adjusted for working days in UKPIL, and exclude elections in letter volumes. For 2016-17, the estimated impact of working days in UKPIL is around £65 million (2016-17 305.6 days).

(£m)	Adjusted 2015-16	Adjusted 2014-15	Working days (UKPIL)	Foreign exchange (GLS)	Underlying 2014-15	Underlying change
Revenue						
UKPIL	7,666	7,757	(26)	–	7,731	(1%)
GLS	1,580	1,557	–	(109)	1,448	9%
Other	5	14	–	–	14	n/m
Group	9,251	9,328	(26)	(109)	9,193	1%
Costs						
Group						
People	(5,199)	(5,230)	–	25	(5,205)	Flat
Non-people costs	(3,310)	(3,358)	–	76	(3,282)	1%
Distribution and conveyance costs	(1,736)	(1,764)	–	66	(1,698)	2%
Infrastructure costs	(995)	(1,019)	–	7	(1,012)	(2%)
Other operating costs	(579)	(575)	–	3	(572)	1%
Operating costs before transformation costs	(8,509)	(8,588)	–	101	(8,487)	Flat
UKPIL						
People	(4,764)	(4,789)	–	–	(4,789)	(1%)
Non-people costs	(2,294)	(2,353)	–	–	(2,353)	(3%)
Distribution and conveyance costs	(776)	(821)	–	–	(821)	(5%)
Infrastructure costs	(890)	(919)	–	–	(919)	(3%)
Other operating costs	(628)	(613)	–	–	(613)	2%
Operating costs before transformation costs	(7,058)	(7,142)	–	–	(7,142)	(1%)
GLS						
Operating costs	(1,463)	(1,442)	–	101	(1,341)	9%
Profit, margins and EPS						
Group						
Operating profit before transformation costs	742	740	(26)	(8)	706	5%
Margin	8.0%	7.9%			7.7%	30bps
Transformation costs	(191)	(145)	–	–	(145)	
Operating profit after transformation costs	551	595	(26)	(8)	561	(2%)
Margin	6.0%	6.4%			6.1%	(10bps)
Profit before tax	538	569	(26)	(8)	535	–
Tax	(118)	(138)			(130)	–
Profit for the period	420	431			405	–
Profit attributable to the Group	413	428			402	–
Group earnings per share (pence)	41.3	42.8			40.2	–
UKPIL						
Operating profit before transformation costs	608	615	(26)	–	589	3%
Margin	7.9%	7.9%	–	–	7.6%	30bps
Transformation costs	(191)	(145)	–	–	(145)	
Operating profit after transformation costs	417	470	(26)	–	444	(6%)
Margin	5.4%	6.1%			5.7%	(30 bps)
GLS						
Operating profit before transformation costs	117	115	–	(8)	107	9%
Margin	7.4%	7.4%			7.4%	Flat

Principal risks

The Corporate Governance section describes in detail how the Group manages its risk from the Group Board level, its respective sub-committees and throughout the organisation. Further details can be found on pages 42-84.

The table below details each principal business risk, those aspects that would be impacted were the risk to materialise, our assessment of the current status of the risk and how the Group mitigates it.

Key

Relative severity	Change during the year	Speed at which the risk could impact	
High	Increasing risk	Fast: 6 months	V Included in Longer Term Viability assessment
Medium	Decreasing risk	Medium: 6-12 months	
Low	Stable	Slow: >12 months	

Principal risk | Status | How we are mitigating the risk

Changes in market conditions and customer behaviour

The industry sectors in which we operate remain highly competitive, with customers demanding more and our competitors responding quickly to these changing demands.

Customer behaviour and Royal Mail's responsiveness to market changes

V

Principal risk

Changes in customer behaviour, and changes to the markets in which the Group sells its products and services, could impact our forecast rates of decline and growth of letter and parcel volumes, respectively.

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 these markets.

Status

The parcels sector is undergoing rapid and profound change. Competition in the UK domestic and international markets continues to intensify, with competitors offering innovative solutions that include convenient, reliable delivery and return options, and improved tracking facilities. Capacity expansion in the sector continues to exert downward pressure on prices.

In the parcels business, disintermediation in the on-line marketplaces may divert our business to other carriers or collection providers.

We expect the letters sector to remain in structural decline, in the medium-term, driven by the growth in mobile and online advertising, and e-substitution.

There is a continuing requirement to invest in growth and innovation to meet these challenges in the marketplace.

How we are mitigating the risk

- We use continuous in-depth market monitoring and research to track how well we match our customers' needs, including relative to our competitors, and to predict volume trends.
- We are investing in introducing, at pace, new and improved products and services that: enhance customers' online and delivery experience; expand our core offering to small and medium-sized businesses and marketplace sellers; and extend our product coverage. We target investments that will extend our value chain offer and increase our presence in faster growing areas of the parcels sector.
- We promote the value of letters to customers through our MAILMEN initiative for marketing mail, Keep Me Posted and other campaigns, and innovations such as Mailmark®.

Economic environment

V

Principal risk

Historically there has been a correlation between economic conditions and mail volumes. Slowing economic growth could impact our ability to maintain and grow revenue, either through reduced volumes or by encouraging customers to adopt alternative service options for sending letters and parcels.

Status

The outlook for economic conditions in the UK is broadly in line with our planning assumptions, but uncertainty around the outlook has increased.

Economic growth in the Eurozone is more moderate and recovery remains fragile. Low growth or recession in Europe could impact our international parcel volumes, including those handled by GLS.

How we are mitigating the risk

- 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 business, and to assess the effect of our pricing structures. We have a programme of regular reviews of outcome data compared to forecast, and recalibration and upgrade of these models.
- We have a challenging cost avoidance programme in place in response to revenue headwinds.
- We are pursuing initiatives to find new areas of growth, such as fleet maintenance services and leveraging data assets.

Principal risk	Status	How we are mitigating the risk
Pension risk The Group continues to operate a defined benefit pension scheme, the Royal Mail Pension Plan, open to accrual for existing members.		
Affordability of the defined benefit pension scheme Our ongoing ability to maintain the Royal Mail Pension (Plan) in its current form is subject to financial market conditions.	As part of the Pension Reform in 2013, we committed, subject to certain conditions, to keep the Plan open until at least March 2018. Current financial market conditions suggest that keeping the Plan open to accrual in its current form beyond 2018 will not be affordable.	• The Plan is hedged against future interest rate and inflation rate exposures, and we are confident that this will enable us to meet our commitment to keep the Plan open to accrual up to March 2018. • We are in discussions with the unions, and are developing proposals for sustainable post-March 2018 pension arrangements.
Business transformation Royal Mail must continuously become more efficient and flexible in order to compete effectively in the letters and parcels sectors.		
Efficiency The success of our strategy relies on the effective control of costs and the delivery of efficiency benefits.	We continue to make efficiency improvements. Our productivityimprovement is within our target range, and through our strategic focus on costs we have reduced our underlying UKPIL operating costs, before transformation costs, by one per cent.	• We have a strategic programme of cost avoidance, involving approximately 70 projects targeted to avoid around £500 million of annualised costs by 2017-18. • Our Agenda for Growth agreement with the CWU, supported by the Together for Growth training programme, and a joint mediation process, which facilitates a collaborative approach to improving efficiency at a local and national level. • We have redefined and rolled out across the network core Operations Standards that are based on best observed practice. A programme to enable better alignment of resourcing and workload is also being implemented across the Delivery Office network. • We are simplifying our operational management structure and have programmes of activity in hand to support operational managers in improving efficiency. • We continue to reduce levels of Lost Time Accidents and other sick absence through a positive focus on compliance with attendance management procedures, safety and wellbeing support.
Attracting and retaining senior management and key personnel Our performance, operating results and future growth depend on our ability to attract and retain talent with the appropriate level of expertise.	Turnover in senior and key personnel has been at normal levels for the business during the year, but this remains an inherent business risk.	• 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 talent identification and development programmes.
IT transformation The scale and complexity of our IT transformation programme and the ongoing requirement for effective management of the transition are sources of risk to its successful delivery. Failure to improve our IT systems or successfully implement the IT transformation programme could increase the risk of: security breaches and attacks; a material adverse effect on the Group's operations; and inability of IT systems to support the business plan.	We have made significant progress in delivering the IT transformation programme. Infrastructure changes and transition to new providers are close to completion. This will provide us with an effective technical infrastructure that, going forward, better supports both routine functional activity and business growth.	• In view of the size and complexity of the transformation programme, we have, throughout its lifecycle, strengthened standard programme management and governance disciplines to provide intensive focus on key aspects; completing residual elements of the transition is now the primary focus.

Principal risk	Status	How we are mitigating the risk

Regulatory and legislative environment

The business operates in a regulated environment. Changes in legal and regulatory requirements could impact our ability to meet our targets and goals.

Fundamental review of postal services regulation

Principal risk

In June 2015 Ofcom announced a fundamental review of the regulation of Royal Mail. The review, currently in progress, incorporates previously announced reviews into efficiency, parcels and access pricing. It also examines: what changes to the overall postal regulatory framework might be appropriate to secure the Universal Postal Service; Royal Mail's wholesale and retail pricing; and whether the current level of commercial flexibility allowed to Royal Mail remains appropriate, and, if not, whether additional wholesale or retail price controls should be introduced.

A regulatory system or approach that applies restraints to Royal Mail's ability to compete for traffic to support the costs of the Universal Service network, or imposes operational requirements not applied generally to the industry, may impact our revenues, our ability to compete in the highly competitive industry sectors in which we operate, and ultimately our ability to deliver the Universal Service on a sustainable basis.

Status

New

This is a new risk that has emerged during the year. It was disclosed in our financial results for the half year ended 27 September 2015.

Ofcom has stated that it expects to complete the process and have a regulatory framework in place in early 2017.

There is an ongoing Competition Act investigation by Ofcom relating to certain of our access pricing proposals in January 2014, which we suspended without implementing and subsequently withdrew. We dispute the allegations and are robustly defending the investigation.

How we are mitigating the risk

- We have made comprehensive submissions to Ofcom as part of its initial call for evidence and we have ongoing engagement with Ofcom to build on the response to issues raised.
- Our response to the proposal will be shaped by the detail of the proposal and any threat it may present to our ability to compete effectively, and to the sustainability of the Universal Service. We will seek to work with Ofcom to protect the Universal Service.
- We have a strategic focus on cost avoidance and delivering efficiency improvements, as noted against the Efficiency risk in the Business transformation section above.
- We have made a detailed submission to Ofcom in relation to its Competition Act investigation.

VAT status

Principal risk

The Value Added Tax (VAT) treatment of Royal Mail's services, including exemption applying to certain products, is under threat in two areas:

- The EU has published a proposal for a Vouchers Directive, which could adversely impact Royal Mail's VAT position, if as a result, postage stamps were treated in the same way as other vouchers; and
- The European Commission is reviewing a number of VAT exemptions, including the exemption applying to postal services. Although Royal Mail could benefit from greater recoverability of VAT on costs if the VAT exemption for postal services was removed, the cost to customers who cannot reclaim VAT would be likely to increase.

The VAT exemption applying to mandated access services has also been under threat, with HMRC's implementation of VAT legislation on these services subject to a judicial review.

Status

The proposed Vouchers Directive is under discussion in Europe. The outcome remains uncertain.

The European Commission has published details of responses to its consultation about the future of VAT exemptions, but there has been no indication of the likely outcome or timescale of the review.

The appeal against the decision that HMRC had correctly implemented VAT legislation in respect of exemption applying to mandated access services has been withdrawn and the matter is now concluded.

The improved risk trend reflects our re-assessment of the potential impact of these issues.

How we are mitigating the risk

- We continue to liaise with HM Treasury and HMRC to seek to minimise any adverse impact of the proposed Vouchers Directive.
- We are monitoring and continue to feed into discussions with the European Commission on potential developments in VAT legislation.

Employment legislation and regulation

Principal risk

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.

Status

Recent case law has suggested that regular overtime and commission payments should form part of holiday pay calculations. The legal position remains unclear as case law is still evolving in this area.

Other risks to our cost base associated with employment legislation have emerged and were disclosed in our financial results for the half year ended 27 September 2015. These are:

- Proposal for an Apprenticeship Levy. Draft legislation sets the levy at 0.5 per cent of payroll costs, applicable from April 2017.
- Proposed changes to National Insurance (NI) on termination of employment have been announced, which will increase employers' NI costs from April 2018.
- The Government has consulted on how pensions tax relief is provided, but has not proposed changes at this time. If changes are proposed in the future, they could have a significant impact on the cost of providing pensions.

How we are mitigating the risk

- We continue to monitor developments in case law relating to the application of the Working Time Directive in respect of holiday pay calculations. Based on our estimates of the potential financial impact, we believe that we have made sufficient provision for any historic liabilities that may arise.
- We liaise with the CBI, HMRC and HM Treasury to influence employment tax developments and minimise the impacts for Royal Mail as far as possible.

Principal risk	Status	How we are mitigating the risk
Cyber security We are subject to a range of regulations and contractual compliance obligations around the governance and protection of various classes of data, and are susceptible to cyber attacks that could threaten the confidentiality, integrity and availability of data in our systems. A cyber security incident could also trigger material service interruption. Either of these outcomes could result in financial and reputation damage, including loss of customer confidence.	New While no material losses related to cyber security breaches have been suffered, given the increasing sophistication and evolving nature of this threat and our reliance on technology and data for operational and strategic purposes, we now consider it is appropriate to include this as a principal risk.	• As external threats become more sophisticated, and the potential impact of service disruption increases, we continue to address our ongoing investment in cyber security. We take a comprehensive view of cyber security and continually review our resilience in light of the changes and threats we face.

Industrial relations

There is extensive trade union recognition in respect of our workforce in the UK, with a strong and active trade union which, historically, has used industrial action to lever benefits for their members.

Principal risk	Status	How we are mitigating the risk
Industrial action V 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. 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.	↑ The Agenda for Growth agreement developed jointly with the CWU represents a fundamental change in our relationship with the CWU, and promotes stability in industrial relations. However, industrial relations is an inherent risk within our business: we are negotiating a new pay deal for 2016-17, the Pension Plan affordability is under discussion, and the increasingly competitive environment and other sources of pressure on costs and efficiency may put the stability of our industrial relations under strain.	• Our Agenda for Growth agreement with the CWU provides a joint commitment to improved industrial relations, and to resolving disputes at pace and in a way that is beneficial to both employees and Royal Mail. • As part of our collaborative approach with the CWU, the Agenda for Growth is supported by our Together for Growth programme, an industrial relations and business skills package for managers and CWU representatives designed jointly to improve the way that managers and unions work together. A resolution process for local disputes uses trained mediators nominated by and representing both the CWU and the business. • The Agenda for Growth agreement has legally binding protections for the workforce in respect of future job security and our employment model, but which can be rescinded in the event of national industrial action.

Viability Statement

The Directors have assessed the viability of the Group as part of their ongoing risk management and monitoring processes.

While the Directors have no reason to believe that the Group will not be viable over the longer term, they consider the three financial years to March 2019 to be an appropriate planning time horizon to assess Royal Mail's viability and to determine the probability and impact of our risks. This is the same time frame of our existing medium-term planning cycle.

The Directors considered all principal risks set out in the Principal risks section on pages 32-35 but focused on those that could have a plausible and severe financial impact over the plan horizon. In particular they considered the potential impact of industrial action and deteriorating economic and market conditions.

The risks were quantified to create a downside scenario that took into account the levels of committed investment and expenditure, as well as other short-term cost and cash actions which could mitigate the impact of the risks. Consideration was also given to the large fixed cost base required to deliver the Universal Service Obligation in its current form. The downside scenario was tested to determine whether the Group would remain solvent.

The Directors have made the assumption that the RMPP funding rate remains unchanged from 2015-16.

Based on the results of their analysis, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to March 2019.

Responsibility leader

1st

Dow Jones Sustainability Index global leader two years in a row in the Transportation and Transportation Infrastructure sector

FTSE4Good

Royal Mail constituent of FTSE4Good, ranking in the 96th percentile

Our performance

1st

Delivery business retained triple certification to the Carbon Trust Standard for carbon, water and waste

85%

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

Winner

In partnership with Missing People, Royal Mail won Business Charity Awards and Charity Times Award in 2015

30%

Reduction in our Lost time Accident Frequency Rate since 2014-15

Corporate responsibility

Our corporate responsibility (CR) 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.

CR strategy objectives	Winning in parcels	Defending letters	Growing in new areas
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	✓		✓

Our CR strategy comprises five key objectives. They help us to deliver our corporate strategy, as set out in the table above. We report progress against our corporate responsibility objectives under the areas of Customer, People, Community, Environment and Suppliers. Further information will be available online in the 2015-16 Corporate Responsibility (CR) Report.

Measuring our progress

We are independently rated as a leading responsible business. We have been named global leader in the Dow Jones Sustainability Indices for the second year in a row in the transportation and transportation infrastructure industry. As the top-scoring company, Royal Mail has been included in both the Dow Jones Sustainability World Index and the Dow Jones Sustainability Europe Index.

Royal Mail was included in the FTSE4Good Global Index in 2015, scoring 4.1 out of 5 in the criteria, with a ranking in the 96th percentile.

Our customers

Our strategy is underpinned by putting the customer at the heart of everything we do. Ipsos Mori's Corporate Image Survey found 78 per cent of our customers say they are favourable to us, while 86 per cent are satisfied with the service we provide, putting us ahead of most companies surveyed[1].

Our customers, both business and consumer, want convenience and value from their delivery provider. We have introduced a range of new measures to make sending and receiving items easier for our customers. Since October 2014, more than 30,000 registered users have used our new Click & Drop service, which integrates data from online shopping platforms to make it quicker and easier to buy postage and print address labels online. We have launched a trial for SMEs and online marketplace sellers in the North West, offering next day parcel collection on their doorstep.

[1] Ipsos MORI Corporate Image Survey Winter 2015

We engage with our customers to assess how we are doing, improve service levels and evolve our products, so we can continue to be their provider of choice. Through two ongoing research initiatives, we speak with around 600 businesses and 3,000 consumers every month. We carry out post-call surveys and an Online Satisfaction Survey to learn about customers' experiences when they interact with us.

Our own people can also tell us how customer-focused our products and services are. We use our annual Employee Survey to ask employees four questions to understand what they think about the customer experience. This year we achieved a Customer Focus Score of 67 out of 100.

Recognising and fixing problems in our service is an important element of being easy to do business with. We strive to get things right the first time. But in an operation where we deliver around 16 billion items a year, sometimes problems arise. We were disappointed to see that the number of complaints we have received has increased from 452,538 in 2014-15 to 476,040 in 2015-16. We are prioritising our efforts to tackle the root causes of these complaints, as outlined in the Chief Executive Officer's review.

Customer Focus, business customer satisfaction and complaints are three of the four customer KPIs included on the Corporate Balanced Scorecard for 2015-16, which is linked to managers' remuneration. For more information, see page 75.

Our people

Labour standards

Royal Mail is a people business. We are one of the largest employers in the UK with one in every 175 employees in the country working for Royal Mail[2].

We are committed to providing the best labour standards in our industry. All our permanent employees earn above the Living Wage.

Engagement and culture

Employee engagement is fundamental to developing our customer-focused culture. Engagement is one of the four people-related KPIs on our Corporate Balanced Scorecard. Our Employee Survey helps us identify the areas where we are doing well and those where we need to improve. The engagement score has increased by one point to 57. 67 per cent of our people say they understand how their jobs contribute to the success of Royal Mail.

[2] Cebr research, conducted for Royal Mail in May 2016

During the year, we worked closely with our unions on the development of new values for Royal Mail, which put the customer at the heart of everything we do. We measure the success of our cultural change journey through the incorporation of a Cultural Index within our annual employee survey. Our Cultural Index measure, which tracks how we well we are embedding our values and behaviours, was 48 out of 100.

Creating a culture of ownership

The transition that the vast majority of our people have made from employees to shareholders is an important part of the Royal Mail's transformation. It gives them a personal, financial stake in the customer-focused culture that we are building. During 2015-16, HM Government disposed of all of its remaining shareholding in Royal Mail meaning that the Company is now 100 per cent privately owned. Eligible full-time employees have received a maximum of 832 Free Shares, regardless of grade. This is one of the largest free employee stakes of any major UK privatisation. This is in addition to our popular Save As You Earn (SAYE) scheme, which launched in September 2014 and resulted in more than 34,000 employees setting aside money from their salary for options to buy Royal Mail shares.

Industrial relations

We took several key steps in advancing initiatives under the Agenda for Growth agreement during 2015–16. We created a new, unified Conduct Policy that is more focused on informal resolution and incorporates a new approach to precautionary suspension, which should only be used in serious incidents.

We continued the roll-out of our Together for Growth joint training programme, which forms a key part of our Agenda for Growth agreement with our unions and has now reached over 6,000 managers and union representatives.

Health and safety

The safety and wellbeing of our workforce is an enduring priority for us and is crucial to our people strategy. A focus on wellbeing engages colleagues with the business and its future, reduces the costs and disruption of sick absence and makes it easier to build our customer-focused culture.

Our safety goal is to reduce the number of accidents to zero and reduce our sick absence rate, commitments that are driven by specific safety KPIs in our Corporate Balanced Scorecard.

During 2015-16, we once again succeeded in reducing our Lost Time Accident Frequency Rate, now down to 0.49. The number of accidents and days lost due to accidents fell to 8,040 and 23,038, which amounted to a saving of over £1 million.

It is with great regret that we report two people lost their lives in connection with our activities in the UK in the past year. Both fatalities were associated with road traffic collisions involving our vehicles. 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. We have a fatal and serious accident standard and protocol, which tracks the investigations. This is discussed at Board level and is communicated across the Group.

We responded to an increase in the level of sick absence during 2014-15 by launching an Attendance Management Taskforce and rolling out a new system of occupational health management for mental health and musculoskeletal cases. A dedicated occupational health adviser supports both the employee and their manager throughout the absence. In 2015-16, we have dealt with 3,616 cases in this way, cutting the length of absence by an average 18 days for musculoskeletal issues and 23 days for cases which involved an individual's mental health. As a result, in 2015-16, days lost due to sickness reduced by 8.7 per cent compared with 2014-15.

We are prioritising mental health to further reduce sick absence and ensure our people are supported. Moya Greene signed the Time to Change pledge with the CMA/Unite and the CWU. In 2015, 140 of our people attended stress awareness workshops and 55 managers participated in a pilot, Mental Health First Aid, to help deal with crisis situations should they occur. Our programme 'Feeling First Class' aims to remove the stigma and raise awareness of mental health conditions and the support available. We partnered with the Mental Health Foundation to produce a series of five mental health awareness training films, which have been watched by over 4,500 managers.

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.

We continue to make strong progress in improving gender diversity at Royal Mail, and we are proud to be named as a Times Top 50 Employer for Women. At our Board and senior management grades, we have relatively high gender diversity. At Board level, 38 per cent of members are female, compared with a FTSE 100 average of 26 per cent. At senior management level, 29 per cent of employees are female, compared with 15 per cent in operational functions. We are committed to improving the gender balance across all areas of the business. Following a successful pilot programme, we rolled out a balanced shortlist approach to recruitment during 2015-16, which has seen an increase in the number of women hired to fill frontline operational roles, from 28 per cent to 32 per cent.

Royal Mail's ethnic profile is broadly representative of the UK population. Around 10.2 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.

Safety metrics[3]	2015-16	2014-15	2013-14	2012-13
Lost Time Accident Frequency Rate	0.49	0.70[4]	0.81[4]	1.17
Sick absence (%)	4.51	4.74	4.34	4.33

[3] Data represents UKPIL safety performance
[4] 2014-15 figure restated from 0.67 to 0.70 and 2013-14 figure restated from 0.77 to 0.81 due to a change in reporting methodology

	UKPIL		GLS	
Gender distribution (number of people)	**Female**	**Male**	**Female**	**Male**
Royal Mail plc Board*	3	5	n/a	n/a
Senior Management	686	1,651	36	242
Management	1,399	5,441	2,783	2,314
Administration	1,495	1,016		
Operational	19,030	108,642	1,768	6,848

* The Board represents Royal Mail Group

As a Disability Two Ticks employer, we welcome job applications from candidates with a disability or health condition. Approximately eight per cent of Royal Mail employees identify themselves as having a disability, compared with 16 per cent of working age adults in the UK[5]. We make reasonable adjustments to the workplace to support employees who become disabled, and provide additional training where required.

We are a member of Stonewall's Diversity Champions programme, which campaigns for equality for lesbian, gay, bisexual and transgender (LGBT) people. We have more work to do to improve our overall ranking in the Stonewall Equality Index, but we were pleased to see our activities resulted in a 110 per cent increase in our score.

We are committed to dignity and respect in our workplace and are determined to eliminate any form of behaviour that undermines our people and their ability to flourish and thrive at Royal Mail. We have worked with our unions to develop a new campaign, 'We can sort it out', which highlights the damage that a lack of respect and not listening can cause. After just six months, the film had been watched more than 5,500 times, across 85 per cent of our sites.

Learning and development

We are committed to the training and development of our people at all levels of Royal Mail, providing them with opportunities to learn new skills, and equipping them to help deliver our business strategy.

We invested over £20.5 million in training during 2015-16, delivering the equivalent of 90,000 training days. We focused this investment more closely on the transformation of our business through an updated training and development programme. In 2015-16, our learning and development activities included:

- The launch of Welcome to Royal Mail, our new induction programme, which reflects our new business values and supports our aim of building a customer-focused culture.
- Our new Manual Parcel Scanning (MPS) training, which prepared an estimated 15,000 employees for using our new PDAs and Finger Scanners in our mail processing units.
- The 500th Royal Mail leader completing our Executive Leadership Development Programme (ELDP), which has been developed with Oxford Saïd Business School and has now received the EFMD Excellence in Practice Gold Award 2015.
- A further 1,856 employees completing our Customer and You training course, which builds skills for first-class customer service in our Enquiry Offices.

The launch of the My Future careers portal is designed to make self-directed learning more accessible to all Royal Mail employees. The portal has so far been used by more than 25,000 of our people. GLS is working to embed similarly structured approaches to employee development. In Denmark, for example, every employee is invited to participate in an annual personal development interview with their manager.

We expanded our apprenticeship programme to include Finance in addition to Project Management, Vehicle Technician and Engineering apprenticeships. Fifty apprentices joined our programme in September 2015. The Telegraph's Top Apprenticeships Careers List for 2015 named Royal Mail as one of the Top 10 service and retailer employers in the apprenticeship market.

Our communities

Royal Mail helps keep communities connected, no matter where they are in the UK. Nearly 80 per cent of residences are within one kilometre of a Royal Mail access point, making it easier for customers to receive and send their items. Local Collect, our click and collect service, remains the largest network in the UK, enabling businesses to offer greater flexibility to their customers.

Overall, Royal Mail's UK businesses directly contribute £5.6 billion to UK GDP and a further £5.2 billion through indirect and induced impacts. Together they equate to about 0.57 per cent of UK GDP[6].

Our community investment programme seeks to build on the social impact our business already has through delivering the Universal Service. In 2015-16, Royal Mail contributed £6.7 million to charities, good causes and schemes for disadvantaged groups. Our people raised a further £3.1 million for charities and good causes across the UK.

Our two year partnership with Charity of the Year, the Stroke Association, saw the creation of the Operations Fundraising Challenge. This three month campaign saw an estimated 10,000 employees support fundraising activities and was shortlisted by the prestigious Business Charity Awards as an outstanding example of employee engagement. It helped us pass the £1 million mark in fundraising, when our matched giving was included, making good progress towards our fundraising target of £2 million. The partnership is also raising awareness about the importance of good health to reduce the risk of stroke.

We are also using the partnership and the reach of our business to raise awareness of the risk factors leading to stroke. The Stroke Association visits our sites to measure colleagues' blood pressures and raise awareness about healthy lifestyles. More than 10,000 blood pressure readings have been completed since the start of the partnership, marking solid progress against our target of 15,000.

Royal Mail's employees engage with communities across the UK on a daily basis. This local knowledge and understanding is a powerful asset, which we are drawing on through our Missing People partnership. Since the beginning of the partnership, we have distributed 70 alerts for high-risk missing people to our network of around 139,000 people. We built on our partnership by contributing £50,000 to fund the national Child Rescue Alert system, which sends out alerts when a child's life is in imminent danger. This contribution will support the operation of the system for one full year.

We also launched a new freepost service designed to encourage Missing People to take the first step in getting back in touch

[5] https://www.gov.uk/government/statistics/disability-facts-and-figures

[6] Cebr research, conducted for Royal Mail in May 2016

with their families. Freepost Missing People enables missing people to send a message to their families, and to do so without being traced if they choose.

Our people continued to support a range of good causes. They donated £2.4 million through our award-winning payroll giving scheme. They also fundraised for charities, which Royal Mail supported with nearly £557,000 in matched funding.

Royal Mail has a long-standing commitment to helping young people develop across the UK's communities. We provide materials to teachers and students through our online magazine, Teacher's Post, which is scheduled to be published eight times a year. During 2015-16, Teacher's Post resources were downloaded on more than 500 occasions, reaching an estimated 26,000 pupils. In August 2015, we launched a new partnership with the charity Career Ready in which 66 Royal Mail employees are mentoring 16-19 year-olds for the world of work.

Our environment

The scale and scope of the Universal Service makes managing our use of natural resources a commercial and environmental imperative. We have the largest vehicle fleet in the UK and maintain sites all around the country. We manage our environmental impacts by focusing on energy use, waste, water and engaging with customers and suppliers. Prioritising efficiency and reducing waste will helps us cut operating costs, engage our people and build a sustainable and competitive business.

Our environment strategy and performance is overseen by the Environment Governance Board (EGB). During 2015-16, the EGB has taken the lead in streamlining our approach to environmental management and embedding our World Class Mail (WCM) system within our Safety, Health and Environment (SHE) management system. We have also worked to align this management system more closely with environmental standard ISO14001. As a result, we now have group-wide standards for energy use in our buildings, waste, water, fuel and carbon management. We have maintained our accreditation to ISO 14001 for Parcelforce Worldwide and Royal Mail. Currently, all of our Parcelforce Worldwide sites are accredited, as well as 14 Royal Mail sites and all GLS sites.

A new Environment Policy, which outlines our commitment to managing environmental issues, is scheduled to be published in 2016-17. Our Environment Policy can be accessed online at: www.royalmailgroup.com/responsibility/policies.

The table below sets out our Group carbon dioxide equivalent ($C0_2e$) emissions for 2015-16. In 2015-16, our total UK carbon footprint decreased by 2.7 per cent compared with the previous year. On a normalised basis, emissions decreased by 1.6 per cent per £1 million revenue. Our target is to achieve a 20 per cent reduction in our UKPIL emissions (including Scopes 1, 2 and 3) by 2020-21, compared with a 2004–05 baseline. Emissions are still down by 16.8 per cent against the 2004-05 baseline, but our target remains very challenging due to parcel volumes increasing and the length of time and investment needed to make any changes to fleet.

We diverted 86 per cent of waste from landfill last year through a combination of recycling and waste to energy initiatives. We also recorded a reduction of two per cent in our use of water during the year.

Our suppliers

Royal Mail's supply chain is an important part of the impact our business has on our communities and on the environment. Our suppliers provide vehicles, manage and supply our buildings and systems and help deliver mail. Managing these relationships correctly is essential for us to compete effectively and deliver the right experiences for our customers, while broadening the economic opportunities that we create. In the UK, we spent nearly £2.5 billion on goods and services in 2015-16 from more than 4,800 suppliers.

We expect all our suppliers to adhere to our Responsible Procurement Code, confirmation of which is required when registering as a supplier. The Code requires suppliers to maintain high standards of social, ethical and environmental conduct, including complying with the Ten Principles of the United Nations (UN) Global Compact. Suppliers must also comply with our mail security procedures and our approach to anti-bribery and corruption. By setting out our requirements clearly and working with our suppliers to meet them, we can help to spread responsible business practice.

We expanded our Responsible Procurement Code in 2015-16. Suppliers are required to promote fair participation and equality of opportunity for all their employees and job applicants, and to provide an environment free from discrimination or harassment. In addition, standards are being developed on safety, health and environment, which will be implemented in 2016-17.

Ethical principles are embedded in the Partner Code used by GLS Germany. The Code requires suppliers working with GLS to adhere to principles relating to anti-bribery and corruption and health and safety.

We seek to spread the positive economic impacts of our supply chain by promoting diversity in our supply chain and making contracts accessible to suppliers of all sizes. Of the suppliers that were awarded contracts in 2015-16, 25 per cent were SMEs.

	2015-16			2014-15			2013-14		
2015-16 CO_2e Emissions by Scope ('000 tonnes) [i ii iii iv]	**Total**	**UKPIL**	**GLS**	Total	UKPIL	GLS	Total	UKPIL	GLS
Scope 1	**518.6**	**503.3**	**15.3**	514.1	501.1	13.0	473.1	457.6	15.5
Scope 2 (Location-based)	**152.3**	**134.1**	**18.2**	166.4	145.4	21.0	149.7	132.6	17.1
Scope 3	**88.7**	**88.7**		100.1	100.1		119.2	119.2	
Total	**759.6**	**726.1**	**33.4**	780.5	746.5	34.0	742.1	709.5	32.6
Tonnes CO_2e per £1m revenue		**94.7**			96.2			91.1	
Scope 2 (Market-based)	**40.7**	**14.1**	**26.6**						

i Carbon dioxide equivalent emissions (CO_2e) have been calculated in accordance with the UK Government's Environmental Reporting Guidance (2013 version). Data has been consolidated according to the 'financial control' approach. 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

ii UKPIL CO_2e emissions for 2014-15 have been restated to 746,500 tonnes, due to improvements in invoicing

iii CO_2e emissions have been assured by EY, except for Scope 2 (Market-based) figures

iv Totals may differ due to rounding

Human rights

We are committed to upholding and respecting human rights. In addition to obeying the laws, rules and regulations of every country in which we operate, we 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.

During 2015-16, we undertook a review of our business against the UN Guiding Principles on Business and Human Rights with the support of independent advisers Corporate Citizenship. Despite the review noting that Royal Mail's human rights footprint is low, we are strengthening measures to ensure human rights are protected across all our operations.

We have measures in place to protect against modern slavery, which will be set out in our 2015-16 CR Report. We are reviewing these measures to ensure we continue to minimise the potential for slavery and human trafficking in our business and supply chain. We will make our formal Modern Slavery Act statement available in accordance with the Act and within the statutory timescales.

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).

Our taxation principles

Royal Mail has adopted a set of tax principles. Our Taxation Principles can be accessed online at: www.royalmailgroup.com/responsibility/policies

The Strategic report was approved by the Board on 18 May 2016.

Moya Greene
Chief Executive Officer
18 May 2016

Matthew Lester
Chief Finance Officer
18 May 2016

CELEBRATING 500 YEARS OF ROYAL MAIL

The pentacycle, originally invented in 1882, was tested for both postal and telegraph delivery work. In February 2014, quad bikes operating on the island of Kerrera were replaced by an all-terrain utility vehicle.
Visit www.royalmailgroup.com/500years to find out more.

Corporate governance

Chairman's introduction

Compliance with the UK Corporate Governance Code, September 2014 (the Code) and its statement of requirements

The following sections explain how the Company applies the main principles set out in the Code, 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 publically 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.

Dear Shareholder
I am pleased to present Royal Mail's corporate governance report for the year ended 27 March 2016. I joined the Company on 18 June 2015 as a Non-Executive Director and succeeded Donald Brydon as Chairman on 1 September 2015. I would like to extend my thanks and appreciation to Donald for all that he did for Royal Mail during his tenure.

The Board of the Company is committed to ensuring that it provides effective leadership and promotes uncompromising ethical standards. The Board believes that good corporate governance will contribute to better company performance as it helps a board discharge its duties in the best interests of shareholders. 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. This report aims to provide shareholders with an understanding of the arrangements we undertake in order to maintain the highest standards of corporate governance across the business, which we consider to be essential for the long-term success of the Company.

It is the role of the Board to provide leadership to the Company. I lead the Board in reviewing long-term strategy, monitoring, supporting and, where required, challenging the executive team, whose job it is to manage the Company successfully day to day, driving performance of the business and creating value for our shareholders and other stakeholders. For the Board to be effective in discharging its responsibilities, it must maintain a level of independence and objectivity, the correct balance of experience and skills and have sufficient knowledge of the operations of the business.

The Board has continued to review its governance framework and has adjusted, where necessary, the roles, structure and accountabilities of its mechanisms of governance. During the year, the governance structure below the Board and primary committee level was again reviewed to ensure the correct and accurate flow of information and responsibility.

The following pages of this report explain, in greater detail, the structure and processes in place to ensure good governance and set out the operations of the Board's primary committees. I am pleased to endorse this report, which I believe provides an insight into how, through its actions, the Board and its committees have fulfilled their governance responsibilities and worked to ensure that strong governance practices remain embedded across the Group.

Peter Long
Chairman
18 May 2016

Board of Directors

Peter Long N* R
Chairman

Appointed to the Board:
As Non-Executive Director and Chairman-designate on 18 June 2015. Peter became Chairman on 1 September 2015

Key areas of prior experience:
Strategic, finance, transformation and consumer experience.

Current external appointments:
- Member of TUI AG Supervisory Board.
- Non-Executive Director of Countrywide plc on 11 February 2016 and Chairman with effect from 27 April 2016.
- Non-Executive Chairman of Parques Reunidos Servicios Centrales S.A.U from 13 April 2016.

Previous relevant experience:
Over 20 years' experience in FTSE 100 customer-focused companies.
- Senior Independent Director of Rentokil Initial plc.
- Senior Independent Director of RAC plc.
- Non-Executive Director of Debenhams plc.
- Group Chief Executive of First Choice Holidays PLC.
- Chief Executive of TUI Travel PLC.
- Chief Executive Officer of First Choice Holidays PLC.
- Chief Executive of Sunworld.
- Chief Executive of International Leisure Group Travel Division.

Moya Greene C*
Chief Executive Officer

Appointed to the Board:
6 September 2013[1]

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

Previous relevant experience:
- Non-Executive Director of Great-West Lifeco Inc.
- 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.

[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

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

Appointed to the Board:
20 September 2013[2]

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 HMV plc, Northern Foods plc and BUPA.
- Non-Executive Director of Bank of Ireland.
- Non-Executive Director of UK Holdings plc and Bristol & West plc.

[2] Appointed Senior Independent Director of Royal Mail Holdings plc on 1 April 2011

Key to membership of Board Committees

A – Audit and Risk Committee
N – Nomination Committee
P – Pensions Committee
R – Remuneration Committee
C – Chief Executive Committee
* – Chair of the Committee

Matthew Lester P C
Chief Finance Officer

Appointed to the Board:
6 September 2013[3]

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.

[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

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 the 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.

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.
- Non-Executive Director of Telefonica Europe.
- Various marketing, strategy and business development roles at Next, BskyB, Avon and Thorn EMI.

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

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.

Director	Royal Mail Holdings plc	Royal Mail Group Limited
Moya Greene	15 July 2010	1 April 2012
Orna Ni-Chionna	1 June 2010	1 April 2012
Matthew Lester	24 November 2010	1 April 2012
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

Paul Murray A* R P
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 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 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 Ltd., a member of the Global AXA Group Executive Board and responsible for AXA's Asian Life Insurance and Wealth Management operations.
- Chief Executive Officer of AXA Sun Life plc.
- Non-Executive Chairman of Jelf Group plc.
- 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	11	
Chairman		
Donald Brydon[A]	5	5
Peter Long[B]	9	9
Executive Directors		
Moya Greene	11	11
Matthew Lester	11	11
Non-Executive Directors		
John Allan[C]	0	0
Nick Horler[D]	11	10
Cath Keers[E]	11	10
Paul Murray	11	11
Orna Ni-Chionna[F]	11	10
Les Owen	11	11

[A] Donald Brydon resigned as a Director of the Board on 31 August 2015
[B] Peter Long was appointed to the Board as a Non-Executive Director on 18 June 2015 and became Chairman on 1 September 2015
[C] John Allan resigned as a Director of the Board on 30 April 2015
[D] Nick Horler was unable to attend the Board meeting on 2 June 2015 due to a prior engagement
[E] Cath Keers was unable to attend the Board meeting on 20 May 2015 due to a prior engagement
[F] Orna Ni-Chionna was unable to attend the Board meeting on 22 September 2015 due to a prior engagement

Changes to the Board during the year

- Peter Long was appointed as a Non-Executive Director on 18 June 2015. He became Chairman on 1 September 2015.
- John Allan resigned from the Royal Mail plc Board of Directors on 30 April 2015.
- Donald Brydon resigned from the Royal Mail plc Board of Directors on 31 August 2015.

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

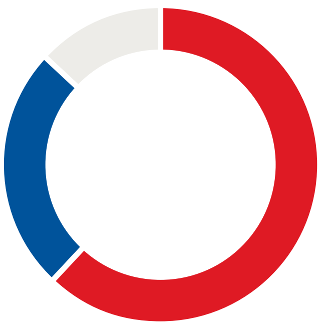
Board diversity policy

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.

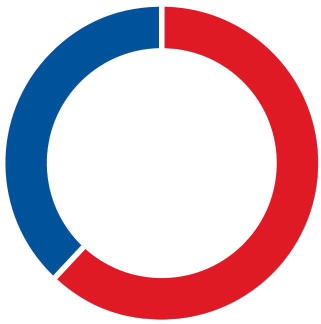
The Board has adopted a Board Diversity Policy to ensure transparency and diversity in making appointments to the Board on the recommendation of the Nomination Committee. This policy expresses the commitment to principles of non-discrimination against protected characteristics[4] and to the promotion 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 27 March 2016, two of the six (33 per cent) Non-Executive Directors, including the Senior Independent Director (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 27 March 2016.



Board composition	
Non-Executive Directors	62%
Executive Directors	25%
Chairman	13%



Gender balance	
Male	62%
Female	38%

Experience	
Retail and marketing	30%
Finance	25%
Public utilities	20%
Accounting	15%
Logistics	10%

[4] Race, Colour, ethnic 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

Chief Executive's Committee

In addition to the Royal Mail plc Board, the Chief Executive's Committee manages the key strategies of the Group with an overall framework of financial risk and business controls to meet the needs of stakeholders.

Moya Greene
Chief Executive Officer

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

Matthew Lester
Chief Finance 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.

Jack Bertram
Managing Director, Strategy, Pricing and Growth

Current role
- Appointed Managing Director, Strategy, Pricing and Growth in January 2016.

Previous work history
- Partner at McKinsey & Company focused on strategy, transformation and growth in travel, post and logistics sectors.

Stephen Cameron
Deputy Chief Operations Officer

Current role
- Appointed DCOO in August 2015 alongside role as Operations Strategy Director.

Previous work history
- Joined Royal Mail in 1985 and has worked across all aspects of the operation notably as Operations, Process and Programme Director and Territory Director.
- Successfully led the initial phase of Royal Mail's comprehensive transformation programme across UK operations.
- Stephen is a Fellow of the Association of Project Managers.

Maaike de Bie
General Counsel

Current role
- Appointed General Counsel in April 2016.

Previous work history
- Joined Royal Mail in January 2014 and appointed Acting General Counsel in September 2015.
- Previously General Counsel for the EMEA division of GE Capital Commercial Distribution France, a financial services unit of the General Electric Company.
- Has held other senior international legal roles at the European Bank for Reconstruction and Development, Ernst & Young LLP and White & Case LLP.

Mick Jeavons
Chief of Staff

Current role
- Appointed Chief of Staff in June 2015.

Previous work history
- Mick is a chartered accountant and has performed a wide range of senior roles in Royal Mail, most recently as Corporate Finance Director responsible for Group Investment, Procurement and the UK Finance teams. Previous to this he was Group Financial Controller and Finance Director of Group Property.

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 within 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 UK.
- Prior to that held a number of executive board positions at Orange.

Shane O'Riordain
Managing Director, Communications & Regulation

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.

Stuart Simpson
Director, Group Finance

Current role
- Appointed Director of Group Finance in July 2015.
- Joined the Royal Mail Group in 2009 and was appointed as Deputy Chief Operations Officer in January 2014.
- Prior to this, he was running Operations for the West Region of the UK and was Finance Director of UK Operations.

Previous work history
- Worked in the automotive industry for 15 years with senior roles in Finance and Strategy, the last 10 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 programme for privatisation.

Previous work history
- Consultant at McKinsey & Company for 17 years, the last six of which were as a partner.

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.

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

Expected focus for the next year:

- The Group's Strategy;
- Revenue growth in core and new areas;
- Technology;
- Composition of the Board;
- Succession planning; and
- Health & Safety.

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. Presentations are given following the announcements 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 & Safety Regulation, Market Dynamics and from the Company Secretary. In addition, the 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 and training on developments in matters such as corporate governance and compliance. 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 52-56.

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;
- 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 shareholders 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 results of such evaluations.

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 conflict.

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 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 five Non-Executive Directors. Prior to their appointment as Directors of the Company, each of the Directors (with the exception of Peter Long) 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 announces to the London Stock Exchange any changes to their directorships on the boards of other publicly quoted companies.

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 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

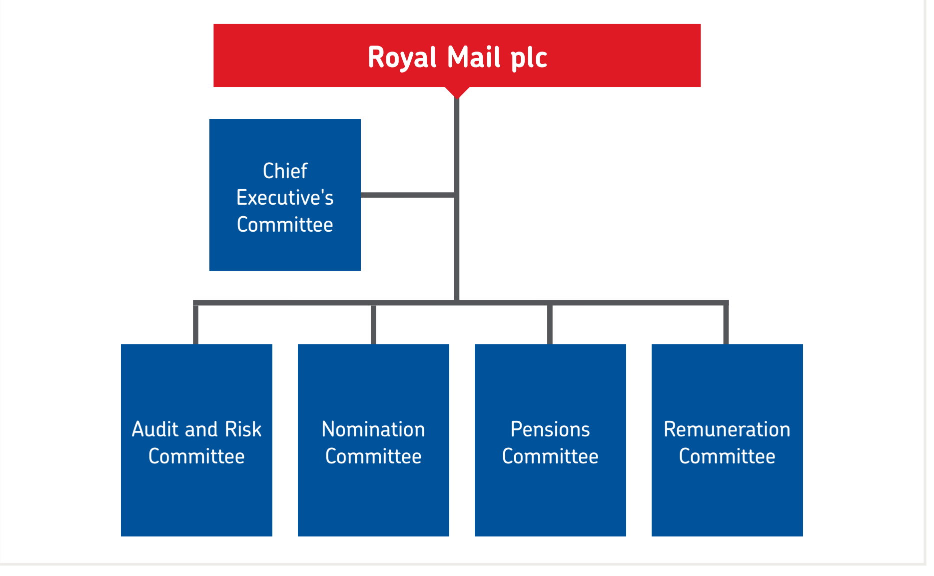
On appointment, all Directors take part in an induction programme, in which they receive information about the Group, the role of the Board and matters reserved for its decision, the role of the Principal Board Committees, the Group's Corporate Governance arrangements and the latest financial information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

Board Committees

The Board has delegated authority to the Committees to carry out certain tasks as defined in each Committee's respective terms of reference. The Committees established by the Board are shown in the diagram below.

The minutes of each Committee meeting are made available to all directors on a timely basis. In addition 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.

Board Committees



Board effectiveness review

The effectiveness of the Board, its Committees, the Executive and Non-Executive Directors and the Chairman (Donald Brydon) was assessed in September 2014 by an external consultancy, Independent Board Evaluation (which had not previously had a business relationship with the Company and therefore was not subject to any conflicts of interest). As such the Company was not required to facilitate an external evaluation for this reporting period.

However, Peter Long, the new Chairman, believed that it would be prudent to engage Independent Board Evaluation to review the effectiveness of the Board and the Remuneration Committee.

This external consultancy observed Board and Remuneration Committee Meetings with supporting materials being provided by the Company. The external consultancy 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 evaluation of the Audit and Risk Committee was undertaken by way of an online questionnaire facilitated by Thinking Board. Internal evaluations were also carried out for the Nomination and Pensions Committees as part of the normal annual evaluation process.

The evaluations concluded that the Board and its Committees are effective but have identified areas for potential improvement that will strengthen the performance of the Board overall. Potential improvement or actions will be discussed in May 2016.

Audit and Risk Committee report

Introduction from the Chair

Dear Shareholder,
The Audit and Risk Committee (ARC) has two fundamental responsibilities which inform the work we do as a committee of independent Directors. The first is to review and recommend to the Board all financial statements and associated disclosures. The second is to continually satisfy ourselves 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 (IA) and Risk Management (RM) function and also receives regular reports from the Compliance function as well as the external auditor (KPMG) 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 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, 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. To gain further insight into the basis for accounting judgements made in relation to advance customer payments from the public, we received in January a presentation from the independent company that undertakes a UK-wide survey to estimate the stamp holding by households.

The Committee has received and considered several papers on the impact of the Code, both with respect to the introduction of a longer-term viability statement and the increased focus on risk management and internal controls, and Management's plans to support the Board in meeting the new requirements. We reviewed the Group Risk Profile at each of our meetings, 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 cyber security risks and data protection, the efficiency of resourcing of Royal Mail operations and employment issues facing the business (see Principal Risks page 32). We considered in detail the findings of three internal audit reviews which were rated as requiring urgent attention and discussed with Management how the concerns are being addressed.

On 15 December 2015, the Company received notification of the fine from the French Competition Authority in relation to antitrust law breaches by GLS France. The fine of €55 million (around £40 million), which was fully provided for in our financial results for the year ended 29 March 2015, was paid in April 2016. We have continued to focus on our compliance framework and its implementation across the Group, receiving quarterly updates from our Compliance function.

New external auditor

Following a competitive tender process in 2014, the proposal to appoint KPMG as external auditor received shareholder approval at the AGM on 23 July 2015. Richard Pinckard has been appointed the lead engagement partner from the same date.

Management and KPMG have worked collaboratively to ensure a thorough induction process has been undertaken. The induction has enabled KPMG to gain a deep understanding of the business, its systems and processes, and the significant estimates and management judgements required in producing our financial results. The induction process has included in-depth workshops with our Finance Shared Services, Payroll and IT functions, visits to operational sites and monthly meetings with Management and Executives.

The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014

We have complied fully throughout the year with the Statutory Audit Services Order 2014 issued by the Competition and Markets Authority.

Paul Murray
Chair, Audit and Risk Committee
18 May 2016

Committee membership and attendance

	Eligible to attend	Attended
Total number of meetings	5	
Chair		
Paul Murray	5	5
Members		
Nick Horler	5	5
Orna Ni-Chionna	5	4[1]
Les Owen	5	5
Cath Keers	5	5

[1] Orna Ni-Chionna was unable to attend the Committee meeting on 14 May 2015 due to a prior engagement

Meetings of the Committee were also attended, where relevant, by the Chairman of the Board, the Chief Executive Officer, the Chief Finance Officer, the Director of IA and RM, other members of senior management and representatives from the external auditor, KPMG. 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 the introduction of a strengthened risk and control self-assessment process;
- Compliance with the Code, with particular focus on the requirement to provide a longer-term viability statement;
- Compliance framework, including receiving quarterly updates from the Group Compliance team on areas within their oversight remit; and
- Technology, including progress of the ongoing major transformation programme, the cyber risks facing the business and the risks associated with data protection.

Additional areas of focus for next year
- Evolving practice in external reporting;
- Assurance mapping across the Group; and
- Prioritised risk reviews.

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

During 2015-16 the Committee met five times.

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

One of the meetings was held in Germany, with specific focus on GLS-related items.

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

Reliance on external and in-house experts
The Group's actuary, Willis Towers Watson Limited, provides expert opinion and long-term assumption advice with respect to pension accounting. Following a competitive tender process, Aon Limited has been engaged during the year to provide similar expertise in relation to other long-term liabilities. The Committee has concluded that these companies have 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 a 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 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.

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.

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:

One-off matters considered due to their materiality or nature

Matter considered	What the Committee did
Ofcom investigation **(Contingent liability, see note 25 on page 133)** On 28 July 2015, Royal Mail received a Statement of Objections setting out Ofcom's provisional, preliminary findings in relation to its investigation into the terms on which Royal Mail proposed to offer access to letter delivery services, alleging a potential distortion of competition. The investigation was launched in February 2014 following a complaint brought by TNT Post UK (now Whistl) about certain proposed changes to Royal Mail's Access contracts.	Following the receipt of the Statement of Objections, the Committee sought detailed background information from General Counsel and an assessment of accounting treatment from Management. We reviewed and challenged Management's assessment of the issue with reference to the accounting standards. We concluded that it is appropriate to treat this issue as a contingent liability. The Committee have reviewed and approved the wording of its disclosure.
French Competition Authority investigation **(€55 million, see note 22 on page 131 and note 27 on page 135)** 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. On 15 December 2015, Royal Mail received notification of the fine from the French Competition Authority. The fine of €55 million (around £40 million) was fully provided for in our financial results for the year ended 29 March 2015.	The Committee received regular updates from Management on the progress of the French Competition Authority's investigation and sought confirmation of the continuing appropriateness of the level of provision recognised, based on external legal advice. On receipt of the notification of the fine, we sought confirmation from Management that this amount was fully provided for in the prior year's results. In accordance with the payment demand from the French Treasury, the fine was paid on 15 April 2016. We will continue to seek updates from Management on the status of the appeal of the amount of the fine.

Ongoing matters considered due to their materiality and/or the application of judgement

Matter considered	What the Committee did
Advance customer payments (£306 million, see note 19 on page 118) Included within Advance customer payments is an estimate of the amounts of stamps and meter credits that have been sold but not used prior to the reporting date. At March 2016, this estimate totalled £252 million (March 2015 £259 million). 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.	The Committee received a presentation from TNS (the independent company that undertakes the UK-wide survey of households to establish the level of stamp holding for personal use) to gain further insight into how the survey is compiled and the various statistical methods of excluding non-representative stamp holdings. We continued to review and challenge the 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 date to ensure a consistent application. Separately, the auditor used their own experts to review the statistical processes and assess the judgemental assumption. We concluded that the level of deferred revenue remained appropriate.

Matter considered	What the Committee did
Royal Mail Defined Benefit Pension Surplus (£3,430 million, see balance sheet and note 10 on page 105) 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. 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.	Key long-term assumptions were prepared by the Group's actuary, Willis 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 58). All of these assumptions are disclosed in note 10 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. The auditor used their own independent actuarial experts to confirm that the assumptions used were reasonable and appropriate.
Industrial diseases claims provision (£78 million, see note 22 on page 131) 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.	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 Aon Limited. The discount factor used by Aon, as advised by Management, to calculate the present value of the provision was validated against applicable bond rates. We received KPMG'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.
Impact of changing employment legislation (see Principal risks on page 32) 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.	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. 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. We concluded that these potential liabilities were accounted for appropriately based on the legal assessments provided by the General Counsel.

Audit Committee effectiveness
This year's evaluation of the Committee's effectiveness was performed through the use of a third party online questionnaire, focusing on the financial reporting environment, risk management oversight, the assurance provided by our internal and external auditors and the quality and content of the meetings. The questionnaire identified areas of potential improvement in the provision of training in financial reporting and corporate governance and even greater focus on risk governance. The questionnaire also identified areas of focus for next year. Feedback from the questionnaire was reviewed at the Committee's year end meeting. The conclusion of the evaluation was that the Committee continues to be effective.

Effectiveness of the external audit process
In view of their recent appointment as external auditor, KPMG and Management have worked closely throughout the year to ensure a smooth transition. Meetings between the senior audit team and Finance have been held at least monthly, giving the opportunity for any concerns to be raised and addressed on a timely basis. KPMG's 2015 Audit Quality Inspection Report has also been discussed. There has been significant collaboration between the IT department and audit team to facilitate the greater emphasis on data and analytics that had been agreed as part of the audit tender.

The Committee received a report on the areas of audit risk identified by KPMG and approved their proposed audit approach. The Committee also 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 KPMG covering significant issues identified and discussed during the audit visits. In addition KPMG presented updates on their data and analytics approach, and their control findings. 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.

The formal evaluation of the external audit process is being addressed in two stages. A third party online questionnaire was used to assess the transition, the audit approach and the half year review. It was completed after our half year results announcement and responses were sought from individuals who had been closely involved in the audit (predominantly IT, Finance and HR) as well as Executive and Non-Executive Directors, audit partners and team members. Improvement areas were identified in relation to requests for information and communication of findings. These issues were addressed during the planning of the full year audit.

The second stage of the evaluation will be undertaken using a mixture of an online questionnaire and meetings with key stakeholders following the conclusion of the first full cycle of KPMG's engagement and will focus on the execution of the full year audit; the preparedness of the business; sufficiency of resources; communication and interaction; and overall satisfaction.

While the outcome of the second stage of the formal evaluation will not be available until after the signing of the financial statements, the informal feedback received and the review of reports presented by Management and KPMG to their May 2016 meeting have enabled the Committee to conclude that there has been appropriate focus on the primary areas of audit risk and KPMG have applied robust challenge and scepticism throughout.

Safeguarding the independence and objectivity of the external auditor
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 engaged to perform non-audit services if they are uniquely placed to undertake them, or if the performance of the non-audit services will support a future statutory audit (including the provision of buyer assist due diligence). The engagement may follow a competitive tender process. 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.

Prior to their appointment as the external auditor, KPMG had been engaged to provide certain non-audit services. These include the provision of investor relations advice and share register analysis (through KPMG Makinson Cowell) and tax advice, reviews and filings. The majority of these engagements concluded during the year. Since their appointment as external auditor, KPMG have been engaged to perform the iXBRL tagging of the Group's subsidiary financial statements and to provide financial due diligence. Total fees earned for non-audit services during 2015-16 were £313,000 which represented around 19 per cent of the external audit fee. In addition to the fees earned from the Company, KPMG has been engaged by the respective Pension Trustee as external auditor of the Royal Mail Pension Plan and the Royal Mail Defined Contribution Plan, the fees for which were £116,000 in 2015-16.

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.

Reappointment of the external auditor

The Committee has recommended the reappointment of KPMG as the Group's external auditor to the Board for approval by shareholders at the Annual General Meeting in July 2016.

Risk management and internal control overview

The Board collectively, including the Committee members, believes that effective risk management and a sound control environment are fundamental to the Group. The 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 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.

Internal control framework

The Group has in place an internal control framework in relation to the Group's financial reporting process and the Group's process for preparing consolidated accounts. This framework includes an established organisation structure with clear lines of responsibilities, approval levels and delegated authorities; policies and procedures to ensure that adequate accounting records are maintained and transactions are recorded accurately; robust quarterly business unit performance reviews by the Chief Executive Officer and Chief Finance Officer; and a rigorous preparation process for the consolidated financial results including technical and disclosure reviews.

Risk management framework

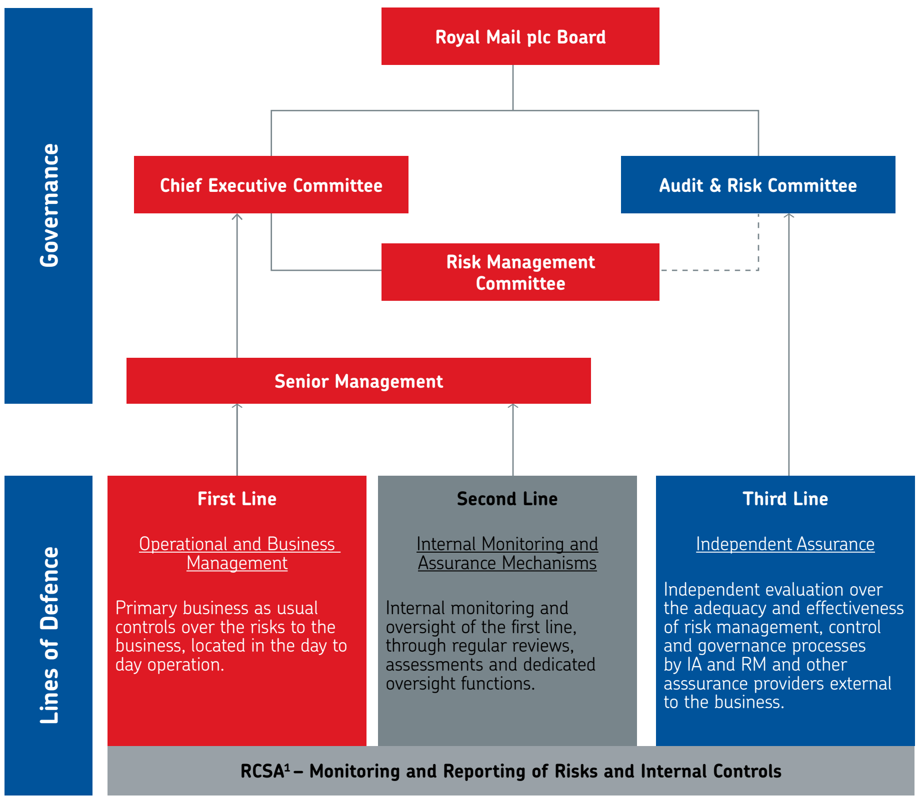
The Group-wide risk management framework includes risk governance, risk identification, measurement and management, and risk reporting and sets out the 'top-down' and 'bottom-up' approach to risk identification for the Group.

During the year the business has:

- Assessed its approach to risk management in line with the revised Code requirements, reviewed its Risk Management Policy, and further developed the management and monitoring of risk within the Group including strengthening the Risk & Control Self-Assessment (RCSA) process; and
- Continued its emerging risk identification process through regular structured dialogue with subject-matter experts across the business.

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 as illustrated below.

Royal Mail Governance and Three Lines of Defence



[1] Risk & Control Self-Assessment

Role of the Committee in assessing the principal risks

Review of principal risk areas	The Committee routinely assessed the risks that might impact the achievement of the Business Plan, including consideration of whether these should be categorised as a principal risk to the business (see Principal Risks on pages 32–35). Committee discussions on risk also covered new and emerging risks and the interrelationships between the significant risks to the business.
Deep dive discussions	The Committee held 'deep dive' discussions of principal risk areas with risk owners. During the year, these discussions included: • Industrial and employee relations • Pensions • Cyber risks • Delivery of efficiency benefits versus maintenance of Quality of Service levels

Speak Up Line
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).

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 provide 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 level risks. IA and RM establish and agree with the Committee an annual plan of assignments and activities covering the whole Group, including GLS, 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. During the year the Committee evaluated the performance of IA and RM and concluded that the function continued to be effective.

The IA work programme during 2015-16 included more than 40 risk-based reviews in the UK and over 180 reviews in GLS covering both depots and head office. The programme was focused towards the key business priorities and included:

- Business Transformation reviews including Parcels and IT Service Transformation;
- Major business process reviews including National Returns Centre, Mobile Devices, Operational Resourcing and Overtime Payments, Traffic Measurement, and Billing Processes (Data Services and large Parcelforce Customers);
- Continued rolling programme of review of the basic business controls and independent validations related to the management of Group level risks; 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 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 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.

In the carrying out of these activities, the Board considers it has fulfilled its obligations under the Code in respect of risk management and internal controls. Further details of the principal risks and how they are managed and mitigated can be found on pages 32-35.

Nomination Committee report

Introduction from the Chair

Dear Shareholder,
The role of the Nomination Committee is to review the composition of the Board and plan for its refreshment as applicable with regard to composition, balance and structure.

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.

In 2016, an internal evaluation of the Committee was undertaken by way of a questionnaire. The evaluation concluded that the Committee continued to be effective.

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

Peter Long
Chairman
18 May 2016

Committee membership and attendance

	Eligible to attend	Attended
Total number of meetings	1	
Chair		
Peter Long	1	1
Members		
Nick Horler	1	1
Cath Keers	1	1
Orna Ni-Chionna	1	1

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 may also be requested to attend when required.

Nomination 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/nomination-committee.

Role of the Committee

A summary of the responsibilities of the Committee in connection with appointments to the Board and senior management 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 of the Board to inform the capabilities required for a particular appointment;
- To give full consideration to succession planning for Chairman, Directors, Chief Executive Officer and senior management in the course of its work, taking into account the challenges and opportunities facing the Company, and the skills and expertise needed on the Board in the future;
- Keep up to date and fully informed about strategic issues and commercial changes affecting the Company and the market in which it operates;
- To identify, and nominate for approval by the Board, candidates to fill Board vacancies as and when they arise;
- In identifying suitable Board Candidates the Committee shall:
  - Use open advertising or the services of external advisers to facilitate the search;
  - Consider candidates from a wide range of backgrounds; and
  - Consider candidates on merit and against objective criteria and with due regard for the benefits of diversity on the Board, including gender, taking care that appointees have enough time available to devote to the position.
- 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 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; and
- To make recommendations to the Board concerning:
  - Formulating plans for succession for both Executive and Non-Executive Directors and in particular for the key roles of Chairman and Chief Executive Officer;
  - Nominations for the role of 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;
  - 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 in the light of the knowledge, skills and experience required and the need for progressive refreshing of the Board;
  - Any matters relating to the continuation in office of any Director at any time, including the suspension or termination of service of an Executive Director as an employee of the Company subject to the law and their service contract;
  - Nominations for the appointment of Director positions on the Boards of subsidiary/joint venture Boards/main Business Unit Executive Committee; and
  - Nominations for the appointment of trustees of the Company's pension schemes and trustees of the Postal Heritage Trust.

Key areas of focus during the year
Matters the Committee considered during the year include:

- Assessing the composition of the Board and its Committees following the appointment of Peter Long and the departures of Donald Brydon and John Allan from the Board;
- Succession planning and executive talent management;
- Appointment of Directors and Secretary to subsidiaries and Joint Ventures;
- The annual evaluation of the Terms of Reference of the Committee; and
- The annual evaluation of the Committee paying particular attention to the frequency of the Committee meetings.

Key areas of focus for the next year
- Succession planning and executive talent management;
- A review of the Board structure, size and composition;
- A review of the balance of skills, knowledge, experience, independence and diversity of the Board; 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.

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 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; 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.

In 2016, an internal evaluation of the Committee was undertaken by way of questionnaire. The evaluation concluded that the Committee continued to be effective.

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

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
18 May 2016

The meetings of the Committee have also been attended by the Director of Group HR, the Chief of Staff, the Company Secretary, the Director of Corporate Finance, the Head of Pensions Strategy, representatives of the Trustee Executive, including their external advisers, and representatives from the Company's pensions advisers, Willis Towers Watson.

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 and recommending to the Audit and Risk Committee the actuarial assumptions to be used in calculating the accounting charge and pension disclosures in the Company's Financial Results;
- 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 in relation to Royal Mail pensions policy and strategy (where significant to Royal Mail Group) and make decisions or report to the Board accordingly;
- Agreeing the assumptions to be used by the Trustees relating to funding

valuations, and providing the Group's opinion and feedback on the Trustees' 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:

- The likely outcome of the April 2015 Valuation Scheme funding and the implications for future benefit design;
- Investment strategy and risk management;
- Investment performance and fees and costs;
- The impact of pension legislation changes;
- Pensions accounting and treatment of scheme surplus;
- The annual evaluation of the Terms of Reference of the Committee;
- The annual evaluation of the Committee's effectiveness; and
- Pension scheme administration.

Key areas of focus for next year
Matters the Committee expect to be considering during the year ahead include:

- The pension schemes' funding valuations, future affordability and management proposals for future benefit design;
- Investment strategy and risk management;
- Pensions accounting;
- Pension scheme administration; and
- The impact of the 2015 pensions freedoms on the schemes.

Other Committees

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.

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.

Directors' remuneration report

Dear Shareholder

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

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

Performance and remuneration in 2015-16

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

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

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

Annual bonus

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

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

Long Term Incentive Plan

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

Annual salary review

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

Designing a policy to match our market context

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

The factors which have shaped our proposals include the following:

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

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

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

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

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

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

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

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

Orna Ni-Chionna
Chair, Remuneration Committee
18 May 2016

Our current and proposed Remuneration Policy

What is our proposed Remuneration Policy for Executive Directors?

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

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

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

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

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

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

2. **Restructure the current LTIP:**

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

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

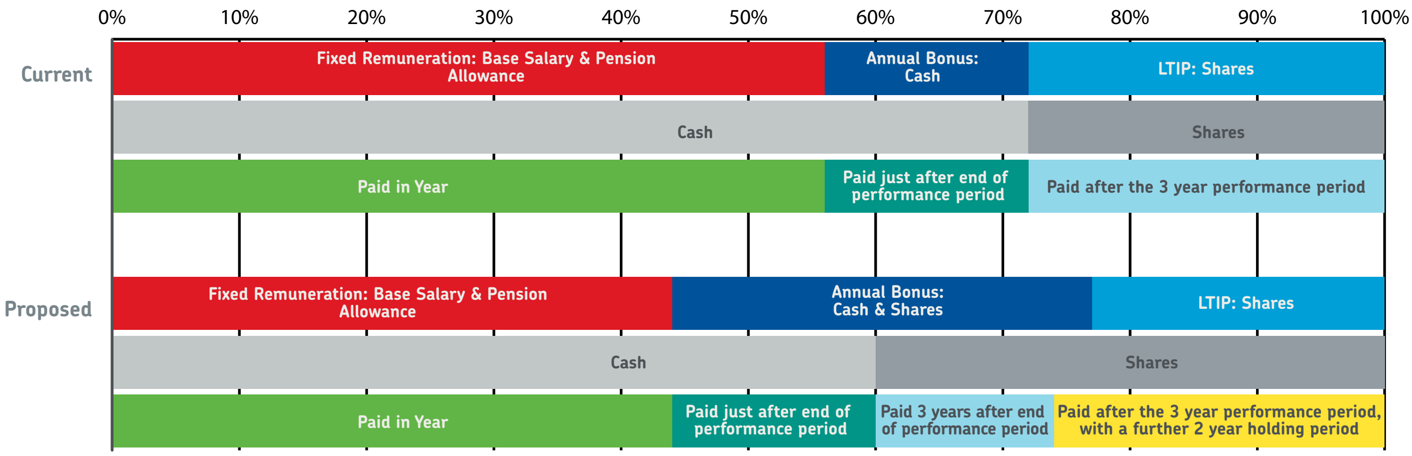
Taken together, we believe that these changes will create a simpler and more direct linkage to the mind-set that our executives need to have to achieve the changes that the Board is seeking and as such, are an important element in driving the continued success of the Company in its current competitive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

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

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

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

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



Policy table

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

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

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

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

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

Fixed remuneration

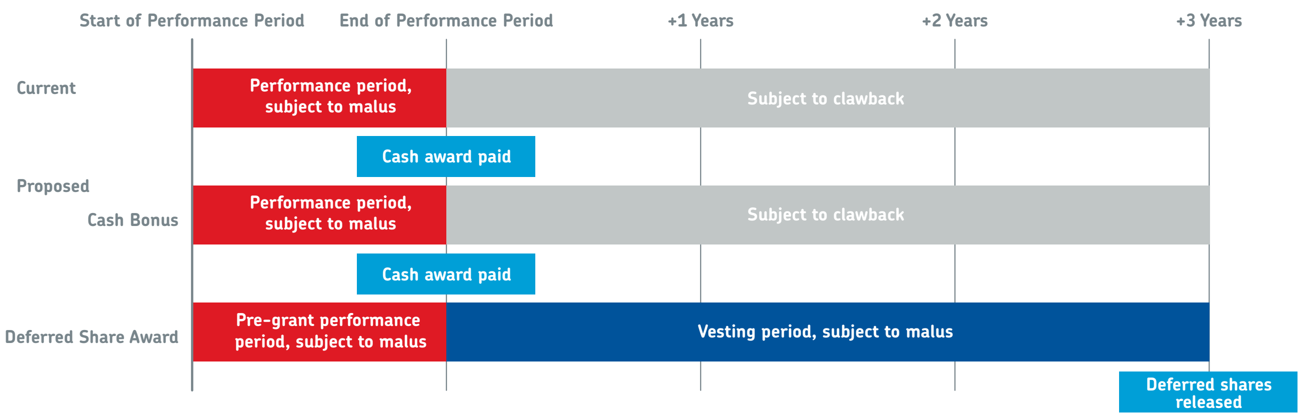
Operation	Maximum Opportunity	Performance Measures	Change from current policy and rationale
Base salary			
Purpose & Link To Strategy Reflects the scope and responsibility of the role, while taking account of the skills and experience of the individual. Used to attract and retain talented executives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

Variable remuneration

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

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

Annual bonus: current policy vs proposed policy

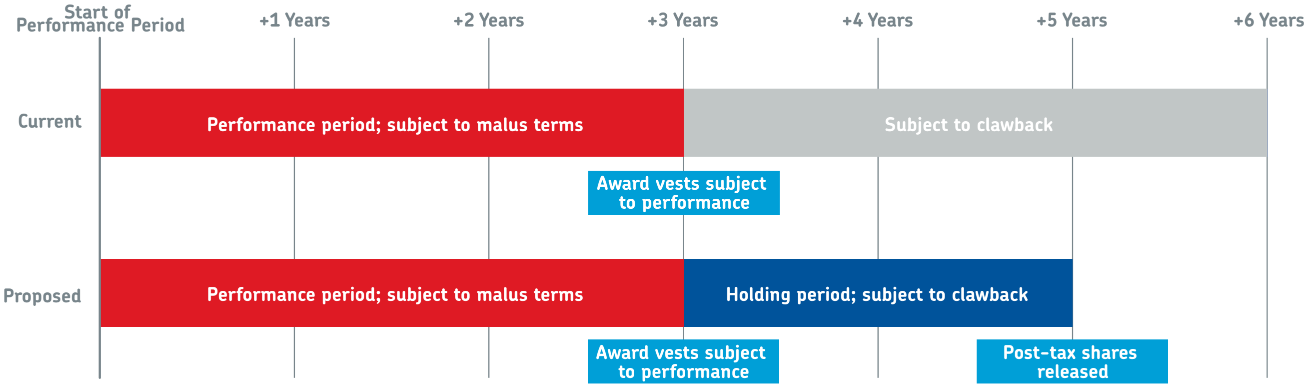


Long term incentive plan

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

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

LTIP: current policy vs proposed policy:



Shareholding guideline

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

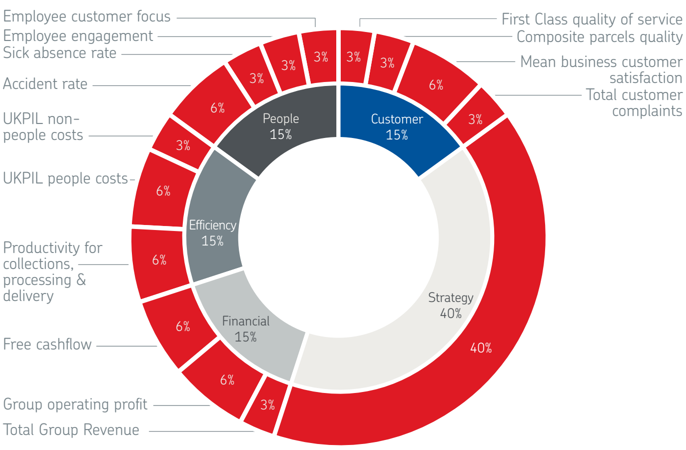
How do the KPIs for our annual bonus and LTIP link to the Group strategy?

Annual bonus

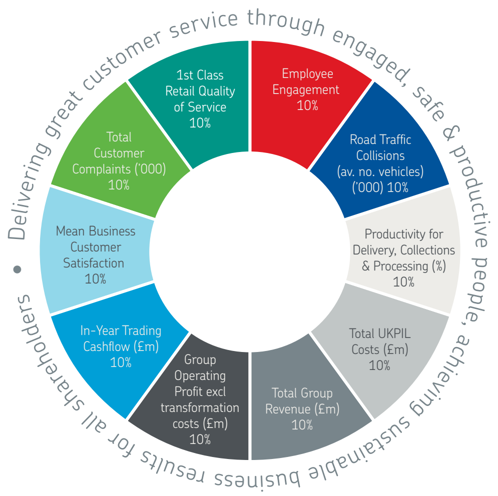
A significant proportion of the performance in the annual bonus is measured through the Corporate Balanced Scorecard. This scorecard tracks a range of short-term measures that are critical to the creation of long-term, sustainable shareholder value and the delivery of our strategy. The Committee is proposing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

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

Current policy



Proposed policy



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

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

LTIP

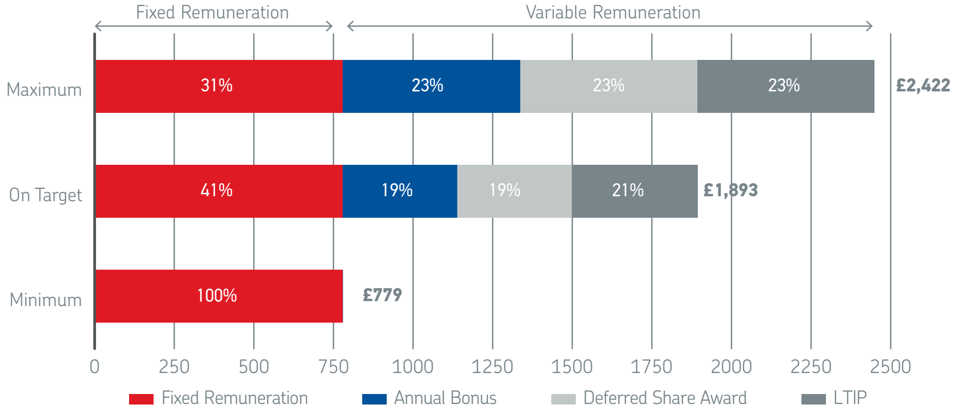
Under the proposed policy we are simplifying our LTIP by having a single metric directly reflecting shareholder value achieved, including dividends, relative to other large quoted companies.

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

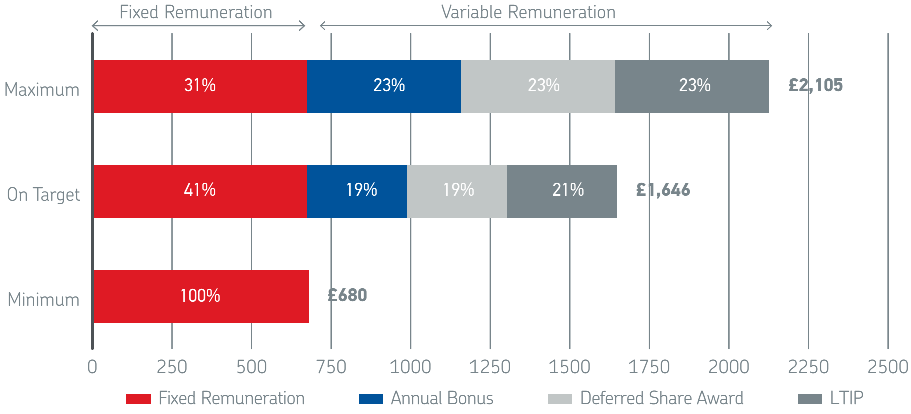
What is the remuneration opportunity under the proposed policy?

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

CEO (£000s)



CFO (£000s)



Assumptions

Minimum/fixed remuneration: This includes salary (2016-17 salaries – CEO: £547,800, CFO: £475,000), pension (CEO: £200,000, CFO: 40% of salary) and benefits (CEO: £31,000, CFO: £15,000).

On-target:

Bonus: For the proposed bonus, on-target is taken as two-thirds of maximum (and the same value is used for the deferred share award)

LTIP: The expected value is taken as 70% of maximum.

Maximum:

Bonus: For the cash bonus and deferred share award this is 100% of salary

LTIP: For the proposed LTIP this is 100% of salary.

No assumptions have been made in relation to future share price movements or dividend reinvestments.

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

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

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

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

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

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

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

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

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

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

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

What are the Executive Directors' terms of employment?

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

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

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

What happens when an Executive Director leaves?

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

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

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

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

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

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

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

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

What happens in the case of a takeover?

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

What is the role of the Remuneration Committee?

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

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

Annual report on Directors' remuneration

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

Single figure for total remuneration

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

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

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

Were base salaries reviewed in the year?

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

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

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

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

What was the outcome of the annual bonus?

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

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

Corporate Balanced Scorecard

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

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

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

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

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

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

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

This commercial activity is enabled by:

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

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

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

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

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

For the CFO:

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

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

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

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

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

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

What was the outturn of the 2013 LTIP?

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

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

Performance conditions:

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

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

Actual achievement:

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

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

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

What previous LTIP awards remain outstanding at the year end?

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Were any payments made for loss of office?

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

Were any payments made to past Directors in the year?

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

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

Did the Executive Directors receive fees from external appointments?

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

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

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

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

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

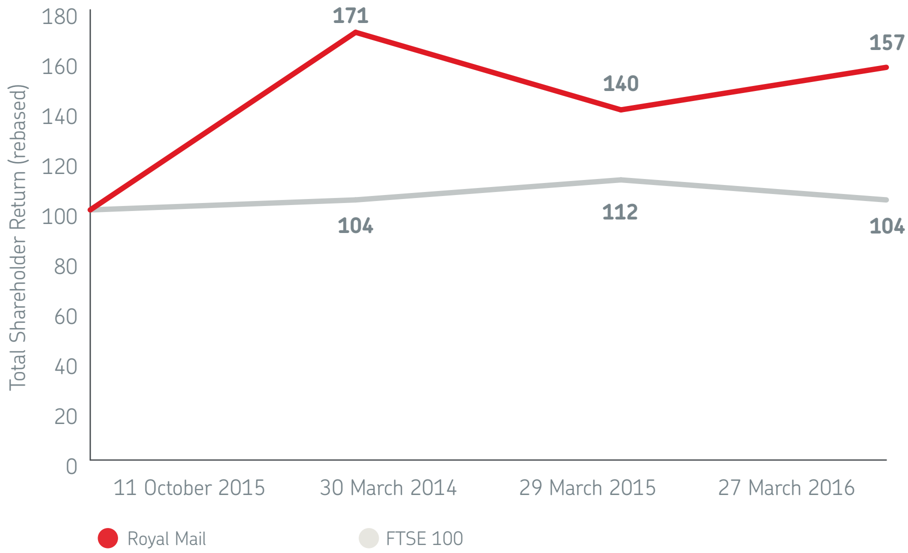
What has the pay for the CEO been over the last seven years?

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

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

How does TSR compare to that of other similar companies?

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

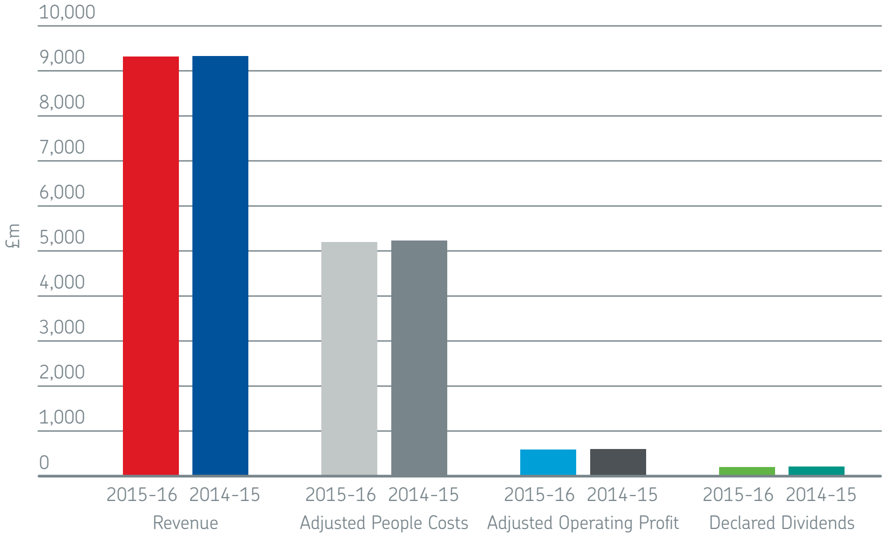


TSR over the Financial Year	2013-14*	2014-15	2015-16
Royal Mail plc	71%	-18%	12%
FTSE 100	4%	7%	-7%

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

How much does Royal Mail spend on pay?

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



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

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

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

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

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

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

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

2015 Voting By Shareholders

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

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

Approved by the Board on 18 May 2016 and signed by

Orna Ni-Chionna
Chair, Remuneration Committee

Directors' report

The Directors present their report together with audited financial statements for the year ended 27 March 2016.

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.

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 49-80 and is incorporated into this Directors' Report by reference.

Dividends

Final dividend

The Board recommends a final dividend of 15.1 pence per ordinary share, giving a total dividend for the year of 22.1 pence per ordinary share. The final dividend will be payable on 29 July 2016 to shareholders whose names appear on the register of members on 1 July 2016.

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 Principal risks on pages 32-35 of the Strategic report.

Share capital

As at 27 March 2016, the Company's issued share capital comprised 1,000,000,000 ordinary shares of one penny each as set out in note 23 to the accounts on page 132.

A block listing of 5,000,000 shares was undertaken in November 2014, to date no new shares 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 21 July 2016 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 23 July 2015, 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 2016 AGM or on 31 July 2016, 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 23 July 2015, 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 27 March 2016.

The Directors require express authorisation from shareholders to purchase our own shares. Accordingly, at the 2016 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
As at 27 March 2016 a total of 27,042 (2014-15 40,935) shares were held by the EBT on behalf of the Company.

Substantial shareholdings
As at 27 March 2016, 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
BlackRock, Inc	55,076,360	5.50%

As at 18 May 2016, 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
BlackRock, Inc	55,076,360	5.50%

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.

These types of indemnity are qualifying third-party indemnities as defined by section 243 of the Company's Act 2006. No amount was paid under this provision during the year.

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.

Following privatisation, Directors may now be appointed by the Company by ordinary resolution or by the Board.

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

A Director appointed by the Board 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.

Directors and their interests

The Directors of the Company during the year are given on pages 43-45. 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 60–80.

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 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 2016, Royal Mail Group Limited (RMG), the main operating subsidiary of Royal Mail plc, acquired the 49 per cent of shares in Romec that it did not already own, from ENGIE (formerly Cofely Workplace Limited), making RMG the sole shareholder of Romec. The financial terms of the acquisition are not considered by Management to be material in the context of the Group as a whole.

Please see Note 27 on page 135 for further detail about the payment of the fine levied by the French Competition Authority (Autorité de la Concurrence).

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 21 to the accounts on page 120. See the financial risks and related hedging contained on page 29 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 37–41 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 25-31. 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.

Viability Statement

The Viability Statement can be viewed on page 35 of the Strategic Report.

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.

The Directors confirm full compliance with the Competition and Markets Authority's Statutory Audit Services Order. A full competitive audit tender was undertaken in 2014, which resulted in KPMG LLP being appointed in place of Ernst & Young LLP. Further information about the audit transition can be found on page 52 of the Audit and Risk Committee Report.

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

Kulbinder Dosanjh
Company Secretary
18 May 2016

Royal Mail plc
100 Victoria Embankment
London
EC4Y OHQ

Company number 08680755

Statement of Directors' responsibilities in respect of the Annual Report and Financial Statements

The Directors are responsible for preparing the Annual Report and the Group and parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent Company financial statements in accordance with UK Accounting Standards, including FRS 101 'Reduced Disclosure Framework'.

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 Group and parent Company and of their profit or loss for that period. In preparing each of the Group and parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRS as adopted by the EU;
- for the parent Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent Company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' remuneration report and Corporate Governance Statement that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors, whose names and function are set out on pages 43-45 confirm that, to the best of their knowledge:

- the financial statements, which have been prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Financial statements

Independent Auditor's Report to the members of Royal Mail plc

Opinions and conclusions arising from our audit

1 Our opinion on the financial statements is unmodified

We have audited the financial statements of Royal Mail plc for the 52 weeks ended 27 March 2016 set out on pages 89-150. In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 27 March 2016 and of the Group's profit for the 52 weeks then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with UK Accounting Standards, including FRS 101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

2 Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements the risks of material misstatement that had the greatest effect on our audit in decreasing order of significance were as follows:

The determination of deferred revenue associated with advance customer payments arising from stamps and meter credits sold £252 million (2014-15: £259 million)

Refer to page 53 (Audit and Risk Committee report), page 138 (accounting policy) and page 118 (financial disclosures).

Risk

Advance payments are made by households, retailers and businesses who purchase stamps and meter credits in advance of actual usage. The Group estimates the amounts that have been sold but not used at year end and defers revenue to reflect that the service will need to be provided by the Group during future accounting periods for pre-purchased stamps and meter credits.

As no unique identification of the stamps and meter credits unused is possible, the calculation and methodology of the advance customer payments balance is inherently subjective by nature and is based on inputs including third party surveys, Group sales data and internal survey data on meter usage. The methodology adjusts for stamp holdings which are considered to be abnormal.

Our response

Our procedures included:

- Assessing the methodology and assumptions used to determine the number of stamps and meter credits held at the balance sheet date and its consistency of application year on year. We used our own statistical specialists and held discussions with the independent third party specialist to assist us in evaluating the methodologies used by the Group.
- Evaluating the methodology and results of the external surveys (including consideration of survey size, household adjustment and caps in place to address the impact of abnormal holdings) using our own specialists to assist us in this evaluation.
- Assessing the competence, independence and integrity of the Group's third party survey specialist which provides the survey data.
- Independently testing the revenue data in the calculation.

Independent Auditor's Report to the members of Royal Mail plc (continued)

The carrying valuation of pension scheme surplus (£3,430m asset) (2014-15: £3,367m asset)

Refer to page 54 (Audit and Risk Committee report), page 145 (accounting policy) and page 105 (financial disclosures).

Risk
Significant estimates are made in valuing the Group's post-retirement defined benefit plan's obligations, including in particular the discount rate, the inflation assumptions and the mortality assumptions used to calculate the retirement benefit obligation. Small changes in the assumptions used in the valuation could have a significant effect on the financial position of the Group.

Our response
Our procedures included:

- Challenging the key assumptions applied being the discount rate, inflation rate, mortality and salary growth with the support of our own actuarial specialists. This included a comparison of these key assumptions against externally derived data.
- Assessing the competence, independence and integrity of the Group's actuarial expert.
- Considering the adequacy of the Group's disclosures in respect of the sensitivity of the surplus to these assumptions.

The recognition, measurement and disclosure of the Group's provisions and contingent liabilities associated with the potential industrial diseases and the Ofcom investigation under its competition authority powers

Refer to page 53 and 54 (Audit and Risk Committee report), page 139 (accounting policy) and page 131 and 133 (financial disclosures).

Risk
A number of significant judgments are made by the Group in the accounting for the industrial diseases provision and in assessing whether any contingent liability or provision arises from the ongoing Ofcom regulatory investigation. The assessment of the likelihood and quantum of any liability in respect of legal and regulatory matters can be judgmental due to the uncertainty inherent in their nature.

Response
Our procedures included:

- Challenging the estimates and ranges underlying the Group's independent adviser's reports on the industrial disease provision by assessing the methodology used to calculate the provision and independently assessing the inputs into the report including the discount rate and the historical incidence of claims. We used our own valuation specialists to assist us in evaluating the assumptions and methodologies used by the Group.
- Assessing the competence, independence and integrity of the Group's third party independent adviser.
- Examining the latest correspondence and other evidence used by the Group in assessing whether a contingent liability or provision arises in relation to the ongoing Ofcom investigation.
- Inspecting correspondence and holding discussions with the Group's legal advisers on all significant legal cases.
- Considering the adequacy of the Group's disclosures in respect of these claims

3 Our application of materiality and an overview of the scope of our audit
The materiality for the Group financial statements as a whole was set at £18 million. This was determined with reference to a benchmark of five per cent of Group profit before tax adjusted to add back the IFRS 2 charge for employee free shares issues and to deduct the profit on disposal of DPD assets. We consider adjusted profit to be one of the principal considerations for members of the company in assessing the financial performance of the Group. The specific items not included in the benchmark were all subject to audit procedures.

We agreed with the Audit and Risk Committee to report to it all corrected and uncorrected misstatements we identified through our audit with a value in excess of £0.9 million, in addition to other audit misstatements below that threshold that we consider warranted reporting on qualitative grounds.

Audits for Group reporting purposes were performed at the key reporting components being, UKPIL (the core UK and international parcels and letter delivery business) and GLS (the Group's European parcels business). The Group engagement team performed the audit of UKPIL and instructed component auditors to perform the audit of GLS. These Group procedures covered 99.9 per cent of total Group revenue; 87 per cent of Group profit before taxation; and 99.5 per cent of total Group assets. For the remaining components, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The audits undertaken for Group reporting purposes at the key reporting components of the Group were all performed to materiality levels set by, or agreed with, the Group audit team.

The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team visited the GLS component during the planning, execution and finalisation phases of the GLS audit.

Independent Auditor's Report to the members of Royal Mail plc (continued)

The Group team also held regular telephone conference meetings with this component team. At these visits and meetings, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.

4 Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

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 reporting year for which the financial statements are prepared is consistent with the financial statements.

5 We have nothing to report on the disclosures of principal risks

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

- the Directors' statement of viability on page 35, concerning the principal risks, their management, and, based on that, the Directors' assessment and expectations of the Group's continuing in operation over the three years to 2019; or
- the disclosures in Note 1 of the financial statements concerning the use of the going concern basis of accounting.

6 We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the Annual Report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the Directors' statement that they consider 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 Group's position and performance, business model and strategy; or
- the Audit and Risk Committee report does not appropriately address matters communicated by us to the Audit and Risk Committee.

Under the Companies Act 2006 we are required 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.

Under the Listing Rules we are required to review:

- the Directors' statements, set out on page 84, in relation to going concern and longer-term viability; and
- the part of the Corporate Governance Statement on page 42 relating to the Company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope and responsibilities

As explained more fully in the Directors' responsibilities statement set out on page 84, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Richard Pinckard (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

18 May 2016

Consolidated income statement

For the 52 weeks ended 27 March 2016 and 52 weeks ended 29 March 2015

	Notes	52 weeks 2016 Reported[1] £m	52 weeks 2016 Specific items £m	52 weeks 2016 Adjusted[2] £m	52 weeks 2015 Reported[1] £m	52 weeks 2015 Specific items £m	52 weeks 2015 Adjusted[2] £m
Continuing operations							
Revenue	2	**9,251**	**–**	**9,251**	9,328	–	9,328
Operating costs[3]	3/4	**(8,766)**	**(257)**	**(8,509)**	(8,717)	(129)	(8,588)
People costs		**(5,456)**	**(257)**	**(5,199)**	(5,359)	(129)	(5,230)
Distribution and conveyance costs		**(1,736)**	**–**	**(1,736)**	(1,764)	–	(1,764)
Infrastructure costs		**(995)**	**–**	**(995)**	(1,019)	–	(1,019)
Other operating costs		**(579)**	**–**	**(579)**	(575)	–	(575)
Operating profit before transformation costs		**485**	**(257)**	**742**	611	(129)	740
Transformation costs		**(191)**	**–**	**(191)**	(145)	–	(145)
Operating profit after transformation costs		**294**	**(257)**	**551**	466	(129)	595
Operating specific items:	5						
Employee Free Shares charge		**(158)**	**(158)**	**–**	(169)	(169)	–
Legacy credit/(costs) and impairment		**2**	**2**	**–**	(79)	(79)	–
Operating profit		**138**	**(413)**	**551**	218	(377)	595
Profit on disposal of property, plant and equipment (non-operating specific item)	5	**29**	**29**	**–**	133	133	–
Earnings before interest and tax		**167**	**(384)**	**551**	351	(244)	595
Finance costs	6	**(16)**	**–**	**(16)**	(30)	–	(30)
Finance income	6	**3**	**–**	**3**	4	–	4
Net pension interest (non-operating specific item)	5/10(c)	**113**	**113**	**–**	75	75	–
Profit before tax		**267**	**(271)**	**538**	400	(169)	569
Tax (charge)/credit	7	**(45)**	**73**	**(118)**	(72)	66	(138)
Profit for the year from continuing operations		**222**	**(198)**	**420**	328	(103)	431
Discontinued operations							
Profit from disposal of discontinued operations (non-operating specific item)	5/16	**31**	**31**	**–**	–	–	–
Tax on profit from disposal of discontinued operations	7	**(5)**	**(5)**	**–**	–	–	–
Profit for the year		**248**	**(172)**	**420**	328	(103)	431
Profit for the year attributable to:							
Equity holders of the parent Company		**241**	**(172)**	**413**	325	(103)	428
Non-controlling interests		**7**	**–**	**7**	3	–	3
Earnings per share							
Basic – continuing operations	8	**21.5p**	**(19.8)p**	**41.3p**	32.5p	(10.3)p	42.8p
Diluted – continuing operations	8	**21.4p**	**(19.7)p**	**41.1p**	32.5p	(10.3)p	42.8p
Basic – total Group	8	**24.1p**	**(17.2)p**	**41.3p**	32.5p	(10.3)p	42.8p
Diluted – total Group	8	**24.0p**	**(17.1)p**	**41.1p**	32.5p	(10.3)p	42.8p

[1] Reported – prepared in accordance with International Financial Reporting Standards (IFRS)
[2] Adjusted – a non-IFRS measure, being Reported results excluding specific items
[3] Operating costs are stated before transformation costs, Employee Free Shares charge and legacy credit/(costs) and impairment

Consolidated statement of comprehensive income

For the 52 weeks ended 27 March 2016 and 52 weeks ended 29 March 2015

	Notes	**Reported 52 weeks 2016 £m**	Reported 52 weeks 2015 Restated[1] £m
Profit for the year		**248**	328
Other comprehensive income/(expense) for the year from continuing operations:			
Items that will not be subsequently reclassified to profit or loss:			
Amounts relating to pensions accounting		**255**	1,228
IFRIC 14 adjustment relating to defined benefit surplus	10	(114)	(2)
Remeasurements gains of the defined benefit surplus[1]	10(c)	320	1,534
Tax on above items[1]	7	49	(304)
Items that may be subsequently reclassified to profit or loss:			
Foreign exchange translation differences		**8**	(47)
Exchange differences on translation of foreign operations (GLS)[2]		36	(74)
Net (loss)/gain on hedge of a net investment (€500 million bond)		(26)	27
Net loss on hedge of a net investment (Euro denominated finance lease payables)		(2)	-
Designated cash flow hedges		**5**	(21)
Losses on cash flow hedges deferred into equity		(34)	(53)
Losses on cash flow hedges released from equity to income		42	27
Tax on above items	7	(3)	5
Total other comprehensive income for the year		**268**	1,160
Total comprehensive income for the year		**516**	1,488
Total comprehensive income for the year attributable to:			
Equity holders of the parent Company		**509**	1,485
Non-controlling interests		**7**	3

[1] Restated for the 52 weeks ended 29 March 2015 for change in accounting policy relating to pensions administration costs (see Note 1)
[2] Includes £2 million charge (2014-15 £3 million credit) in relation to net deferred tax liabilities (see Note 7)

Consolidated balance sheet

At 27 March 2016, 29 March 2015 and 30 March 2014

	Notes	**Reported at 27 March 2016 £m**	Reported at 29 March 2015 Restated[1] £m	Reported at 30 March 2014 Restated[1] £m
Non-current assets				
Property, plant and equipment	11	**2,000**	1,933	1,989
Leasehold land payment		**2**	2	3
Goodwill	12	**206**	182	197
Intangible assets	13	**451**	300	195
Investments in associates and joint venture	14	**9**	5	4
Financial assets				
Pension escrow investments	21	**20**	20	20
Derivatives	21	**2**	2	3
Retirement benefit surplus – net of IFRIC 14 adjustment[1]	10	**3,430**	3,367	1,889
Other receivables		**12**	11	13
Deferred tax assets	7	**9**	8	9
		6,141	5,830	4,322
Assets held for sale	16	**39**	32	3
Current assets				
Inventories		**21**	20	22
Trade and other receivables	17	**1,020**	944	920
Income tax receivable		**6**	5	6
Financial assets				
Derivatives	21	**5**	5	2
Short-term deposits	21	**-**	56	1
Cash and cash equivalents	18/21	**368**	287	366
		1,420	1,317	1,317
Total assets		**7,600**	7,179	5,642
Current liabilities				
Trade and other payables	19	**(1,700)**	(1,668)	(1,652)
Financial liabilities				
Obligations under finance leases	21/24	**(84)**	(93)	(87)
Derivatives	21	**(33)**	(34)	(12)
Income tax payable		**(23)**	(14)	(14)
Provisions	22	**(151)**	(149)	(173)
		(1,991)	(1,958)	(1,938)
Non-current liabilities				
Financial liabilities				
Interest-bearing loans and borrowings	20/21	**(392)**	(366)	(600)
Obligations under finance leases	21/24	**(136)**	(179)	(255)
Derivatives	21	**(8)**	(14)	(5)
Provisions	22	**(96)**	(104)	(95)
Other payables		**(41)**	(40)	(31)
Deferred tax liabilities[1]	7	**(469)**	(512)	(184)
		(1,142)	(1,215)	(1,170)
Liabilities associated with assets held for sale	16	**-**	(10)	-
Total liabilities		**(3,133)**	(3,183)	(3,108)
Net assets		**4,467**	3,996	2,534
Equity				
Share capital	23	**10**	10	10
Retained earnings[1]		**4,451**	3,993	2,465
Other reserves		**(3)**	(16)	52
Equity attributable to parent Company		**4,458**	3,987	2,527
Non-controlling interests		**9**	9	7
Total equity		**4,467**	3,996	2,534

[1] Restated at 29 March 2015 and 30 March 2014 for change in accounting policy relating to pensions administration costs (see Note 1)

The financial statements were approved and authorised for issue by the Board of Directors on 18 May 2016 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 27 March 2016 and 52 weeks ended 29 March 2015

	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 30 March 2014	10	2,332	61	(9)	2,394	7	2,401
Pensions accounting policy change	–	133	–	–	133	–	133
Reported at 30 March 2014 restated[1]	10	2,465	61	(9)	2,527	7	2,534
Profit for the year	–	325	–	–	325	3	328
Other comprehensive income/(expense) for the year[1]	–	1,228	(47)	(21)	1,160	–	1,160
Total comprehensive income/(expense) for the year[1]	–	1,553	(47)	(21)	1,485	3	1,488
Transactions with owners of the Company, recognised directly in equity							
Release of Post Office Limited separation provision (see Note 22)	–	7	–	–	7	–	7
Dividend paid to equity holders of the parent Company	–	(200)	–	–	(200)	–	(200)
Dividend paid to non-controlling interests	–	–	–	–	–	(1)	(1)
Share-based payments (see Note 15)							
Employee Free Shares issue[2]	–	163	–	–	163	–	163
Save As You Earn (SAYE) scheme	–	1	–	–	1	–	1
Long-Term Incentive Plan (LTIP)[3]	–	4	–	–	4	–	4
Reported at 29 March 2015 restated[1]	10	3,993	14	(30)	3,987	9	3,996
Profit for the year	**–**	**241**	**–**	**–**	**241**	**7**	**248**
Other comprehensive income for the year	**–**	**255**	**8**	**5**	**268**	**–**	**268**
Total comprehensive income for the year	**–**	**496**	**8**	**5**	**509**	**7**	**516**
Transactions with owners of the Company, recognised directly in equity							
Release of Post Office Limited separation provision (see Note 22)	**–**	**5**	**–**	**–**	**5**	**–**	**5**
Dividend paid to equity holders of the parent Company	**–**	**(213)**	**–**	**–**	**(213)**	**–**	**(213)**
Dividend paid to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**(7)**	**(7)**
Share-based payments (see Note 15)							
Employee Free Shares issue[2]	**–**	**152**	**–**	**–**	**152**	**–**	**152**
Save As You Earn (SAYE) scheme	**–**	**3**	**–**	**–**	**3**	**–**	**3**
Long-Term Incentive Plan (LTIP)[3]	**–**	**15**	**–**	**–**	**15**	**–**	**15**
Reported at 27 March 2016	**10**	**4,451**	**22**	**(25)**	**4,458**	**9**	**4,467**

[1] Restated for change in accounting policy relating to pensions administration costs (see Note 1)
[2] Excludes £6 million (2014-15 £6 million) National Insurance, charged to the income statement, included in provisions on the balance sheet
[3] Excludes £1 million (2014-15 £1 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 23.

Consolidated statement of cash flows

For the 52 weeks ended 27 March 2016 and 52 weeks ended 29 March 2015

	Notes	**Reported 52 weeks 2016 £m**	Reported 52 weeks 2015 £m
Cash flow from operating activities			
Profit before tax		**267**	400
Adjustment for:			
Net pension interest		**(113)**	(75)
Net finance costs		**13**	26
Profit on disposal of property, plant and equipment		**(29)**	(133)
Legacy credit/(costs) and impairment		**(2)**	79
Employee Free Shares charge		**158**	169
Transformation costs		**191**	145
Operating profit before transformation costs		**485**	611
Adjustment for:			
Depreciation and amortisation	11/13	**272**	279
Share of post-tax profit from associates	14	**(1)**	(1)
EBITDA before transformation costs		**756**	889
Working capital movements		**(20)**	12
(Increase)/decrease in inventories		(1)	1
Increase in receivables		(62)	(52)
Increase in payables		22	72
Net decrease/(increase) in derivative assets		1	(8)
Increase/(decrease) in provisions (non-specific items)		20	(1)
Pension charge to cash difference (operating specific item)		**257**	129
Share-based awards (SAYE and LTIP) charge to cash difference		**13**	5
Cash cost of transformation operating expenditure[1]		**(233)**	(228)
Cash cost of operating specific items		**(6)**	(8)
Cash inflow from operations		**767**	799
Income tax paid		**(40)**	(37)
Net cash inflow from operating activities		**727**	762
Cash flow from investing activities			
Dividend received from associate company	14	**1**	-
Finance income received		**3**	4
Proceeds from disposal of property (excluding London property portfolio), plant and equipment (non-operating specific item)		**38**	39
London property portfolio (costs)/net proceeds (non-operating specific item)		**(23)**	100
Proceeds from disposal of discontinued operations (non-operating specific item)	16	**41**	-
Purchase of property, plant and equipment[1]		**(270)**	(267)
Acquisition of business interests		**(14)**	(7)
Purchase of intangible assets (software)[1]		**(191)**	(153)
Payment of deferred consideration in respect of prior years' acquisitions		**(4)**	(3)
Net sale/(purchase) of financial asset investments (current)		**56**	(55)
Net cash outflow from investing activities		**(363)**	(342)
Net cash inflow before financing activities		**364**	420
Cash flow from financing activities			
Finance costs paid		**(16)**	(22)
Payment of capital element of obligations under finance lease contracts		**(90)**	(75)
Cash received on sale and leasebacks		**36**	13
New loans		**-**	393
Repayment of loans and borrowings		**-**	(600)
Dividends paid to equity holders of the parent Company	9	**(213)**	(200)
Dividend paid to non-controlling interests		**(7)**	(1)
Net cash outflow from financing activities		**(290)**	(492)
Net increase/(decrease) in cash and cash equivalents		**74**	(72)
Effect of foreign currency exchange rates on cash and cash equivalents		**7**	(7)
Cash and cash equivalents at the beginning of the year	18	**287**	366
Cash and cash equivalents at the end of the year	18	**368**	287

[1] Items comprise total investment within free cash flow measure (see Financial review)

Notes to the consolidated financial statements

1. Basis of preparation

This note explains how these consolidated financial statements have been prepared, including details of; an accounting policy change relating to pensions administration costs; non-GAAP performance 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 consolidated financial statements of the Company for the 52 weeks ended 27 March 2016 (2014-15 52 weeks ended 29 March 2015) comprise the Company and its subsidiaries (together referred to as 'the Group') and the Group's interest in its associate undertakings.

The consolidated financial statements for the 52 weeks ended 27 March 2016 were authorised for issue by the Board on 18 May 2016.

Basis of preparation and accounting
The 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.

Accounting reference date
The financial reporting year ends on the last Sunday in March and, accordingly, these financial statements are prepared for the 52 weeks ended 27 March 2016 (2014-15 52 weeks ended 29 March 2015).

Presentation of results and accounting policies
The Group's significant accounting policies, including details of new accounting standards adopted in the reporting year, can be found after the notes to the consolidated financial statements on page 138. Details of a change in accounting policy impacting the balance sheet, other comprehensive income and the statement of changes in equity in the current and comparative years are given below.

Prior year adjustment – pensions administration costs
During the reporting year, a decision was taken to change Group policy in relation to pensions administration costs. Previously an allowance for the administration costs for the relevant reporting period was included as part of the ongoing UK defined benefit pension service costs and actual costs incurred offset against the return on plans' assets. An estimate of future administration costs was also included as part of the defined benefit liability. Under this revised policy, administration costs are now recognised as they are incurred and included only within the ongoing UK defined benefit pension service costs in the income statement. This has had the impact of reducing the defined benefit liability at 29 March 2015 by £188 million, being the discounted value of future administration costs, and therefore increasing the net surplus by the same amount as at that date. This policy has been adopted to better reflect the reality of the plan and the intentions of IAS 19 'Employee Benefits'.

In line with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors', this change in policy has been applied retrospectively in the Group financial statements, the impact of which is shown below.

Consolidated balance sheet	At 29 March 2015 £m	At 30 March 2014 £m
Total equity previously reported	3,846	2,401
Impact of accounting policy change on 'Retained earnings'		
Retirement benefit surplus – net of IFRIC 14 adjustment	188	166
Deferred tax liabilities	(38)	(33)
Total equity restated	3,996	2,534

The impact of this restatement on the retirement benefit surplus – net of the IFRIC 14 adjustment – is as follows:

Consolidated balance sheet	At 29 March 2015 £m	At 30 March 2014 £m
Reported surplus in plans (pre IFRIC 14 adjustment)	3,194	1,736
Pensions administration costs impact on defined benefit liability	188	166
Restated surplus in plans (pre IFRIC 14 adjustment) (see Note 10)	3,382	1,902
IFRIC 14 adjustment	(15)	(13)
Restated surplus net of IFRIC 14 (see Note 10)	3,367	1,889

Notes to the consolidated financial statements (continued)

1. Basis of preparation (continued)

Consolidated statement of comprehensive income	52 weeks ended 29 March 2015 £m
Total comprehensive income for the year previously reported	1,471
Impact of accounting policy change on 'Amounts relating to pensions accounting'	
Remeasurements of the defined benefit surplus	22
Tax on above item	(5)
Total comprehensive income for the year restated	1,488

There is no material impact on the comparative year's income statement and no impact on the statement of cash flows as a result of this policy change. This policy change has also had no material impact on the comparative year's basic or diluted earnings per share.

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). The notes to the financial statements have also been prepared on a 'reported' basis unless otherwise stated.

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. Management believe that these non-GAAP measures assist with the understanding of the performance of the business.

These non-GAAP measures (see definitions on page 140) are not a substitute, or superior to, any IFRS measures of performance, but they have been disclosed as Management consider 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 signing date of these financial statements, 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 and assessed these against committed and undrawn funding facilities (£1,050 million at 27 March 2016) and other liquid resources available to the Group (cash at bank £185 million and cash equivalent investments £170 million at 27 March 2016). Funding facilities and cash and cash equivalents available to the Group are described in further detail in notes 18 and 21.

The Directors are satisfied that these facilities, coupled with business projections, show that the Group will continue to operate for a minimum of 12 months from the signing date of these financial statements.

Notes to the consolidated financial statements (continued)

2. Segment information

The Group's revenue, costs and earnings before interest and tax are segmented in this note to align with how business performance is managed and reported to the Board.

The Group's financial performance is reported internally based on three operating segments, namely UK Parcels, International & Letters (UKPIL), General Logistics Systems (GLS) and 'Other', the latter a combination, on the basis of materiality, of the two 51 per cent-owned subsidiaries Romec Limited and NDC 2000 Limited and the associate company Quadrant Catering Limited.

These operating segments, which are structured on a geographic business unit basis, report into the Chief Executive's Committee and the Royal Mail plc Board – the Chief Operating Decision Maker as defined by IFRS 8 Operating Segments. Each of these units has discrete revenue, costs, profit, cash flows, assets and people. This financial information is prepared and reviewed on a regular basis and compared with both historical and budget/forecast information as part of a rigorous performance management process.

The key measure of segment performance is operating profit before transformation costs (used internally for the Corporate Balanced Scorecard). From the beginning of the reporting year 2015-16, this measure of performance is disclosed on an 'adjusted' basis i.e. excluding specific items, which is consistent with how financial performance is now measured internally and reported to the Board. The comparative year has been restated accordingly. A reconciliation of the Group's 'adjusted' to 'reported' earnings before interest and tax and profit before tax by segment is provided below.

The majority of inter-segment revenue relates to the provision of facilities management by Romec Limited to UKPIL. Trading between UKPIL and GLS is not material.

Transfer prices between the segments are set on the basis of charges reached through commercial negotiation with the respective business units that form each of the segments.

52 weeks 2016

	UK operations				Other European operations	Group		
			Reported					
Continuing operations	UKPIL £m	Other £m	Eliminations[2] £m	Total £m	GLS £m	Total £m	Specific Items[1] £m	Adjusted Total £m
External revenue	7,666	5	–	7,671	1,580	9,251	–	9,251
Inter-segment revenue	–	141	(141)	–	–	–	–	–
Total segment revenue	7,666	146	(141)	7,671	1,580	9,251	–	9,251
People costs	(5,021)	(77)	–	(5,098)	(358)	(5,456)	(257)	(5,199)
Non-people costs	(2,294)	(52)	141	(2,205)	(1,105)	(3,310)	–	(3,310)
Operating profit before transformation costs	351	17	–	368	117	485	(257)	742
Transformation costs	(191)	–	–	(191)	–	(191)	–	(191)
Operating profit after transformation costs	160	17	–	177	117	294	(257)	551
Operating specific items								
Employee Free Shares charge	(158)	–	–	(158)	–	(158)	(158)	–
Legacy credit	2	–	–	2	–	2	2	–
Operating profit	4	17	–	21	117	138	(413)	551
Profit on disposal of property, plant and equipment (non-operating specific item)	29	–	–	29	–	29	29	–
Earnings before interest and tax	33	17	–	50	117	167	(384)	551
Net finance costs	not reported at this level		–	(13)	–	(13)	–	(13)
Net pension interest (non-operating specific item)			–	113	–	113	113	–
Profit before tax			–	150	117	267	(271)	538

[1] These specific items all relate to the UKPIL segment

[2] Elimination of inter-segment revenue charged to UKPIL

Notes to the consolidated financial statements (continued)

2. Segment information (continued)

52 weeks 2015

	UK operations				Other European operations	Group		
			Reported				Specific Items[3]	Adjusted
Continuing operations	UKPIL £m	Other £m	Eliminations[2] £m	Total £m	GLS £m	Total £m	£m	Total £m
External revenue	7,757	14	–	7,771	1,557	9,328	–	9,328
Inter-segment revenue	–	152	(152)	–	–	–	–	–
Total segment revenue	7,757	166	(152)	7,771	1,557	9,328	–	9,328
People costs	(4,918)	(87)	–	(5,005)	(354)	(5,359)	(129)	(5,230)
Non-people costs	(2,353)	(69)	152	(2,270)	(1,088)	(3,358)	–	(3,358)
Operating profit before transformation costs	486	10	–	496	115	611	(129)	740
Transformation costs	(145)	–	–	(145)	–	(145)	–	(145)
Operating profit after transformation costs	341	10	–	351	115	466	(129)	595
Operating specific items								
Employee Free Shares charge	(169)	–	–	(169)	–	(169)	(169)	–
Impairment and legacy costs	(33)	–	–	(33)	(46)	(79)	(79)	–
Operating profit	139	10	–	149	69	218	(377)	595
Profit on disposal of property, plant and equipment (non-operating specific item)	133	–	–	133	–	133	133	–
Earnings before interest and tax	272	10	–	282	69	351	(244)	595
Net finance costs	not reported at this level		–	(27)	1	(26)	–	(26)
Net pension interest (non-operating specific item)			–	75	–	75	75	–
Profit before tax			–	330	70	400	(169)	569

The following amounts are included within operating profit before transformation costs:

52 weeks 2016

	UK operations			Other European operations	
	UKPIL £m	**Other £m**	**Total £m**	**GLS £m**	**Total £m**
Depreciation	**(194)**	**–**	**(194)**	**(30)**	**(224)**
Amortisation of intangible assets (mainly software)	**(39)**	**–**	**(39)**	**(9)**	**(48)**
Share of post-tax profit from associates	**–**	**1**	**1**	**–**	**1**

52 weeks 2015

	UK operations			Other European operations	
	UKPIL £m	Other £m	Total £m	GLS £m	Total £m
Depreciation	(211)	(1)	(212)	(30)	(242)
Amortisation of intangible assets (mainly software)	(31)	–	(31)	(6)	(37)
Share of post-tax profit from associates	–	1	1	–	1

[3] These specific items all relate to the UKPIL segment, with the exception of £46 million legacy costs (including fine) in the GLS segment relating to the French Competition Authority investigations

Notes to the consolidated financial statements (continued)

3. Operating costs

This analysis of operating costs in the income statement includes amounts that require either separate disclosure under IFRS or have been disclosed because of their nature and/or materiality.

Operating profit before transformation costs is stated after charging the following operating costs:

	52 weeks 2016 £m	52 weeks 2015 £m
People costs (see Note 4)	**(5,456)**	(5,359)
Distribution and conveyance costs		
Charges from overseas postal administrations	**(294)**	(311)
Fuel costs	**(172)**	(186)
Operating lease costs – vehicles	**(11)**	(11)
Infrastructure costs		
Depreciation and amortisation	**(272)**	(279)
Depreciation of property, plant and equipment (see Note 11)	(224)	(242)
Amortisation of intangible assets (mainly software – see Note 13)	(48)	(37)
Other operating costs		
Post Office Limited charges	**(342)**	(358)
Inventory expensed	**(46)**	(43)
Operating lease costs – property, plant and equipment	**(134)**	(136)

Research and development expenditure during the year amounted to £nil million (2014-15 £nil million).

The following disclosure is relevant in understanding the extent of costs in relation to the regulation of the Group.

Regulatory body costs	52 weeks 2016 £m	52 weeks 2015 £m
Ofcom	**(5)**	(3)
Citizens Advice/Consumer Council for Northern Ireland	**(3)**	(4)
Total	**(8)**	(7)

Disclosure of statutory audit costs is a requirement of the Companies Act 2006.

Auditor's fees	52 weeks 2016 £000	52 weeks 2015 £000
Audit of Group statutory financial statements	**(325)**	(390)
Other fees to Auditor:		
Statutory audits for subsidiaries	**(1,297)**	(1,494)
Regulatory audit	**(68)**	(143)
Taxation services	**(29)**	(177)
Other non-audit services	**(216)**	(88)
Total	**(1,935)**	(2,292)

The 2015-16 fees relate to the services of the Group's recently appointed auditor KPMG LLP, who in addition to the above amounts were paid by the respective Trustees, £85,000 for the audit of the Royal Mail Pension Plan and £31,000 for the audit of the Royal Mail Defined Contribution Plan.

The 2014-15 fees relate to the services of the Group's previous auditor EY LLP, who were paid additional amounts of £85,000 in 2015-16 in respect of the 2014-15 audit (2014-15 £90,000 in respect of the 2013-14 audit).

Notes to the consolidated financial statements (continued)

4. People information

People costs account for 62 per cent (2014-15 61 per cent) of total Group operating costs. The analysis below provides details of people costs and numbers as well as specific disclosures in relation to Directors' remuneration. Further details on Directors' remuneration paid can be found in the Directors' remuneration report.

People costs

	52 weeks 2016 £m	52 weeks 2015 £m
Wages and salaries	**(4,323)**	(4,433)
UK based	(4,020)	(4,138)
GLS	(303)	(295)
Pensions (see note 10)	**(768)**	(552)
Defined benefit UK	(619)	(508)
Defined contribution UK	(45)	(38)
UK defined benefit and defined contribution Pension Salary Exchange (PSE)	(99)	-
GLS	(5)	(6)
Social security	**(365)**	(374)
UK based	(315)	(321)
GLS	(50)	(53)
Group total people costs	**(5,456)**	(5,359)

	52 weeks 2016	52 weeks 2015
Defined benefit pension plan rates:		
Income statement	**29.8%**	23.6%
Cash flow	**17.1%**	17.1%
Defined contribution pension plan average rate:		
Income statement and cash flow[1]	**5.7%**	5.4%

People numbers

The number of people employed during the reporting year was as follows:

	Full-time equivalents[2]				Headcount			
	Year end		Average		Year end		Average	
	52 weeks 2016	52 weeks 2015	52 weeks 2016	52 weeks 2015	52 weeks 2016	52 weeks 2015	52 weeks 2016	52 weeks 2015
UKPIL	**149,220**	152,010	**152,059**	154,584	**139,408**	142,910	**140,679**	145,205
GLS – continuing operations	**9,683**	9,311	**9,471**	9,073	**13,991**	13,754	**13,829**	13,400
– discontinued operations[3]	**–**	422	**–**	422	**–**	655	**–**	642
UK partially owned subsidiaries	**2,493**	2,446	**2,513**	2,816	**3,136**	3,199	**3,156**	3,543
Group total	**161,396**	164,189	**164,043**	166,895	**156,535**	160,518	**157,664**	162,790

Directors' remuneration

	52 weeks 2016 £000	52 weeks 2015 £000
Directors' remuneration[4]	**(2,830)**	(3,305)
Amounts earned under Long-Term Incentive Plans (LTIP)	**(676)**	(877)
Number of Directors accruing benefits under defined benefit plans	**–**	–
Number of Directors accruing benefits under defined contribution plans	**1**	1

[1] Employer contribution rates are one per cent for employees in the entry level category and seven to nine per cent for those in the standard level category, depending on the employees' selected contribution rate
[2] These people numbers relate to the total number of paid hours (including part-time, full-time and agency hours) divided by the number of standard full-time working hours in the same period
[3] The discontinued operations relate to the GLS Germany subsidiary DPD Systemlogistik GmbH & Co. KG (DPD SL – sold on 31 March 2015) (see Note 16)
[4] These amounts include any cash supplements received in lieu of pension. Details of the highest paid Director are included in the Directors' remuneration report

Notes to the consolidated financial statements (continued)

5. Specific items

These are both recurring and non-recurring income/expense items which in the Directors' view should be disclosed separately to provide greater understanding of the underlying performance of the business. A definition of specific items is provided on page 140.

	52 weeks 2016 £m	52 weeks 2015 £m
Operating specific items		
Pension charge to cash difference (within People costs)	**(257)**	(129)
Employee Free Shares charge	**(158)**	(169)
Legacy credit/(costs) and impairment	**2**	(79)
Potential industrial diseases claims	3	(19)
Historical employment costs	-	15
Impairment	-	(24)
French Competition Authority investigation costs (including fine)	-	(46)
Other	(1)	(5)
Total operating specific items	**(413)**	(377)
Non-operating specific items		
Profit on disposal of property, plant and equipment	**29**	133
Net pension interest	**113**	75
Profit from disposal of discontinued operations (see Note 16)	**31**	-
Total non-operating specific items	**173**	208
Total specific items before tax	**(240)**	(169)
Total tax credit on specific items (see Note 7)	**68**	66

6. Net finance costs

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.

	52 weeks 2016 £m	52 weeks 2015 £m
Unwinding of discount relating to industrial diseases claims provision	**(2)**	(2)
Interest payable on financial liabilities	**(14)**	(28)
Syndicated bank loan facility		
Loans and borrowings	-	(7)
Unused facility fees	(2)	(2)
Arrangement fees[1]	(2)	(4)
€500 million bond – 2.375% Senior Fixed Rate Notes due July 2024	(9)	(6)
Finance leases	(5)	(7)
Capitalisation of borrowing costs on specific qualifying assets	4	1
Losses realised on interest rate swap contracts[2]	-	(2)
Other finance costs	-	(1)
Finance costs	**(16)**	(30)
Finance income – interest receivable on financial assets	**3**	4
Net finance costs	**(13)**	(26)

[1] In 2014-15 arrangement fees of £2 million were written off upon repayment of £350 million of the term loans following the bond issue. No such fees were relevant to 2015-16

[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)

7. 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 details about the tax impact of specific items.

	52 weeks 2016 £m	52 weeks 2015 £m
Tax (charged)/credited in the income statement		
Current income tax:		
Current UK income tax charge	**(16)**	(13)
Foreign tax	**(35)**	(32)
Current income tax charge	**(51)**	(45)
Amounts over provided in earlier years	**1**	6
Total current income tax charge	**(50)**	(39)
Deferred income tax:		
Effect of change in tax rates	**6**	2
Relating to origination and reversal of temporary differences	**(17)**	(36)
Amounts over provided in previous years	**11**	1
Total deferred income tax charge	**–**	(33)
Tax charge in the consolidated income statement	**(50)**	(72)
Tax on non-GAAP, specific items:		
Tax credit relating to specific items	**68**	66
Tax credited/(charged) to other comprehensive income		
Deferred tax:		
Tax credit/(charge) in relation to actuarial gains on defined benefit pension plans	**49**	(308)
Tax relief on pension payments	**–**	4
Tax (charge)/credit on revaluation of cash flow hedges	**(3)**	5
Tax (charge)/credit on foreign currency translation	**(2)**	3
Total credit/(charge) in the consolidated statement of other comprehensive income	**44**	(296)

Notes to the consolidated financial statements (continued)

7. 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 27 March 2016 and 52 weeks ended 29 March 2015 is shown below.

	52 weeks 2016 £m	52 weeks 2015 £m
Profit before tax	**298**	400
At UK standard rate of corporation tax of 20% (2014-15 rate 21%)	**(60)**	(84)
Effect of higher taxes on overseas earnings	**(10)**	(6)
Tax over provided in prior years	**12**	7
Non-deductible expenses	**(6)**	(19)
Associates' profit after tax charge (included in Group pre-tax profit)	**1**	1
Tax effect of property disposals	**7**	29
Net increase in tax charge resulting from non-recognition of deferred tax assets and liabilities	**-**	(2)
Effect of change in tax rates	**6**	2
Tax charge in the income statement	**(50)**	(72)

Tax on specific items

	52 weeks 2016 £m	52 weeks 2015 £m
Continuing operations[1]	**72**	57
Discontinued operations	**(5)**	-
Tax specific items – adjustments in respect of prior years	**1**	9
Total tax on specific items	**68**	66

The tax credit on specific items of £68 million (2014-15 £66 million) 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.

Current tax

The current tax charge for the Group is mainly in respect of GLS. UK taxable profits in 2015-16 are partially covered by a combination of brought forward losses and capital allowance claims. Accordingly, the current tax rate for the Group is 17 per cent.

Effective tax rate

The effective tax rate on reported profit is 17 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 of the changes to tax law detailed below, and no tax charge recognised in relation to property disposals[1].

GLS pays tax in a number of territories, with the majority of its profits in the reporting year to 27 March 2016 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 year. The effect of this is partially offset by the initial recognition of tax losses in GLS Spain. These factors contribute to GLS having a higher effective tax rate for the year than the UK statutory rate.

[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

Notes to the consolidated financial statements (continued)

7. Taxation (continued)

Deferred tax

Deferred tax by balance sheet category	At 30 March 2015 £m	(Charged)/ credited to income statement £m	(Charged)/ credited to other comprehensive income £m	At 27 March 2016 £m	At 31 March 2014 Restated[2] £m	(Charged)/ credited to income statement £m	(Charged)/ credited to other comprehensive income[2] £m	At 29 March 2015 Restated[2] £m
Liabilities								
Accelerated capital allowances	**(1)**	**–**	**–**	**(1)**	(1)	–	–	(1)
Pensions temporary differences[2]	**(667)**	**53**	**49**	**(565)**	(372)	13	(308)	(667)
Employee share schemes	**(48)**	**23**	**–**	**(25)**	(65)	17	–	(48)
Goodwill qualifying for tax allowances	**(29)**	**(2)**	**(2)[3]**	**(33)**	(28)	(4)	3[3]	(29)
Deferred tax liabilities[2]	**(745)**	**74**	**47**	**(624)**	(466)	26	(305)	(745)
Assets								
Deferred capital allowances	**127**	**(49)**	**–**	**78**	169	(42)	–	127
Provisions and other	**25**	**(6)**	**–**	**19**	30	(5)	–	25
Losses available for offset against future taxable income	**82**	**(19)**	**–**	**63**	90	(12)	4	82
Hedging derivatives temporary differences	**7**	**–**	**(3)**	**4**	2	–	5	7
Deferred tax assets	**241**	**(74)**	**(3)**	**164**	291	(59)	9	241
Net deferred tax (liability)/asset[2]	**(504)**	**–**	**44**	**(460)**	(175)	(33)	(296)	(504)

Deferred tax – balance sheet presentation	At 27 March 2016 £m	At 29 March 2015 £m
Liabilities		
GLS group	**(34)**	(31)
Net UK position	**(435)**	(481)
Deferred tax liabilities	**(469)**	(512)
Assets		
GLS group	**9**	8
Net UK position	**–**	–
Deferred tax assets	**9**	8
Net deferred tax liability	**(460)**	(504)

The deferred tax position shows a decreased overall liability in the reporting year to 27 March 2016.

This decrease in the liability is primarily as a result of the deferred tax impact of the reduction in UK Corporation Tax rates by 2020. Decreases in UK pension deferred tax assets are broadly offset by a reduction in capital allowance and loss assets.

The movement in pensions temporary differences credited to Other Comprehensive Income includes a credit of £48 million (2014-15 £nil) relating to the change in tax law detailed below. Additionally a credit of £59 million (2014-15 £1 million) has been recognised in relation to the IFRIC 14 adjustment detailed in Note 10.

GLS has deferred tax assets and liabilities in various jurisdictions which cannot be offset against one another. The main element of the liability relates to goodwill and intangibles in GLS Germany, for which the Group has already taken tax deductions. The initial recognition of tax losses in GLS Spain has contributed to the increase in deferred tax assets.

At 27 March 2016, the Group had unrecognised deferred tax assets of £68 million (2014-15 £68 million) comprising £62 million (2014-15 £61 million) relating to tax losses of £234 million (2014-15 £227 million), mainly in GLS, that are available for offset against future profits if generated in the relevant companies, and £6 million (2014-15 £7 million) in relation to £30 million (2014-15 £33 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 £211 million (2014-15 £295 million) of capital losses, the tax effect of which is £38 million (2014-15 £59 million) in respect of assets previously qualifying for industrial buildings allowances. Further temporary differences exist in relation to £217 million (2014-15 £308 million) of gains for which rollover relief has been claimed, the tax effect of which is £40 million (2014-15 £62 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.

[2] Restated for change in accounting policy relating to pensions administration costs (see Note 1)
[3] £2 million charged (2014-15 £3 million credited) to the foreign currency translation reserve

Notes to the consolidated financial statements (continued)

7. Taxation (continued)

Changes to UK corporation tax rate

Reductions in the UK corporation tax rate from 20 per cent to 19 per cent (effective from 1 April 2017) and to 18 per cent (effective 1 April 2020) were substantively enacted on 26 October 2015. In future, this will reduce the Group's current tax charge accordingly. In accordance with accounting standards, the effect of these rate reductions on deferred tax balances has been reflected in these financial statements, dependent upon when temporary differences are expected to reverse.

In his budget of 16 March 2016, the Chancellor of the Exchequer announced that the UK corporation tax rate will reduce to 17 per cent (effective 1 April 2020). This will supersede the rate of 18 per cent already enacted. This announced reduction in rate is not expected to significantly affect the deferred tax assets and liabilities of the Group.

8. Earnings per share

This note explains the calculation of the Group's earnings per share. The adjusted earnings per share (a non-IFRS measure) is a key indicator used by Management to assess earnings performance.

	52 weeks 2016		52 weeks 2015	
	Reported	**Adjusted**	Reported	Adjusted
Attributable to equity holders of the parent Company				
Profit from continuing operations (£million)	**215**	**413**	325	428
Profit for the year (£million)	**241**	**413**	325	428
Weighted average number of shares issued (million)	**1,000**	**1,000**	1,000	1,000
Basic earnings per share (pence)	**24.1**	**41.3**	32.5	42.8
Diluted earnings per share (pence)	**24.0**	**41.1**	32.5	42.8

The diluted earnings per share for the year ended 27 March 2016 is based on a weighted average number of shares of 1,004,792,701 (2014-15 1,001,485,583) to take account of the potential issue of ordinary shares resulting from the Long-Term Incentive Plans (LTIP) for certain senior management and the Save As You Earn (SAYE) scheme (see Note 15). Shares held in an Employee Benefit Trust for the settlement of options and awards to current and former employees are treated as treasury shares for accounting purposes. The Company, however, does not hold any shares in treasury.

9. Dividends

This note provides details on the amount of dividends paid to equity holders of the parent Company during the year. Details are also provided on the amount of dividends per share which have been paid and proposed.

Dividends on ordinary shares	**52 weeks 2016 Pence per share**	52 weeks 2015 Pence per share	**52 weeks 2016 £m**	52 weeks 2015 £m
Final dividends paid	**14.3**	13.3	**143**	133
Interim dividends paid	**7.0**	6.7	**70**	67
Total dividends paid	**21.3**	20.0	**213**	200

In addition to the above dividends paid the Directors are proposing a final dividend for the year ending 27 March 2016 of 15.1 pence per share amounting to £151 million. This dividend will be paid to shareholders on 29 July 2016 subject to approval at the AGM to be held on 21 July 2016.

Notes to the consolidated financial statements (continued)

10. Retirement benefit plans

In applying IAS 19, the Group has recognised a pension asset of £3,430 million at 27 March 2016, compared with £3,367 million at 29 March 2015. This note includes the key assumptions used in determining the pension asset and also provides details of the pension surplus on an actuarial basis.

Summary pension information

	52 weeks 2016 £m	52 weeks 2015 £m
Ongoing UK pension service costs		
UK defined benefit plan (including administration costs)[1]	**(619)**	(508)
UK defined contribution plan	**(45)**	(38)
UK defined benefit and defined contribution Pension Salary Exchange (PSE)[2]	**(99)**	–
Total UK ongoing pension service costs	**(763)**	(546)
GLS defined contribution type plan costs	**(5)**	(6)
Total Group ongoing pension service costs	**(768)**	(552)
Cash flows relating to ongoing pension service costs		
UK defined benefit plan employer contributions[3]	**(352)**	(369)
Defined contribution plan employer contributions	**(50)**	(44)
UK defined benefit and defined contribution plan employer PSE contributions	**(99)**	–
Total Group cash flows relating to ongoing pension service costs	**(501)**	(413)
RMSEPP deficit correction payments	**(10)**	(10)
Pension charge to cash difference (operating specific item)	**(257)**	(129)

	At 27 March 2016 '000	At 29 March 2015 '000
UK pension plans – active membership		
UK defined benefit plan	**93**	100
UK defined contribution plan	**42**	39
Total	**135**	139

[1] These pension service costs are charged to the income statement. They represent the cost, as a percentage of pensionable payroll (2015-16 29.8 per cent; 2014-15 23.6 per cent) of the increase in the defined benefit obligation due to members earning one more year's worth of pension benefits. They are calculated in accordance with IAS 19 and are based on market yields (high quality corporate bonds and inflation) at the beginning of the reporting year. The £111 million increase in costs is mainly as a result of the increased pension service cost rate. Pensions administration costs for the RMPP of £6 million (2014-15 £6 million) continue to be included within the ongoing UK pension service costs

[2] At the beginning of August 2015, PSE was introduced under which eligible employees who are enrolled into PSE opt out of making employee contributions to their pension and the Group makes additional contributions in return for a reduction in basic pay. As a result, there is a decrease in wages and salaries and a corresponding increase in pension costs of £99 million (2014-15 £nil) in the reporting year

[3] The employer contribution cash flow rate (17.1 per cent in both the current and prior year) 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

Notes to the consolidated financial statements (continued)

10. Retirement benefit plans (continued)

UK Defined Contribution plan
Royal Mail Group Limited, the Company's main operating subsidiary, operates the Royal Mail Defined Contribution Plan, which was launched in April 2009 and is open to employees who joined the Group from 31 March 2008, following closure of the Royal Mail Pension Plan (RMPP) to new members.

Ongoing UK defined contribution plan costs have increased from £38 million in 2014-15 to £63 million (including £18 million PSE costs). This is mainly due to the introduction of PSE, but also as a result of the continued increase in plan membership and an increase in the average employer's contribution rate from 5.4 per cent in 2014-15 to 5.7 per cent in 2015-16.

UK Defined Benefit plans
Royal Mail Group Limited had one of the largest defined benefit pension plans 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. On this basis, using long-term actuarial assumptions agreed at that date, it was predicted the Group 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.

Pensions Reform
In June 2013, the Group 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 Group 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 a £1,350 million credit was recognised in the Group income statement (as a specific item) in the year ended 30 March 2014.

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 final salary in respect of service to 31 March 2008, and on career salary blocks for each year of service, revalued annually, for service from 1 April 2008.

Following the 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 RMPP to be in surplus, no deficit correction payments are currently being made by the Group. The Group expects to contribute around £343 million to the RMPP in respect of normal cash service costs in 2016-17.

As part of the March 2012 actuarial valuation, the Group agreed to pay additional contributions of up to £50 million each year from April 2016 onwards if the Trustee considers these necessary to maintain the Plan's projected funding position in March 2019. Until the Trustee has carried out its assessment of liabilities at March 2016 and presented the results to the Group, it is not known whether any payment will become due for 2016-17.

Royal Mail Senior Executives Pension Plan (RMSEPP)
Royal Mail Group Limited also contributes to a smaller defined benefit plan for executives, RMSEPP – which closed in December 2012 to future accrual, therefore the Group makes no regular future service contributions. As agreed in the February 2013 Funding Agreement with the Trustee, the Group makes deficit correction payments of £10 million per annum until at least the date on which the March 2018 valuation is completed (no later than 30 September 2018). Deficit correction payments in 2015-16 were £10 million (2014-15 £10 million).

A liability of £2 million (2014-15 £2 million) has been recognised for future payment of pension benefits to a past Director.

Notes to the consolidated financial statements (continued)

10. Retirement benefit plans (continued)

Accounting and actuarial surplus position (RMPP and RMSEPP)

	Accounting (IAS 19)		Actuarial/cash funding	
	At 27 March 2016 £m	At 29 March 2015[5] £m	**At 31 March 2016 £m**	At 31 March 2015 £m
Fair value of plans' assets (10(b) below)[4]	**7,374**	6,619	**7,442**	6,462
Present value of plans' liabilities[5]	**(3,815)**	(3,237)	**(5,665)**	(4,669)
Surplus in plans (pre IFRIC 14 adjustment)[5]	**3,559**	3,382	**1,777**	1,793
IFRIC 14 adjustment	**(129)**	(15)	**n/a**	n/a
Surplus in plans[5]	**3,430**	3,367	**1,777**	1,793

There is no element of the present value of the plans' liabilities above that arises from plans that are wholly unfunded.

As the Group has a legal right to benefit from a surplus, under IAS 19 and IFRIC 14 it is required to recognise the economic benefit it is assumed it will derive either in the form of a reduction to future contributions or a refund of the surplus.

At the half year, the RMPP surplus was no longer assumed to be fully recoverable as a reduction to future employer contributions. At that time, the economic benefit resulting from comparing the future service costs to the employer contributions was less than the accounting surplus.

This remains the case at 27 March 2016 and the amount of surplus no longer assumed to be recoverable as a reduction to future employer contributions is assumed to be available as a refund as per IFRIC 14 and, as such, is shown net of taxation withheld.

As RMSEPP is closed to future accrual, the surplus is assumed to be available as a refund as per IFRIC 14 and, as such, is shown net of taxation withheld in both periods.

The Directors do not believe that the current excess of pension plan assets over the liabilities on an accounting basis will result in an excess of pension assets on an actuarial/cash funding basis. However, the Directors are required to account for the pension plan 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 £1,777 million at 31 March 2016 (31 March 2015 £1,793 million surplus) 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 Group 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 slightly, whereas corporate bond yields, on which the accounting liabilities are calculated have increased. However, this is mostly offset by the difference in the market value of asset movements which, because of the different year end dates, have increased more on a funding basis than on an accounting basis.

The following disclosures relate to the major assumptions, sensitivities, assets and liabilities in the RMPP and RMSEPP.

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 plans are as follows:

	At 27 March 2016	At 29 March 2015
Retail Price Index (RPI)	**3.0%**	3.1%
Consumer Price Index (CPI)	**2.0%**	2.1%
Discount rate		
– nominal	**3.5%**	3.5%
– real (nominal less RPI)[6]	**0.5%**	0.4%
Rate of increase in pensionable salaries[7]	**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[7]	**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[7]	**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

[4] Difference between accounting and actuarial/cash funding asset fair values arises from the different year end dates used for the valuation of the assets under both methods
[5] Restated at 29 March 2015 for change in accounting policy relating to pensions administration costs (see Note 1)
[6] The real discount rate used reflects the long average duration of the RMPP of around 27 years
[7] 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

Notes to the consolidated financial statements (continued)

10. Retirement benefit plans (continued)

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	**110**
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.	**20**

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 inverse 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 27 years (2014-15 30 years).

b) RMPP and RMSEPP assets

	At 27 March 2016			At 29 March 2015		
	Quoted £m	**Unquoted £m**	**Total £m**	Quoted £m	Unquoted £m	Total £m
Equities						
UK	**20**	**138**	**158**	22	165	187
Overseas	**427**	**-**	**427**	411	–	411
Bonds						
Fixed interest – UK	**272**	**7**	**279**	60	8	68
– Overseas	**793**	**2**	**795**	525	–	525
Index linked – UK	**191**	**-**	**191**	195	–	195
Pooled investments						
Managed funds	**775**	**-**	**775**	576	–	576
Unit Trusts	**4,188**	**-**	**4,188**	4,166	–	4,166
Property (UK)	**25**	**302**	**327**	23	295	318
Cash and cash equivalents	**210**	**-**	**210**	175	–	175
Other	**(3)**	**-**	**(3)**	25	–	25
Derivatives	**27**	**-**	**27**	(27)	–	(27)
Total plans' assets	**6,925**	**449**	**7,374**	6,151	468	6,619

There were open equity derivatives within this portfolio with a fair value of £48 million at 27 March 2016 (at 29 March 2015 £nil million). £4 billion (2014-15 £3.7 billion) of HM Government Bonds are primarily included in the Unit Trusts values above. The plans' assets do not include property or assets used by the Group, but do include shares of Royal Mail plc with an approximate market value of £27,000 at 27 March 2016 (at 29 March 2015 £17,000).

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, forwards and options) 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 Group not being able to maintain its March 2018 commitment, the Trustee has hedged in advance a significant proportion of the funding liabilities which it is estimated will build up by March 2018. It has done this 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 near term 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-hedging assets is predominantly reflected in the Unit Trusts values above which have increased from £4,166 million at 29 March 2015 to £4,188 million at 27 March 2016.

Notes to the consolidated financial statements (continued)

10. Retirement benefit plans (continued)

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 27 March 2016 is £2.6 billion (29 March 2015 £2.5 billion) and the notional value covered by the inflation rate swaps at 27 March 2016 is £1.8 billion (29 March 2015 £1.8 billion).

The spread of investments continues to balance security and growth in order to pay the RMPP benefits when they become due.

c) Movement in RMPP and RMSEPP assets, liabilities and net position
Changes in the value of the defined benefit pension liabilities, fair value of the plans' assets and the net defined benefit surplus are analysed as follows:

	Defined benefit asset		Defined benefit liability		Net defined benefit surplus	
	2016 £m	2015[5] £m	**2016 £m**	2015[5] £m	**2016 £m**	2015[5] £m
Retirement benefit surplus (pre IFRIC 14 adjustment) at 30 March 2015 and 31 March 2014[5]	**6,619**	3,833	**(3,237)**	(1,931)	**3,382**	1,902
Amounts included in the income statement						
Ongoing UK defined benefit pension plan and administration costs (included in people costs)[5, 8]	**(6)**	(6)	**(694)**	(502)	**(700)**	(508)
Pension interest income/(cost)[9]	**240**	183	**(127)**	(108)	**113**	75
Total included in profit before tax	**234**	177	**(821)**	(610)	**(587)**	(433)
Amounts included in other comprehensive income – remeasurement gains/(losses)						
Actuarial gain/(loss) arising from:						
Financial assumptions[5]	**–**	–	**102**	(574)	**102**	(574)
Experience adjustment	**–**	–	**186**	5	**186**	5
Return on plans' assets (excluding interest income)[5, 8]	**32**	2,103	**–**	–	**32**	2,103
Total remeasurement gains/(losses) of the defined benefit surplus	**32**	2,103	**288**	(569)	**320**	1,534
Other						
Employer contributions	**488**	409	**–**	–	**488**	409
Employee contributions	**48**	129	**(48)**	(129)	**–**	–
Benefits paid	**(47)**	(33)	**47**	33	**–**	–
Curtailment costs	**–**	–	**(45)**	(31)	**(45)**	(31)
Movement in pension-related accruals	**–**	1	**1**	–	**1**	1
Total other movements	**489**	506	**(45)**	(127)	**444**	379
Retirement benefit surplus (pre IFRIC 14 adjustment) at 27 March 2016 and 29 March 2015[5]	**7,374**	6,619	**(3,815)**	(3,237)	**3,559**	3,382

In addition to the above items which affect the net defined benefit surplus, estimated curtailment costs of £36 million (2014-15 £10 million) have been provided for in Transformation costs in the income statement, along with the associated redundancy costs.

[8] Previously an allowance was made for pensions administration costs in the ongoing UK defined benefit pension service costs (income statement rate) and actual costs incurred offset against the return on plans' assets. An estimate of future administration costs was also included as part of the defined benefit liability. These costs are now recognised as pensions administration costs as they are incurred and are included only within ongoing UK defined benefit pension service costs. Further details of this accounting policy change are provided in Note 1

[9] Pension interest income results from applying the plans' discount rate at 29 March 2015 to the plans' assets at that date. Similarly, the pension interest cost results from applying the plans' discount rate at 29 March 2015 to the plans' liabilities at that date

Notes to the consolidated financial statements (continued)

11. Property, plant and equipment

Below are details of the Group's property, equipment and vehicle assets, which are recorded at their historic cost (i.e. what the Group paid for them) less accumulated depreciation, reflecting their usage within the business over their useful life – from two to 50 years.

	Land and buildings						
	Freehold £m	Long leasehold £m	Short leasehold £m	Plant and machinery £m	Motor vehicles £m	Fixtures and equipment £m	Total £m
Cost							
At 30 March 2015	**1,614**	**263**	**719**	**1,048**	**657**	**367**	**4,668**
Exchange rate movements	**18**	**1**	**–**	**10**	**3**	**6**	**38**
Reclassification	**(31)**	**5**	**26**	**–**	**–**	**–**	**–**
Additions	**88**	**10**	**30**	**50**	**43**	**83**	**304**
Disposals	**(5)**	**–**	**(2)**	**(30)**	**(49)**	**(2)**	**(88)**
Reclassification to non-current assets held for sale	**(38)**	**–**	**–**	**–**	**–**	**–**	**(38)**
At 27 March 2016	**1,646**	**279**	**773**	**1,078**	**654**	**454**	**4,884**
Depreciation							
At 30 March 2015	**812**	**170**	**494**	**670**	**310**	**279**	**2,735**
Exchange rate movements	**6**	**1**	**–**	**6**	**2**	**4**	**19**
Reclassification	**(1)**	**1**	**–**	**–**	**–**	**–**	**–**
Depreciation (see Note 3)	**42**	**7**	**40**	**51**	**47**	**37**	**224**
Disposals	**(5)**	**–**	**(2)**	**(29)**	**(45)**	**(2)**	**(83)**
Reclassification to non-current assets held for sale	**(11)**	**–**	**–**	**–**	**–**	**–**	**(11)**
At 27 March 2016	**843**	**179**	**532**	**698**	**314**	**318**	**2,884**
Net book value:							
At 27 March 2016	**803**	**100**	**241**	**380**	**340**	**136**	**2,000**
At 29 March 2015	802	93	225	378	347	88	1,933
Net book value comprises:							
Owned assets	**803**	**89**	**236**	**274**	**133**	**136**	**1,671**
Finance leased assets	**–**	**11**	**5**	**106**	**207**	**–**	**329**
At 27 March 2016	**803**	**100**	**241**	**380**	**340**	**136**	**2,000**

Notes to the consolidated financial statements (continued)

11. Property, plant and equipment (continued)

	Land and buildings						
	Freehold £m	Long leasehold £m	Short leasehold £m	Plant and machinery £m	Motor vehicles £m	Fixtures and equipment £m	Total £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)
At 29 March 2015	1,614	263	719	1,048	657	367	4,668
Depreciation							
At 31 March 2014	825	167	463	762	296	276	2,789
Exchange rate movements	(10)	(1)	–	(12)	(4)	(9)	(36)
Depreciation (see Note 3)	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)
At 29 March 2015	812	170	494	670	310	279	2,735
Net book value:							
At 29 March 2015	802	93	225	378	347	88	1,933
At 30 March 2014	824	98	229	422	313	103	1,989
Net book value comprises:							
Owned assets	802	82	220	259	145	88	1,596
Finance leased assets	–	11	5	119	202	–	337
At 29 March 2015	802	93	225	378	347	88	1,933

Depreciation rates are disclosed within 'Significant accounting policies'. No depreciation is provided on land, which represents £198 million (2014-15 £202 million) of the total cost of properties.

The net book value of the Group's property, plant and equipment includes £119 million (2014-15 £127 million) in respect of assets in the course of construction. The net book value of the Group's land and buildings includes £431 million (2014-15 £413 million) in respect of building fit-out.

The £304 million (2014-15 £257 million) additions do not include any borrowing costs capitalised in relation to specific qualifying assets.

12. Goodwill

This note provides details of the Group's goodwill, most of which relates to the Group's acquisition of its overseas subsidiary, General Logistics Systems (GLS).

	2016 £m	2015 £m
Cost		
At 30 March 2015 and 31 March 2014	**512**	569
Exchange rate movements	**36**	(65)
Acquisition of businesses	**11**	8
At 27 March 2016 and 29 March 2015	**559**	512
Impairment		
At 30 March 2015 and 31 March 2014	**330**	372
Exchange rate movements	**23**	(42)
At 27 March 2016 and 29 March 2015	**353**	330
Net book value:		
At 27 March 2016 and 29 March 2015	**206**	182
At 29 March 2015 and 30 March 2014	**182**	197

Notes to the consolidated financial statements (continued)

12. Goodwill (continued)

The carrying value of goodwill of £206 million (2014-15 £182 million) at the balance sheet date includes £192 million (2014-15 £177 million) in relation to the acquisition of the GLS business unit. In line with the Group's accounting policy (see page 142), this goodwill has been reviewed for impairment. The carrying value of GLS, excluding interest-bearing and tax-related assets and liabilities, is £557 million (2014-15 £434 million) and the operating profit before transformation costs is £117 million (2014-15 £115 million) for the year (see Note 2).

The carrying value of GLS of £557 million represents a multiple of 4.8 (2014-15 3.8) 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 5.6 (fair value hierarchy level 2 input). 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 33 per cent to 3.7 to reduce the net realisable value to below the carrying value.

The provisional goodwill of £11 million (2014-15 £8 million) arising from an aggregation of business acquisitions during the reporting year is not considered material in the context of the Group's total goodwill.

13. Intangible assets

Intangible assets, mainly software, are recorded in much the same way as the Group's physical assets such as property and vehicles, but with shorter useful lives over which they are amortised (three to ten years).

	2016				2015			
	Master franchise licences £m	**Customer listings £m**	**Software £m**	**Total £m**	Master franchise licences £m	Customer listings £m	Software £m	Total £m
Cost								
At 30 March 2015 and 31 March 2014	**21**	**31**	**496**	**548**	23	32	370	425
Additions	**-**	**-**	**194**	**194**	–	–	166	166
Disposals	**-**	**-**	**(25)**	**(25)**	–	–	(35)	(35)
Acquisition of business	**-**	**1**	**1**	**2**	–	3	–	3
Reclassification to non-current assets held for sale	**-**	**-**	**-**	**-**	–	–	(1)	(1)
Exchange rate movements	**-**	**4**	**4**	**8**	(2)	(4)	(4)	(10)
At 27 March 2016 and 29 March 2015	**21**	**36**	**670**	**727**	21	31	496	548
Amortisation and impairment								
At 30 March 2015 and 31 March 2014	**21**	**26**	**201**	**248**	23	28	179	230
Amortisation (see Note 3)	**-**	**2**	**46**	**48**	–	2	35	37
Impairment charge	**-**	**-**	**-**	**-**	–	–	24	24
Disposals	**-**	**-**	**(25)**	**(25)**	–	–	(35)	(35)
Reclassification to non-current assets held for sale	**-**	**-**	**-**	**-**	–	–	(1)	(1)
Exchange rate movements	**-**	**4**	**1**	**5**	(2)	(4)	(1)	(7)
At 27 March 2016 and 29 March 2015	**21**	**32**	**223**	**276**	21	26	201	248
Net book value:								
At 27 March 2016 and 29 March 2015	**-**	**4**	**447**	**451**	–	5	295	300
At 29 March 2015 and 30 March 2014	-	5	295	300	–	4	191	195

The intangible assets detailed above have finite lives and are being written down on a straight-line basis. The £194 million (2014-15 £166 million) additions include £4 million (2014-15 £1 million) borrowing costs capitalised in relation to specific qualifying assets. Borrowing costs capitalised are deducted in determining taxable profit in the reporting year in which they are incurred.

Notes to the consolidated financial statements (continued)

14. Investments in associates and joint venture

This note provides details of the Group's associate and joint venture companies, including the Group's share of the revenue, profit and net assets of these entities.

Details of the associates and joint venture of the Group are shown below. To ensure that the reported share of the results of these companies aligns with the Group's reporting year ended 27 March 2016 (2014-15 29 March 2015), information provided by each of the respective companies is analysed and an estimate of profit/loss accrued for the period for which actual results are not available in time for inclusion in these financial statements.

	Principal activities	Country of incorporation	Reporting year end date	% ownership 2016	% ownership 2015
Associate company					
Quadrant Catering Limited ('Quadrant')	Catering services	United Kingdom	30 September	**51.0**	51.0
Mallzee Limited	Personal shopping application ('app')	United Kingdom	30 April	**25.0**	-
Market Engine Global Pty Limited	Software development	Australia	30 June	**34.5**	-
Joint venture company					
ParcelLock GmbH	Parcel locker provision	Germany	31 December	**33.3**	-

The majority of board membership and voting power to direct relevant activities in Quadrant, is held by the other investor company. For this reason it is Management's view that the Group does not have control over Quadrant and so it is not considered to be a subsidiary in line with IFRS 10.

Movements in interests in associates

	2016 £m	2015 £m
Cost		
At 30 March 2015 and 31 March 2014	**5**	4
Additions	**3**	-
Share of profit after tax for the year from continuing operations[1]	**1**	1
Dividends received	**(1)**	-
At 27 March 2016 and 29 March 2015	**8**	5

Movements in interest in joint venture

	2016 £m	2015 £m
Cost		
At 30 March 2015 and 31 March 2014	**-**	-
Additions	**1**	-
At 27 March 2016 and 29 March 2015	**1**	-

There are no significant restrictions on the ability of associates or joint venture to transfer funds to the Group in the form of cash dividends, repayment of loans or advances.

[1] The Group's share of profit after tax is recorded against 'Other operating costs' in the income statement

Notes to the consolidated financial statements (continued)

15. Share-based payments

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 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
Employee Free Shares are held on behalf of employees in a tax-advantaged Share Incentive Plan (SIP).

The shares are held in a Trust administered by Equiniti Share Plan Trustees Limited (Equiniti) and may only be distributed to, or for the benefit of, eligible employees. The Trust is funded by the Company and has been consolidated within these financial statements.

2013 and 2014 SIP

613 shares were awarded in October 2013 to each eligible full-time employee, with a further 116 shares allocated to eligible full-time employees in April 2014. Part-time eligible employees were allocated a pro-rata number of shares for both allocations. For both full-time and part-time eligible employees, the award of shares is subject to them remaining employees of Royal Mail Group Limited over the vesting period. The vesting period for each award is three years from the award date with all allocated shares to be equity-settled.

2015 SIP

On 5 October 2015 ordinary shares representing one per cent of the Company were awarded free of charge to eligible full-time employees by HM Government, in addition to a portion of the unallocated shares arising from earlier SIP schemes. Accordingly, each eligible full-time employee received 103 shares as their 2015 SIP allocation, with part-time eligible employees being allocated a pro-rata number of shares. All allocated shares will be equity-settled.

On 17 March 2016 HM Government transferred a further one per cent of ordinary shares to Equiniti through a Deed of Gift. These are to be allocated to eligible employees in due course.

The fair value of the 2015 award of Free Shares is £63 million (including £2 million National Insurance) which is being charged to the income statement on a straight-line basis, adjusted for 'good leavers'[1] and forfeitures, over the three year period of vesting from the award date. The fair value of the award was established based on prevailing market prices at the award date and did not incorporate expected dividends.

A charge to the income statement of £158 million (including £6 million National Insurance) has been made for the year ended 27 March 2016 for all three SIP allocations (see Note 5).

[1] 'Good leavers' refers to former employees whose shares vested under specific circumstances, in accordance with the rules of the scheme

Notes to the consolidated financial statements (continued)

15. Share-based payments (continued)

A reconciliation of the ordinary shares held in the SIP at 27 March 2016 is shown below.

	Number of shares
Total shares remaining in SIP at 29 March 2015	94,855,917
2015 SIP shares awarded in the reporting year	10,000,000
Shares transferred into SIP on 17 March 2016	10,000,000
Shares transferred out of SIP during the reporting year ('good leavers'[1])	(4,205,341)
Total shares remaining in SIP at 27 March 2016	**110,650,576**

Of the total shares remaining in the scheme, 99,967,360 have been allocated to current employees. The remaining 10,683,216 shares are unallocated. This includes 10,000,000 received from HM Government on 17 March 2016 that are to be allocated to eligible employees in due course. The remainder arose as a result of forfeitures.

Award of shares under the Long-Term Incentive Plan (LTIP)

LTIP awards were granted to senior management on 17 September 2013 (2013 LTIP), 31 March 2014 (2014 LTIP) and 28 March 2015 (2015 LTIP). These awards are equity-settled with the fair value of the shares awarded being set at the grant date market value of 529.1 pence, 450.4 pence and 511.0 pence, respectively. The maximum shares that have the potential to vest under each of the schemes are: 1.9 million under the 2013 LTIP, 3.3 million under the 2014 LTIP and 3.1 million under the 2015 LTIP.

The total income statement charge arising from LTIP schemes is summarised in the table below.

	52 weeks 2016 £m	52 weeks 2015 £m
2013 LTIP	**6**	–
2014 LTIP	**2**	5
2015 LTIP	**4**	–
Total	**12**	5

The LTIP shares are not part of the SIP explained above. Further details of each LTIP plan, including performance conditions, can be found in the Directors' remuneration report on page 66.

Save As You Earn (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 an exercise 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 income statement of £3 million (2014-15 £1 million) has been made in relation to the SAYE scheme.

The table below shows the movements in share options during the reporting year.

	Number of options
Balance at the beginning of the reporting year	**14,781,540**
Options exercised	**(43,893)**
Options forfeited	**(822,607)**
Balance at the end of the reporting year	**13,915,040**

For SAYE options exercised during the year (by 'good leavers'), the weighted average share price at the date of exercise was 468 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 in relation to 'good leavers', 85,860 (2014-15 43,850) share options were exercisable at 27 March 2016 at a weighted average exercise price of 360 pence.

The fair values of the options have been calculated using the Black-Scholes share option pricing model.

Notes to the consolidated financial statements (continued)

16. 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 year. 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 of 27 March 2016, only certain surplus property assets are held for sale.

The balance sheet values of the assets and liabilities held for sale during the reporting year 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).

	At 27 March 2016 £m	At 29 March 2015 £m
Assets of disposal group (DPD SL) held for sale	**–**	17
Other non-current (property) assets held for sale	**39**	15
Total non-current assets held for sale	**39**	32
Total liabilities associated with non-current assets held for sale (DPD SL)	**–**	(10)

Disposal group (DPD SL) – discontinued operations
The Group's assets and liabilities held for sale reduced by £17 million assets and £10 million liabilities reported at 29 March 2015, as a result of the sale of DPD SL on 31 March 2015. A further £1 million of assets was subsequently identified and included as part of the sale. From the previous reporting year ended 29 March 2015 to the date of its sale on 31 March 2015, there were no material revenues, costs or cash flow in respect of DPD SL operations (reporting year ended 29 March 2015 £96 million revenue, £96 million costs, net £nil million cash flow).

A pre-tax profit on disposal of DPD SL of £31 million, including a £2 million loss released from equity in relation to foreign currency exchange translation differences, has been recognised as a specific item in the income statement. Basic and diluted earnings per share from discontinued operations were 2.6 pence per share in the current reporting year (2014-15 nil pence per share) reflecting the after tax profit on disposal.

The property used for administrative purposes by DPD SL employees is now surplus to operational requirements and has met the Group's criteria to enable its transfer in the reporting year from 'property, plant and equipment' to 'non-current assets held for sale' on the Group balance sheet.

Property assets held for sale
Other non-current assets held for sale of £39 million (2014-15 £15 million) relate to land and buildings which are being actively marketed with a view to a sale within 12 months, including the property occupied by DPD SL employees as explained above and the former South London Mail Centre site in Nine Elms, Vauxhall. 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)

17. Current trade and other receivables

The following information relates to amounts owed to the Group by third parties and also the amount of bad and doubtful debts that the Group has provided for in the financial statements.

	At 27 March 2016 £m	At 29 March 2015 £m
Trade receivables	**897**	836
Prepayments and accrued income	**123**	108
Total	**1,020**	944

Movements in the provision for bad and doubtful debts are shown below.

	2016 £m	2015 £m
At 29 March 2015 and 30 March 2014	**(21)**	(27)
Receivables provided for during the year	**(12)**	(4)
Release of provision	**3**	4
Utilisation of provision	**5**	5
Exchange difference on foreign denominated provision	**(1)**	1
At 27 March 2016 and 29 March 2015	**(26)**	(21)

The amount of trade receivables that were past due but not impaired are shown below.

	At 27 March 2016 £m	At 29 March 2015 £m
Not yet overdue	**806**	766
Past due not more than one month	**68**	49
Past due more than one month and not more than two months	**14**	11
Past due more than two months	**9**	10
Total	**897**	836

Notes to the consolidated financial statements (continued)

18. Cash and cash equivalents

This note details the Group's cash balance and other short-term investments that can be readily converted into cash.

Cash and cash equivalents at 27 March 2016 and at 29 March 2015 are as follows:

	At 27 March 2016 £m	At 29 March 2015 £m
Cash at bank and in hand	**185**	127
Client cash	**13**	20
Cash equivalent investments: Short-term bank and local authority deposits and money market fund investments	**170**	140
Total cash and cash equivalents	**368**	287

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.

19. Current trade and other payables

The following details relate to amounts owed by the Group to third parties and deferred revenue for services still to be provided.

	At 27 March 2016 £m	At 29 March 2015 £m
Trade payables and accruals	**(1,226)**	(1,215)
Advance customer payments (mainly for stamps held, not yet used by customers)	**(306)**	(286)
Social security	**(81)**	(98)
Capital expenditure payables	**(70)**	(53)
Other	**(17)**	(16)
Total	**(1,700)**	(1,668)

The fair value of trade and other payables is not materially different from the carrying value.

£20 million in respect of the estimated exposures for vehicle-related legal claims has been reclassified from accruals to provisions (see Note 22) during the year.

Notes to the consolidated financial statements (continued)

20. 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.

	At 27 March 2016						
	Loans and borrowings £m	**Further committed facility £m**	**Total facility £m**	**Average interest rate of loan drawn down %**	**Basis of interest rate chargeable at 27 March 2016**	**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**	**2021**
€500 million bond – 2.375% Senior Fixed Rate Notes	**392**	**–**	**392**	**2.5**	**Fixed at 2.5%**	**2024**	**2024**
Total	**392**	**1,050**	**1,442**	**2.5**		**2024**	**2022**

	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

The €500 million bond, issued in July 2014, is shown net of issue discount and fees and at a closing spot rate of £0.789/€. 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 bond is designated as a hedge of the net investment in GLS, which has the Euro as its functional currency. During the year, a loss of £26 million (2014-15 gain of £27 million) on the retranslation of this borrowing was transferred to other comprehensive income, which offsets the gains on translation of the net investment in GLS. There was no hedge ineffectiveness in the current or comparative reporting years.

In March 2016, the Group extended £952 million of the syndicated bank loan facilities for a further year (to March 2021) with the remaining £98 million maturing in March 2020.

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 certain 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 remote) and is adjusted for exchange rate movements during the year. The Group's leverage ratio at 27 March 2016 is 0.4:1 (at 29 March 2015 0.4:1). The Group's ratio of EBITDA to interest (excluding certain arrangement fees) at 27 March 2016 is 63.0:1 (at 29 March 2015 40.4:1). Accordingly, the Group comfortably satisfies the covenants tests within its syndicated bank loan facilities agreement.

The interest rate chargeable on the syndicated bank loan facility would increase if more than one third of the facility was drawn and also 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. It is not anticipated that the Group is at risk of breaching any of these obligations.

The undrawn committed facilities, in respect of which all conditions precedent had been met at the balance sheet date, all expire in more than two years.

There is no security in place under the syndicated bank loan facilities or the bond.

Notes to the consolidated financial statements (continued)

21. Financial assets and liabilities and risk management

Section A – provides analysis of the carrying values and fair values of financial assets and liabilities held within the Group. This includes an analysis of gross contractual cash flows on financial liabilities.
Section B – includes details of how the various risks associated with the Group's assets and liabilities are managed, and also the Group's capital management policy.
Section C – provides information regarding the various hedging programmes in place to mitigate volatility in commodity prices and foreign currency exchange rates. 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.

A. FINANCIAL ASSETS AND LIABILITIES – ANALYSIS

The Group's financial assets and liabilities are summarised below.

	At 27 March 2016			At 29 March 2015		
	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	**–**	**368**	**368**	–	287	287
Other bank and local authority deposits	**–**	**–**	**–**	–	56	56
Derivative assets	**2**	**5**	**7**	2	5	7
Total financial assets	**22**	**373**	**395**	22	348	370
Syndicated bank loans	**–**	**–**	**–**	–	–	–
€500 million bond – 2.375% Senior Fixed Rate Notes due July 2024	**(392)**	**–**	**(392)**	(366)	–	(366)
Total loans and borrowings	**(392)**	**–**	**(392)**	(366)	–	(366)
Obligations under finance leases	**(136)**	**(84)**	**(220)**	(179)	(93)	(272)
Derivative liabilities	**(8)**	**(33)**	**(41)**	(14)	(34)	(48)
Total financial liabilities	**(536)**	**(117)**	**(653)**	(559)	(127)	(686)

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 plan 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 £424 million (2014-15 £402 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 £222 million (2014-15 £282 million). For all other financial instruments fair value is equal to the carrying amount. The tables below also set out the carrying amount and classification of the Group's financial instruments.

Notes to the consolidated financial statements (continued)

21. Financial assets and liabilities and risk management (continued)

The following table shows the classification of the Group's financial assets and liabilities.

	Level	Classification	At 27 March 2016 £m	At 29 March 2015 £m
Financial assets				
Cash			**198**	147
Cash equivalent investments			**170**	140
Money market funds		Loans and receivables	**120**	110
Short-term deposits – bank		Loans and receivables	**50**	30
Cash and cash equivalents			**368**	287
Financial assets – investments (current) – bank and local government deposits		Loans and receivables	**–**	56
Financial assets – pension escrow investments (non-current) – RMSEPP pension escrow – money market funds		Loans and receivables	**20**	20
Derivative assets – current	2		**5**	5
Derivative assets – non-current	2		**2**	2
Total financial assets			**395**	370
Financial liabilities				
Obligations under finance leases (current)		Amortised cost	**(84)**	(93)
€500 million bond – 2.375% Senior Fixed Rate Notes due July 2024		Amortised cost	**(392)**	(366)
Obligations under finance leases (non-current)		Amortised cost	**(136)**	(179)
Derivative liabilities – current	2		**(33)**	(34)
Derivative liabilities – non-current	2		**(8)**	(14)
Total financial liabilities			**(653)**	(686)
Net total financial liabilities			**(258)**	(316)

The 'Level' classification in the above table is explained in the 'Fair value measurement of financial instruments' section of 'Significant accounting policies'.

Derivative assets and liabilities 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. Derivative assets and liabilities that are not part of an effective hedge designation are classified at fair value through profit and loss. There are no other financial assets or liabilities designated at fair value through profit and loss on initial recognition.

Gross contractual cash flows

The tables below set out the gross (undiscounted) contractual cash flows of the Group's financial liabilities. For overdrafts, loans and Sterling denominated finance lease contracts, these cash flows represent the undiscounted total amounts payable, including interest. The cash flows for the €500 million bond and Euro denominated finance leases represent the undiscounted total amounts payable (interest and nominal repayment) which have been converted to Sterling at 27 March 2016 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.

Notes to the consolidated financial statements (continued)

21. Financial assets and liabilities and risk management (continued)

	At 27 March 2016					
	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**	**87**	**96**	**8**	**33**	**137**
More than one year (non-current)	**521**	**242**	**763**	**1**	**8**	**772**
More than one year but not more than two years	9	56	65	1	8	74
More than two years but not more than five years	29	78	107	–	–	107
More than five years	483	108	591	–	–	591
Total	**530**	**329**	**859**	**9**	**41**	**909**
Less interest	**(89)**	**(108)**	**(197)**	**n/a**	**n/a**	**n/a**
Less exchange rate adjustment	**(49)**	**(1)**	**(50)**	**n/a**	**n/a**	**n/a**
Net total	**392**	**220**	**612**	**n/a**	**n/a**	**n/a**

	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

B. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial assets and liabilities comprise short-term deposits, money market liquidity investments, cash loans (including bonds) and finance leases. The main purpose of these financial instruments is 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.

No speculative trading in financial instruments has been undertaken during the current or comparative reporting years, in line with Group policy.

The main risks arising from the Group's financial assets and liabilities are interest rate risk, foreign currency risk, commodity price risk, credit risk and liquidity risk. The Board reviews and agrees policies for managing these risks, each of which is summarised below.

Notes to the consolidated financial statements (continued)

21. Financial assets and liabilities and risk management (continued)

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. Drawings under the syndicated bank loan facilities are at floating rate. There were no balances outstanding at 27 March 2016 and at 29 March 2015. The total interest-bearing financial assets of the Group (excluding the non-current investments) of £247 million (2014-15 £269 million), which consist of the fixed and floating rate cash and cash equivalent investments, plus current financial asset investments, are at short-dated fixed or variable interest rates with an average maturity of 6 days (2014-15 an average maturity of 31 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 gross debt fixed.

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 of the Group's financial instruments that are exposed to interest rate risk.

	At 27 March 2016			
	Fixed rate £m	**Floating rate £m**	**Non-interest bearing £m**	**Total £m**
Cash	**-**	**77**	**121**	**198**
Cash equivalent investments	**-**	**170**	**-**	**170**
RMSEPP pension escrow investments	**-**	**20**	**-**	**20**
Derivative assets	**-**	**-**	**7**	**7**
Derivative liabilities	**-**	**-**	**(41)**	**(41)**
€500 million bond	**(392)**	**-**	**-**	**(392)**
Obligations under finance leases	**(220)**	**-**	**-**	**(220)**
Net total financial (liabilities)/assets	**(612)**	**267**	**87**	**(258)**

	At 29 March 2015			
	Fixed rate £m	Floating rate £m	Non-interest bearing £m	Total £m
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
Derivative liabilities	–	–	(48)	(48)
Syndicated bank loans	(366)	-	–	(366)
Obligations under finance leases	(272)	–	–	(272)
Net total financial (liabilities)/assets	(607)	258	33	(316)

Foreign currency transaction risk

The Group is exposed to foreign currency risk due to; interest payments on the €500 million bond and certain obligations under Euro denominated finance leases; trading with overseas postal administrations 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' functional currency is the Euro and most of its revenues and profits are Euro denominated. There is some exposure to non-Euro currencies, principally in emerging European markets.

These risks are mitigated by hedging programmes managed by the Group Treasury function. 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.

Notes to the consolidated financial statements (continued)

21. Financial assets and liabilities and risk management (continued)

Foreign currency translational risk

The Group's functional currency is Sterling and 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 administrations is denominated in Special Drawing Rights (SDRs) – a basket of currencies which comprise 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 has four active hedge programmes (commenced during the current and previous reporting years) covering obligations to settle Euro and US Dollar invoices on automation projects.

The €500 million bond issued in July 2014 acts as a hedge of part of the translation exposure created by the net assets of GLS. The Group entered into €37 million of Euro denominated finance leases during the year (2014-15 €nil million) which similarly act as a hedge of the net assets of GLS. The bond and lease payables are 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 the bond and lease payables are not hedged. The Group uses the translational exposure arising from GLS Euro profits to offset against other transactional exposures.

The net total financial liabilities are held in various different currencies as summarised in the table below. The majority of the non-Sterling financial assets and liabilities (other than the €500 million bond and certain finance leases) are held within cash or derivatives.

	Sterling £m	US$ £m	Euro £m	Other £m	Total £m
Net total financial assets/(liabilities) at 27 March 2016	**13**	**(10)**	**(290)**	**29**	**(258)**
Net total financial (liabilities)/assets at 29 March 2015	(34)	(33)	(271)	22	(316)

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 price contracts with suppliers and using over-the-counter derivative products.

As the GLS business relies on the use of 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, 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 to ensure that UKPIL is not in breach of compliance legislation. Assessment of credit for 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 written off in the year for the whole Group is 0.1 per cent (2014-15 0.1 per cent) of revenue. An analysis of aged debt is included within Note 17.

With regard to credit risk arising from other financial assets of the Group, which comprise cash, cash equivalent investments, loans and receivables 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.

Notes to the consolidated
financial statements (continued)

21. Financial assets and liabilities and risk management (continued)

The table below analyses the Group's financial assets, cash equivalent investments and derivatives by credit rating.

	At 27 March 2016						
	AAAm/ AAAf £m	**AAA £m**	**AA+ to AA– £m**	**A+ to A– £m**	**BBB+ and below £m**	**No rating £m**	**Total £m**
Cash equivalent investments	**120**	**–**	**50**	**–**	**–**	**–**	**170**
RMSEPP pension escrow investments	**20**	**–**	**–**	**–**	**–**	**–**	**20**
Derivative assets	**–**	**–**	**2**	**4**	**1**	**–**	**7**
Total	**140**	**–**	**52**	**4**	**1**	**–**	**197**

	At 29 March 2015						
	AAAm/ AAAf £m	AAA £m	AA+ to AA– £m	A+ to A– £m	BBB+ and below £m	No rating £m	Total £m
Cash equivalent investments	110	–	–	30	–	–	140
Other bank and local authority deposits	–	–	–	55	–	1[1]	56
RMSEPP pension escrow investments	20	–	–	–	–	–	20
Derivative assets	–	–	2	5	–	–	7
Total	130	–	2	90	–	1	223

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 companies.

None of the financial assets is either past due or considered to be impaired.

[1] This deposit, which matured in 2015, was placed with a local authority

Notes to the consolidated financial statements (continued)

21. Financial assets and liabilities and risk management (continued)

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 2020-2021 (2014-15 £1,050 million expiring in 2020).

Below is a summary of when all the financial assets and liabilities fall due. 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.

	At 27 March 2016					
	Average effective interest rate %	Within 1 year £m	1-2 years £m	2-5 years £m	More than 5 years £m	Total £m
Fixed rate						
Financial liabilities						
€500 million bond	2.5	–	–	–	(392)	(392)
Obligations under finance leases	3.3	(84)	(52)	(71)	(13)	(220)
Total		(84)	(52)	(71)	(405)	(612)
Floating rate						
Cash at bank	0.3	77	–	–	–	77
Cash equivalent investments – money market funds	0.6	120	–	–	–	120
Cash equivalent investments – bank deposits	0.6	50	–	–	–	50
Financial assets – pension escrow investments (non-current)						
RMSEPP pension escrow – money market funds	0.5	–	–	20	–	20
Total		247	–	20	–	267
Non-interest bearing						
Cash at bank or in hand		121	–	–	–	121
Derivative assets		5	2	–	–	7
Derivative liabilities		(33)	(8)	–	–	(41)
Total		93	(6)	–	–	87
Total financial assets		373	2	20	–	395
Total financial liabilities		(117)	(60)	(71)	(405)	(653)
Net total financial assets/(liabilities)		256	(58)	(51)	(405)	(258)

Notes to the consolidated financial statements (continued)

21. Financial assets and liabilities and risk management (continued)

	At 29 March 2015					
	Average effective interest rate %	Within 1 year £m	1-2 years £m	2-5 years £m	More than 5 years £m	Total £m
Fixed rate:						
Financial assets – investments (current) – bank/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
Total financial assets		348	2	20	-	370
Total financial liabilities		(127)	(87)	(91)	(381)	(686)
Net total financial assets/(liabilities)		221	(85)	(71)	(381)	(316)

Obligations under finance leases are either unsecured or secured on the leased assets. The average interest rate is 3.3 per cent (2014-15 3.5 per cent). The average maturity date is more than five years (2014-15 between four and five years).

Capital management

The Group's principal objectives are to manage the mix of debt and equity in order to (i) meet all obligations as they fall due; (ii) support a progressive dividend policy; and (iii) reduce the cost of capital of the Group.

The Group aims to do this by:

- generating sufficient in-year trading cash flows to support the ordinary dividend;
- maintaining sufficient cash reserves and committed facilities;
- targeting investment grade[2] standard metrics;
- managing and maintaining positive adjusted net assets and distributable reserves; and
- retaining sufficient flexibility to invest in the future of the business.

In the reporting year the Group generated £254 million (2014-15 £315 million) of in-year trading cash flow[3].

As set out in the viability statement, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due. At 27 March 2016, the Group had cash and cash equivalents of £368 million (at 29 March 2015 £287 million) and undrawn committed loan facilities of £1,050 million maturing on average in five years (at 29 March 2015 £1,050 million maturing in five years).

At 27 March 2016 the Group met the loan covenants and other obligations for its revolving credit facility and €500 million bond, (see Note 20).

At 27 March 2016, the Group had net debt[4] of £224 million (at 29 March 2015 £275 million). During the year the Group maintained a credit rating of BBB with a stable outlook from Standard & Poor's.

The capital managed by the Group, consists of net assets (made up of investment, working capital, provisions and net debt), less the pension asset recognised at 27 March 2016 adjusted for any deferred tax liability on the pension asset. The Group's defined benefit plans are separately managed by RMPP and RMSEPP Trustees and funded from Group contributions (see Note 10). The Group's adjusted capital is shown in the table below.

[2] No worse than BBB- under Standard & Poor's methodology

[3] A non-GAAP performance measure (see Financial review on page 27)

[4] Net debt consists of loans, borrowings and lease payables, offset by cash and financial asset investments excluding derivatives

Notes to the consolidated financial statements (continued)

21. Financial assets and liabilities and risk management (continued)

	At 27 March 2016 £m	At 29 March 2015 £m
Net assets	**4,467**	3,996
Deduct pension asset	**(3,430)**	(3,367)
Add back deferred tax liability on pension asset	**565**	667
Adjusted capital	**1,602**	1,296

The Board has recommended a final dividend of 15.1 pence per share. Including the interim dividend of 7.0 pence per share, this represents a total dividend of 22.1 pence per share for 2015-16. This is a five per cent increase on the previous year's dividend of 21.0 pence per share and equivalent to £151 million of cash.

As previously stated, given the seasonality of the Group's business, the Board would expect to pay an interim dividend each year equal to approximately one-third of the prior year's total dividend and to set the final dividend for each year in light of the full year performance of the Group.

Sensitivity analysis
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 profit risk from interest rate risk, exchange rate risk or commodity price risk (2014-15 £nil million risk). 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 and Euro denominated finance leases into Sterling at each balance sheet date. The impact of a five per cent strengthening of Sterling during the reporting year would have been to reduce the Group net assets by £5 million (2014-15 £8 million).

C. HEDGING PROGRAMMES

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 used US Dollar forward currency purchase contracts to hedge the exposure arising from US Dollar/Sterling exchange rates for forecast air conveyance purchases. The programme finished in April 2015.

iv) Four capital programmes (two of which commenced in 2015-16) use Euro and US Dollar forward currency purchase contracts to hedge the exposure arising from Sterling/Euro and Sterling/US Dollar exchange rates for contracted capital expenditure on automation projects.

v) The electricity hedge programme uses forward commodity price swaps to hedge the exposure arising from electricity prices[5].

vi) The gas hedge programme uses forward commodity price swaps to hedge the exposure arising from gas prices.

vii) The interest rate hedge programme used 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 administrations, for delivering UK origin mail abroad and delivering foreign origin mail in the UK. The UKPIL overseas postal administrations hedge programme uses US Dollar and Japanese Yen forward currency purchase contracts to hedge the forecast future net purchases of delivery services. The 2014-15 hedge programme covered the exposure up until the purchases were incurred and recognised on the balance sheet. No hedge was put in place for 2015-16 due to a reduction in the net imbalance position.

The Group has an undesignated cash flow hedge programme for the exposure of UKPIL to overseas postal administrations' liabilities for the year 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.

[5] In addition to this hedge programme, the Group uses fixed price contracts with suppliers to set future prices

Notes to the consolidated financial statements (continued)

21. Financial assets and liabilities and risk management (continued)

The Group uses the €500 million bond and the Euro denominated finance lease payables as hedges against movements in the Sterling/Euro exchange rate and therefore the net investment in GLS. Foreign currency exchange differences arising from the translation of the net assets of GLS, the €500 million bond and the Euro denominated finance lease payables, at closing Sterling/Euro exchange rates, are deferred into equity. These exchange differences would be released from equity to the income statement as part of the gain or loss if GLS was sold. During the year foreign currency exchange losses on the bond of £26 million (2014-15 gains of £27 million) and foreign exchange losses on the lease payables of £2 million (2014-15 £nil million) were deferred into equity. There was no hedge ineffectiveness in the current or prior reporting years.

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. The exposures shown in the following table therefore 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 £94 million to diesel costs each reporting year. Total diesel and jet fuel costs for 2016-17 are estimated to be £156 million.

		Exposure (excluding fuel duty) and expected consumption hedged/fixed 2016					
		52 weeks 2017		**52 weeks 2018**		**52 weeks 2019**	
Commodity	**Risk**	**Exposure £m**	**% hedged**	**Exposure £m**	**% hedged**	**Exposure £m**	**% hedged**
Diesel fuel	US$ price and $/£ exchange rate movements	**54**	**90**	**42**	**72**	**39**	**22**
Jet fuel	US$ price and $/£ exchange rate movements	**8**	**77**	**5**	**64**	**6**	**22**
Electricity	£ price movement	**13**	**76**	**13**	**61**	**13**	**61**
Gas	£ price movement	**9**	**79**	**7**	**64**	**6**	**5**

		Exposure (excluding fuel duty) and expected consumption hedged 2015					
		52 weeks 2016		52 weeks 2017		52 weeks 2018	
Commodity	Risk	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	–

Foreign currency hedging for non-commodity items
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 overseas postal administration related 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.

The following table shows for each hedge programme, the risk and the percentage hedged of the next 12 months' exposure:

		Percentage of next 12 months' exposure that has been hedged	
Hedge programme	**Risk**	**At 27 March 2016**	At 29 March 2015
Air conveyance	US$/£ exchange rate movements	**n/a**	96%
Capital programmes	€/£ exchange rate movements	**100%**	100%
Overseas postal administrations	SDR/£ exchange rate movements	**69%**	56%

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 Group hedges part of the translational exposure created by the net assets of its overseas subsidiaries, mainly GLS, by designating the €500 million bond and the Euro denominated lease payables as hedges of the net investment in GLS.

Notes to the consolidated financial statements (continued)

21. Financial assets and liabilities and risk management (continued)

Derivative values

At any point in time, the derivatives in the cash flow hedge programmes are either 'in the money' meaning that 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 relating to the effective portion of the hedges are released when the hedged transaction occurs. The following tables show the derivative contracts entered into at 27 March 2016 and 29 March 2015 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
At 27 March 2016								
Diesel fuel	Diesel fuel	183m litres	Apr 16 – Jan 19	US$ 0.52/litre	**1**	**–**	**(5)**	**(17)**
Diesel fuel	US$	$87m	Apr 16 – Jan 19	US$1.55/£	**1**	**4**	**–**	**–**
Diesel fuel	Diesel fuel	98m litres	May 16 – Oct 18	£0.33/litre	**–**	**–**	**(2)**	**(6)**
Jet fuel	Jet fuel	6m litres	Apr 17 – Dec 18	US$ 0.37/litre	**–**	**–**	**–**	**–**
Jet fuel	US$	$1m	Apr 18 – Dec 18	US$1.46/£	**–**	**–**	**–**	**–**
Jet fuel	Jet fuel	28m litres	Apr 16 – Sep 18	£0.35/litre	**–**	**–**	**–**	**(3)**
Air conveyance	Euro	€6m	Apr 16 – Oct 17	£0.72/€	**–**	**1**	**–**	**–**
Capital programmes	US$	$7m	Apr 16 – Oct 17	US$1.54/£	**–**	**–**	**–**	**–**
Electricity	Electricity	178k MWh	Apr 16 – Apr 17	£50/MWh	**–**	**–**	**–**	**(3)**
Gas	Gas	29m therms	Apr 16 – Oct 18	£0.50/therm	**–**	**–**	**(1)**	**(4)**
Total cash flow hedges					**2**	**5**	**(8)**	**(33)**
Other derivatives					**–**	**–**	**–**	**–**
Total derivative assets/(liabilities)					**2**	**5**	**(8)**	**(33)**

	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
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)
Total cash flow hedges					2	4	(14)	(34)
Other derivatives					–	1	–	–
Total derivative assets/(liabilities)					2	5	(14)	(34)

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 administrations).

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 2016 mature in April 2016. At 27 March 2016 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 in equity to the income statement to match the exposure to purchasing fuel in March 2016. There are differences therefore between derivative balances (shown above) and the balance on the hedging reserve.

Notes to the consolidated financial statements (continued)

22. Provisions

This note provides an analysis of the Group's constructive or legal obligations, resulting from a past event, that have been provided for in the financial statements.

	Transformation costs £m	Specific items £m	Other £m	Total £m
At 30 March 2015	**(56)**	**(154)**	**(43)**	**(253)**
Arising during the year:				
Charged in transformation costs and operating specific items	**(117)**	**(7)**	**-**	**(124)**
Charged in other operating costs	**-**	**-**	**(47)**	**(47)**
Reclassification	**-**	**-**	**(20)**	**(20)**
Unused amounts released	**-**	**8**	**3**	**11**
Utilised in the year	**161**	**5**	**26**	**192**
Foreign exchange rate adjustment	**-**	**(4)**	**-**	**(4)**
Discount rate adjustment	**-**	**(2)**	**-**	**(2)**
At 27 March 2016	**(12)**	**(154)**	**(81)**	**(247)**
Disclosed as:				
Current at 27 March 2016	**(12)**	**(67)**	**(72)**	**(151)**
Non-current at 27 March 2016	**-**	**(87)**	**(9)**	**(96)**
	(12)	**(154)**	**(81)**	**(247)**
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)

Transformation costs
Transformation costs provisions comprise £12 million (2014-15 £56 million) in respect of redundancy schemes.

Specific items
The specific items provisions of £154 million (2014-15 £154 million) include £78 million (2014-15 £81 million) for potential industrial diseases claims relating to both current and former employees of the Group. This 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 actuarial adviser, 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. £2 million of this provision is expected to be utilised in 2016-17.

The remaining £76 million (2014-15 £73 million) includes French Competition Authority investigation costs (including fine), of which £43 million was utilised in 2016-17 (see Note 27) and IT systems costs associated with Post Office Limited (POL) separation, of which £2 million is expected to be utilised in 2016-17. A release of the POL separation provision was recognised directly in equity, consistent with the accounting treatment of the provision on its initial recognition in 2012-13 (resulting from a transaction with the owner, in their capacity as owner). A further £29 million is in respect of: German property tax liability of £5 million, expected to be utilised in 2016-17; employer's National Insurance associated with the award of Employee Free Shares of £15 million, of which £13 million is expected to be utilised in 2016-17 and £2 million within two to five years; and legacy property costs of £9 million, of which £1 million is expected to be utilised within two to five years and £8 million over a period greater than five years.

Other provisions (charged in operating costs)
Other provisions of £81 million (2014-15 £43 million) mainly comprise: onerous property lease and decommissioning obligations of £21 million, of which £14 million is expected to be utilised in 2016-17 and £7 million within two to three years; onerous contracts of £20 million, expected to be utilised in 2016-17; and exposures resulting from legal claims incurred in the normal course of business of £38 million, expected to be utilised in 2016-17. The remaining £2 million is in relation to employer's National Insurance associated with the Long-Term Incentive Plan, which is expected to be utilised within two to five years.

£20 million was reclassified as a provision during the year (presented within accruals previously) in respect of the estimated exposures for vehicle-related legal claims. This reclassification was made as a result of increased uncertainty over the timing and amount of future expenditure required in settlement of the legal claims.

Notes to the consolidated financial statements (continued)

23. Share capital and reserves

This note details the number of shares Royal Mail plc has issued, and any special features of the issued shares. A description of certain reserves that form part of total equity is also included.

Issued and fully paid share capital	At 27 March 2016 £m	At 29 March 2015 £m
1,000,000,000 ordinary shares of £0.01 each	**10**	10
Total	**10**	10

Of the issued ordinary shares, a total of 27,042 (2014-15 40,935) are held by an Employee Benefit Trust (EBT) administered by Sanne Fiduciary Services Limited. These shares are treated as treasury shares for accounting purposes in accordance with IAS 32 'Financial Instruments: Presentation'. The Company, however, does not hold any shares in treasury. The EBT is funded by the Company and has been consolidated within these financial statements.

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.

24. 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 leased assets have passed to the 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	
	At 27 March 2016 £m	At 29 March 2015 £m	At 27 March 2016 £m	At 29 March 2015 £m	At 27 March 2016 £m	At 29 March 2015 £m	At 27 March 2016 £m	At 29 March 2015 £m
Within one year	**(120)**	(117)	**(13)**	(10)	**(9)**	(3)	**(142)**	(130)
Between one and five years	**(358)**	(365)	**(25)**	(12)	**(22)**	(1)	**(405)**	(378)
Beyond five years	**(427)**	(441)	**(7)**	(2)	**-**	–	**(434)**	(443)
Total	**(905)**	(923)	**(45)**	(24)	**(31)**	(4)	**(981)**	(951)

Existing leases for UK land and buildings have an average term of 16 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 ten years. Vehicle leases generally have a term of between one and seven years, depending on the asset class, with the average term being three years. The existing leases have an average term remaining of three years. The majority of the IT commitments relate to four contracts, with an average term remaining of three years.

Notes to the consolidated financial statements (continued)

24. Commitments (continued)

Finance lease commitments

	At 27 March 2016		At 29 March 2015	
	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	**(87)**	**(84)**	(98)	(93)
Between one and five years	**(134)**	**(123)**	(174)	(164)
Beyond five years	**(108)**	**(13)**	(114)	(15)
Total minimum lease payments	**(329)**	**(220)**	(386)	(272)
Less future finance charges	**108**	**-**	114	-
Less exchange rate impact	**1**	**-**	-	-
Total finance lease obligations	**(220)**	**(220)**	(272)	(272)

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 two 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 £34 million (2014-15 £37 million) for property, plant and equipment, £3 million (2014-15 £nil) for vehicles and £12 million (2014-15 £26 million) for intangible assets, which are contracted for but not provided for in the financial statements.

25. Contingent liabilities

Contingent liabilities are possible obligations depending on the outcome of uncertain future events, or present obligations where outflows of resources are not certain or cannot be measured reliably. This disclosure has been included on the basis that the Group may be subject to a financial penalty, dependent on a future Ofcom decision.

On 28 July 2015, the Group received a Statement of Objections setting out Ofcom's provisional, preliminary findings in relation to its investigation into the terms on which the Group proposed to offer access to letter delivery services, alleging a potential distortion of competition. The investigation was launched in February 2014 following a complaint brought by TNT Post UK (now Whistl) about certain proposed changes to Royal Mail's Access contracts.

The Group has publically stated that it is considering Ofcom's provisional findings, and that it will robustly defend against Ofcom's allegations.

The Group is not in a position to accurately predict when it will receive Ofcom's final decision nor has it received any detail as yet from Ofcom as to the quantum of any potential penalty (which will only be received if Ofcom intends to make an infringement finding).

The Group continues to maintain that it has not infringed competition law and its representations to Ofcom have been on that basis.

Notes to the consolidated financial statements (continued)

26. 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 companies, and payments to key management personnel. Details of the Group's principal subsidiaries and associates are also provided.

Related party transactions
During the reporting year the Group entered into transactions with related parties as follows:

	52 weeks 2016 £m	52 weeks 2015 £m
Sales/recharges to:		
RMPP (administration and investment service recharge)	**5**	5
Purchases/recharges from:		
Associate undertaking (Quadrant Catering Limited)	**(11)**	(14)
Amounts owed to:		
Associate undertaking (Quadrant Catering Limited)	**(1)**	(1)

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

	52 weeks 2016 £000	52 weeks 2015 £000
Short-term employee benefits	**(9,981)**	(10,202)
Post-employment benefits	**–**	–
Other long-term benefits	**(1,879)**	(2,846)
Total compensation earned by key management	**(11,860)**	(13,048)

Key management are considered to be the Executive and Non-Executive Directors of Royal Mail plc, all other members of the Chief Executive's Committee (see page 47) and the remainder of the Persons Discharging Managerial Responsibilities.

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. The reporting year end for these entities is 27 March 2016 unless otherwise indicated.

Company	Principal activities	Country of incorporation	% equity interest 2016	% equity interest 2015
General Logistics Systems B.V.[1]	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[2]	Facilities management	United Kingdom	**51**	51

The Company has complied with section 410 of the Companies Act 2006 by including in these financial statements a schedule of interests in all undertakings (see Note 28).

[1] GLS' reporting year end date is 31 March each year. No adjustment is made in the financial statements in this regard on the basis that, irrespective of the Group's reporting year end date (last Sunday in March) a full year of GLS results is consolidated into the Group

[2] Romec Limited's reporting year end date is 31 March each year and adjustments are made in the Romec Limited financial statements to align with the Group's reporting year end date of the last Sunday in March. See Note 27 for details of the transaction to acquire the 49 per cent minority shareholding of Romec Limited

Notes to the consolidated financial statements (continued)

27. Events after the reporting year

This note confirms whether or not there have been any material events occurring between the end of the financial reporting year on 27 March 2016 and the publication date of the Annual Report and Financial Statements.

Romec Limited (Romec) – acquisition of 49 per cent shareholding
On 31 March 2016, Royal Mail Group Limited (RMG), the main operating subsidiary of Royal Mail plc, acquired the 49 per cent of shares in Romec that it did not already own, from ENGIE (formerly Cofely Workplace Limited), making RMG the sole shareholder of Romec. The financial terms of the acquisition are not considered by Management to be material in the context of the Group as a whole.

Settlement of French Competition Authority fine
Following the results of an investigation by the French Competition Authority (Autorité de la Concurrence) in respect of alleged breaches of antitrust laws by one of its subsidiaries, GLS France, a settlement amount of €55 million was paid by the Group on 15 April 2016. This amount is fully provided for in the Group financial statements at 27 March 2016 and at 29 March 2015.

Notes to the consolidated financial statements (continued)

28. Related undertakings of Royal Mail plc

This requirement to disclose as a Note to the financial statements, a list of all related undertakings of the Company, is new to annual financial statements approved by directors on or after 1 July 2015. Previously, this information was filed as part of the Company's Annual Return, in line with an exemption (which is no longer available) under section 410 of the Companies Act 2006.

In accordance with Section 409 of the Companies Act 2006 a full list of related undertakings, the country of incorporation and the effective percentage of equity owned, as at 27 March 2016 is disclosed below. Unless otherwise stated, the share capital disclosed comprises ordinary or common shares which are held by subsidiaries of Royal Mail plc Group.

Subsidiary undertakings included in the consolidation

Name of undertaking	Country of incorporation	Share class	% of class directly held	Group interest held %
Agone S.R.L	Italy	€10,000.00 Ordinary shares	-	100.000
Angard Staffing Solutions Limited	United Kingdom	£1.00 Ordinary shares	-	100.000
Community Couriers Ltd	United Kingdom	£1.00 Ordinary shares	-	100.000
Consignia (Customer Management) Limited	United Kingdom	£1.00 Ordinary shares	-	100.000
Consignia Limited	United Kingdom	£1.00 Ordinary shares	-	100.000
Der Kurier Beteiligungsgesellschaft GmbH	Germany	€25,000.00 Ordinary shares	-	100.000
Der Kurier GmbH & Co. KG	Germany	€2,561,572.32 Cash Contribution	-	100.000
DGMH Clayton Limited	United Kingdom	£1.00 Ordinary shares	-	100.000
EBP Consultancy (Beijing) Co. Ltd[1]	China	-	-	100.000
Envision Licensing Limited	United Kingdom	£1.00 Ordinary-A shares	-	100.000
		£1.00 Ordinary-B shares	-	100.000
		£1.00 Ordinary-C shares	-	100.000
General Logistics Systems Austria GmbH	Austria	€1,090,092.51 Ordinary shares	-	100.000
General Logistics Systems B.V.	Netherlands	€100.00 Ordinary shares	-	100.000
General Logistics Systems Belgium N.V.	Belgium	€100.00 Ordinary shares	-	100.000
General Logistics Systems Croatia D.O.O	Croatia	HRK760,000.00 Ordinary shares	-	100.000
General Logistics Systems Czech Republic S.R.O	Czech Republic	CZK2,970,000.00 Ordinary shares	-	100.000
		CZK30,000.00 Ordinary shares	-	100.000
General Logistics Systems D.O.O.	Slovenia	€751,127.00 Ordinary shares	-	100.000
General Logistics Systems Denmark A/S	Denmark	DKK100.00 Ordinary shares	-	100.000
General Logistics Systems Enterprise S.R.L	Italy	€1,011,000.00 Ordinary shares	-	100.000
General Logistics Systems Express A/S	Denmark	DKK1,000.00 Ordinary shares	-	100.000
General Logistics Systems Finland Oy	Finland	€50.00 Ordinary shares	-	100.000
General Logistics Systems France S.A.S	France	€50.00 Ordinary shares	-	100.000
General Logistics Systems Germany GmbH & Co. OHG	Germany	€178,249,643.37 Cash Contribution	-	100.000
General Logistics Systems Ireland Limited	Ireland	€1.2697 Ordinary shares	-	100.000
General Logistics Systems Italy S.P.A.	Italy	€0.52 Ordinary shares	-	100.000
General Logistics Systems Netherlands B.V.	Netherlands	€50.00 Ordinary shares	-	100.000
General Logistics Systems Poland Spolka Z.O.O.	Poland	PLN1.721 Ordinary shares	-	100.000
General Logistics Systems Portugal Lda	Portugal	€199,900.00 Ordinary shares	-	100.000
		€100.00 00 Ordinary shares	-	100.000
General Logistics Systems Spain S.L.	Spain	€20.00 Ordinary shares	-	100.000
GLS Belgium Distribution S.A/N.V.	Belgium	€4.27 Ordinary shares	-	100.000
GLS Beteiligungs Gmbh	Germany	€7,720,507.41 Ordinary shares	-	100.000
GLS General Logistics Systems Hungary Kft.	Hungary	HUF30,000,000.00 Ordinary shares	-	100.000
GLS General Logistics Systems Romania Srl	Romania	RON4,000.00 Ordinary shares	-	100.000
GLS General Logistics Systems Slovakia S.R.O.	Slovakia	€98,604.00 Ordinary shares	-	100.000
		€996.00 Ordinary shares	-	100.000
GLS Invest France S.A.S.	France	€21.00 Ordinary shares	-	100.000
GLS IT Services Gmbh	Germany	€127,822.97 Ordinary shares	-	100.000
GLS Netherlands Holding B.V.	Netherlands	€0.50 Ordinary shares	-	100.000
GLS Netherlands Services B.V.	Netherlands	€50.00 Ordinary shares	-	100.000
GLS Verwaltungs-Und Service GmbH	Germany	€153,387.56 Ordinary shares	-	100.000
Gruppo Executive Societa Consortile S.R.L	Italy	€255.00 Ordinary shares	-	81.667
Intersoft Systems & Programming Limited	United Kingdom	£1.00 Ordinary shares	-	100.000
IRED Partnership Limited	United Kingdom	£1.00 Ordinary shares	-	100.000
NDC 2000 Limited	United Kingdom	£1.00 Ordinary-A shares	-	51.000
NDC 2001 Limited	United Kingdom	£1.00 Ordinary shares	-	100.000

Notes to the consolidated financial statements (continued)

Name of undertaking	Country of incorporation	Share class	% of class directly held	Group interest held %
NetDespatch Ltd	United Kingdom	£0.001 Ordinary-A shares	-	56.808
		£0.001 Ordinary-B shares	-	14.377
Overnight Services GmbH Vermittlung Ueberregionaler Kurierdienste	Germany	€25,564.59 Ordinary shares	-	100.000
Parcelforce Limited	United Kingdom	£1.00 Ordinary shares	-	100.000
Phatware Limited	United Kingdom	£1.00 Ordinary shares	-	100.000
POSG Limited	United Kingdom	£1.00 Ordinary shares	-	100.000
Postcap (Guernsey) Limited	Guernsey	£1.00 Ordinary shares	-	100.000
RM (International) Limited	United Kingdom	£1.00 Ordinary shares	-	100.000
RM Financing Operations Limited	Ireland	€1.00 Ordinary	-	100.000
		€1.00 Redeemable Preference shares	-	100.000
ROMEC Enterprises Limited	United Kingdom	£1.00 Ordinary shares	-	100.000
ROMEC Limited	United Kingdom	£1.00 B Shares	-	0.980
		£1.00 C Shares	-	0.980
		£1.00 Ordinary shares	-	50.000
Royal Mail Courier Services Ltd	United Kingdom	£1.00 Ordinary shares	-	100.000
Royal Mail Enterprises Limited	United Kingdom	£1.00 Ordinary shares	-	100.000
Royal Mail Estates Limited	United Kingdom	£1.00 Ordinary shares	-	100.000
Royal Mail Finance (No2) Limited	United Kingdom	£1.00 Ordinary shares	-	100.000
Royal Mail Finance Limited	United Kingdom	£1.00 Ordinary shares	-	100.000
Royal Mail Group Limited	United Kingdom	£1.00 Ordinary shares	100.000	-
Royal Mail Innovations Limited	United Kingdom	£1.00 Ordinary shares	-	100.000
Royal Mail Investments Limited	United Kingdom	£1.00 Ordinary shares	-	100.000
Royal Mail Pensions Trustees Limited	United Kingdom	£1.00 Ordinary shares		100.000
Senditnow Limited	United Kingdom	£1.00 Ordinary shares	-	100.000
Storefeeder Ltd	United Kingdom	£1.00 Ordinary shares	-	100.000
Viacode Limited	United Kingdom	£1.00 Ordinary shares	-	100.000
Williames Cargo Systems Limited	Ireland	€1.2697 Ordinary shares	-	100.000

Joint venture and associated undertakings

Name of undertaking	Country of incorporation	Share class	% of class directly held	Group interest held %
Mallzee Ltd	United Kingdom	£0.01 Ordinary shares	-	25.005
Market Engine Global Pty Limited	Australia	AUD1.00 Preference shares	-	34.474
ParcelLock GmbH	Germany	€50,000.00 Ordinary shares	-	33.333
Quadrant Catering Limited	United Kingdom	£1.00 Ordinary-A shares	-	51.000

[1] 100% of the equity contribution. No shares are issued by EBP

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 and Financial Statements for the year ended 29 March 2015, except for a change in policy in respect of pensions administration costs as detailed in Note 1 on page 94, and the adoption of new and amended accounting standards with effect from 30 March 2015 as detailed below:

New accounting standard amendments adopted in 2015-16
Annual improvements 2010 – 2012

Annual improvements 2011-2013

IAS 19 (Amended) 'Defined benefit plans: Employee contributions'

The adoption of these amendments to the standards has not had a material impact on the financial performance or position of the Group.

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 10.

Deferred revenue
The Group recognises advance customer payments on its balance sheet, predominantly relating to stamps and meter credits purchased by customers but not yet used at the balance sheet date (see Note 19). 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
At 27 March 2016	**30**	**As reported 99**	**300**	
Public stamp holdings value (£m)	157	195	218	226

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.

Significant accounting policies (continued)

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 costs and industrial diseases claims provisions are considered to be the areas where the application of judgement has the most significant impact.

Transformation costs provisions relating to redundancy and project costs, are derived based upon the most recent business plans where these are sufficiently detailed and where appropriate, communication to those affected has been undertaken. These plans include the expected number of employees impacted and expected rate of compensation per employee.

The industrial diseases claims provision arose as a result of a Court of Appeal's 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.

Onerous property provisions require an estimate of the period for which the property is likely to remain vacant and any expected decommissioning costs. The carrying values of all provisions are included within Note 22.

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 7.

Revenue
Revenue recognised 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.

People costs
These are costs incurred in respect of the Group's employees and comprise wages and salaries, pensions and social security costs.

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.

Infrastructure costs
These are costs primarily relating to the day-to-day operation of the delivery network and include depreciation/amortisation, IT and property facilities management costs.

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 tax-advantaged (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 a combination of non-market and 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 share option pricing model where appropriate.

Significant accounting policies (continued)

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. Management 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 consider 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.

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 the Directors' 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, legacy costs (for example, movements in the industrial diseases provision) and impairments.

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 which in the Directors' opinion require separate identification. These items include profit on disposal of property, plant and equipment and businesses, the IAS 19 non-cash pension interest credit, and profit on disposal of discontinued operations.

Adjusted operating profit before transformation costs
This is operating profit excluding the 'pension charge to cash difference' operating specific item and before transformation costs. This is a key performance indicator in the Corporate Balanced Scorecard which is used to determine employee incentives.

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.

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.

Significant accounting policies (continued)

Net debt
Net debt is calculated by netting the value of financial liabilities (excluding derivatives) against cash and other liquid assets.

Income tax and deferred tax
The charge for current tax is based on the results for the reporting year, 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 it relates to items that are credited or charged directly to equity, otherwise it is recognised in the income statement.

Earnings per share (EPS)
Basic EPS from continuing operations is calculated by dividing the profit 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. The Board (Chief Operating Decision Maker as defined by IFRS 8) 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 adjusted operating profit before transformation costs.

There is no aggregation of operating segments. The business units 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.

Significant accounting policies (continued)

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 cost, the 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 de-recognition 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 de-recognised where appropriate. 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.

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 associates
The Group's investment in its associate companies is accounted for under the equity method of accounting. Under this 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 associates (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.

Significant accounting policies (continued)

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 profit and loss (FVTPL) if they are not part of an effective hedge designation (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 FVTPL 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 FVTPL, any directly attributable transactional costs. The Group only has loans and receivables, financial liabilities measured at cost and derivative assets and liabilities measured at FVTPL if they are not part of an effective hedge designation.

Significant accounting policies (continued)

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 at FVTPL 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 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. The Euro denominated finance lease payables is measured at amortised cost in Euro and converted to Sterling at the closing Sterling/Euro exchange rate.

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.

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 year.

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.

Significant accounting policies (continued)

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 year. 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.

Borrowing costs
Interest on borrowings related to the construction or development of qualifying assets is capitalised, until such time as the assets are substantially ready for their intended use.

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.

Contingent liabilities
Contingent liabilities are possible obligations whose existence depends on the outcome of uncertain future events or present obligations where the outflows of resources are uncertain or cannot be measured reliably. Contingent liabilities are not recognised in the financial statements but are disclosed unless an outflow of resources is considered to be remote.

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 plans 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. The amount of any pension surplus that can be recognised is limited to the economic benefits unconditionally available in the form of refunds or reductions in future contributions. Where the economic benefit to be obtained is in the form of a refund, this is recognised net of taxation withheld in line with IFRIC 14.

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 plans are contracted out of the earnings-related part of the State Second pension scheme.

For defined benefit plans, 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. Remeasurement gains and losses are recognised immediately in the statement of comprehensive income. Any deferred tax movement associated with the remeasurement gains and losses is also recognised immediately in the statement of comprehensive income.

For defined contribution plans, the Group's contributions are charged to operating profit within People costs in the year to which the contributions relate. Overseas subsidiaries make separate arrangements for the provision of pensions and other post-retirement benefits.

Significant accounting policies (continued)

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 and the Euro denominated finance leases (designated as hedges 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 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 7 (Amended) Disclosure Initiative*

IAS 12 (Amended) Recognition of Deferred Tax Assets for Unrealised Losses*

IAS 16 (Amended) and IAS 38 (Amended) Acceptable Methods of Depreciation and Amortisation

IAS 27 (Amended) Equity Method in Separate Financial Statements

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*

IFRS 16 Leases*

Annual Improvements 2012-2014

* Not yet endorsed by the EU

Of the accounting standards listed above, the following are considered of particular relevance to the Group.

IFRS 9 'Financial Instruments'
This standard was issued in July 2014 and is a replacement of IAS 39 'Financial Instruments: Recognition and Measurement'. The standard is effective for accounting periods beginning on or after 1 January 2018 with early adoption permitted. The standard will affect the classification, measurement and derecognition of the Group's financial assets and liabilities and provides a new credit loss model for calculating impairment. IFRS 9 also introduces a new hedge accounting model. The changes to the measurement of financial instruments and the new hedge accounting rules are not currently considered likely to have a major impact on the Group's financial performance or position.

IFRS 15 'Revenue from Contracts with Customers'
This standard was issued in May 2014 and replaces IAS 18 'Revenue', IAS 11 'Construction Contracts' and related interpretations. The standard is effective for accounting periods beginning on or after 1 January 2018 with early adoption permitted. The standard introduces a single, five-step revenue recognition model that is based upon the principle that revenue is recognised at the point that control of goods or services is transferred to the customer. The standard also updates revenue disclosure requirements. Whilst an assessment of this new standard is ongoing, the Group does not expect its adoption to have a material impact on the Group's financial performance or position.

Significant accounting policies (continued)

IFRS 16 'Leases'
This standard was issued in January 2016 and replaces IAS 17 'Leases'. The standard is effective for accounting periods beginning on or after 1 January 2019 with early adoption permitted where IFRS 15 has also been adopted. The standard will bring the majority of leases previously classed as operating leases onto the balance sheet with a corresponding lease liability also recognised with some exemptions for small value or short leases. The Group is currently assessing the impact of IFRS 16 on the financial performance and position of the Group, however, it is expected that the adoption of the standard will result in a material increase in property, plant and equipment and corresponding lease liability balances; a decrease in operating costs; and an increase in finance costs. The classification of related cash flows will also change.

Currently, the Group does not expect to early adopt any of these standards.

The Directors do not expect that the adoption of the remaining standards listed above will have a material impact on the financial performance or position of the Group in future periods.

Royal Mail plc – parent Company financial statements

The Annual Report and Financial Statements primarily relates to the consolidated results of Royal Mail plc and its trading entities. The mandatory disclosures in this section relate solely to the financial statements of the ultimate parent company, Royal Mail plc (the Company).

Statement of changes in equity

For the 52 weeks ended 27 March 2016 and 52 weeks ended 29 March 2015

	Share capital £m	Retained earnings £m	Total equity £m
At 30 March 2014	10	1,577	1,587
Profit for the year	–	207	207
Investment in subsidiary	–	168	168
Dividend paid	–	(200)	(200)
At 29 March 2015	**10**	**1,752**	**1,762**
Profit for the year	**–**	**221**	**221**
Investment in subsidiary	**–**	**170**	**170**
Dividend paid	**–**	**(213)**	**(213)**
At 27 March 2016	**10**	**1,930**	**1,940**

Balance sheet

At 27 March 2016 and 29 March 2015

Registered number: 08680755

	Notes	At 27 March 2016 £m	At 29 March 2015 £m
Non-current assets			
Investment in subsidiary	6	**1,929**	1,759
Total non-current assets		**1,929**	1,759
Current assets			
Trade and other receivables	7	**409**	375
Current liabilities			
Trade and other payables		**(6)**	(6)
Provisions	8	**–**	–
Net current assets		**403**	369
Interest-bearing loans and borrowings	9	**(392)**	(366)
Net assets		**1,940**	1,762
Equity			
Share capital	10	**10**	10
Retained earnings		**1,930**	1,752
Total equity		**1,940**	1,762

The balance sheet was approved and authorised for issue by the Board of Directors on 18 May 2016 and signed on its behalf by:

Matthew Lester
Chief Finance Officer

Royal Mail plc – parent Company financial statements (continued)

1. Parent Company accounting policies

Accounting reference date
The financial reporting year ends on the last Sunday in March and accordingly, these financial statements are made up for 52 weeks ended 27 March 2016 (2014-15 52 weeks ended 29 March 2015).

Authorisation of financial statements and statement of compliance with FRS 101
The financial statements of the Company for the year ended 27 March 2016 were authorised for issue by the board of Directors on 18 May 2016. The Company is incorporated and domiciled in England and Wales.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with applicable accounting standards. The amendments to FRS 101 (2013-14 Cycle) issued in July 2014 and effective immediately have been applied.

The Company has not presented its own income statement as permitted by section 408 of the Companies Act 2006. However, the results of the Company are presented in Note 4 of these financial statements.

Basis of preparation
The Company has transitioned to FRS 101 from previously extant UK Generally Accepted Accounting Practice (UK GAAP) for all periods presented. No material adjustments arose within the Company as a result of this transition. The accounting policies which follow, set out those policies which apply in preparing the financial statements for the reporting year ended 27 March 2016.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

(a) the requirements of paragraphs 45(b) and 46-52 of IFRS 2 Share-based Payment;

(b) the requirements of IFRS 7 Financial Instruments: Disclosures;

(c) the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement;

(d) the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:

- (i) paragraph 79(a)(iv) of IAS 1;
- (ii) paragraph 73(e) of IAS 16 Property, Plant and Equipment; and
- (iii) paragraph 118(e) of IAS 38 Intangible Assets.

(e) the requirements of paragraphs 10(d), 10(f), 39(c) and 134-136 of IAS 1 Presentation of Financial Statements;

(f) the requirements of IAS 7 Statement of Cash Flows;

(g) the requirements of paragraph 17 of IAS 24 Related Party Disclosures; and

(h) the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

No cash flow statement has been presented as the Company has presented a consolidated cash flow statement within its Group financial statements.

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 continue to adopt FRS 101 'Reduced Disclosure Framework' for the foreseeable future. However, 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) and, if so received, Royal Mail plc may not continue to use these disclosure exemptions.

Accounting standards issued but not yet applied
Following the Company's adoption of FRS 101 in the reporting year, no new UK Accounting Standards, which affect the presentation of these financial statements, have been issued.

Changes in accounting policy
The accounting policies are consistent with those of the previous year other than where there has been a consequential change resulting from the transition to FRS 101.

Key sources of estimation uncertainty and critical accounting judgements
Due to the relatively straightforward nature of the Company and its activities, it is Management's view that there are no significant estimates or accounting judgements applied in the preparation of these financial statements.

Investment in subsidiary
The investment in subsidiary is stated at cost plus deemed capital contributions arising from share-based payment transactions, less any accumulated impairment losses.

Trade receivables
Trade receivables are recognised with an allowance for any non-collectable amounts, including where collection is no longer probable.

Royal Mail plc – parent Company financial statements (continued)

2. Directors' remuneration

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. This remuneration is disclosed in the Group consolidated 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 (see Note 3).

4. Income statement

The Company is a non-trading company. The profit for the year of £221 million (2014-15 £207 million) is primarily the net sum of; the £219 million dividends received from Royal Mail Group Limited; management charges to and from Royal Mail Group Limited; and net interest on the €500 million Bond and intercompany balances.

5. Taxation

There is no tax charge/credit for the year.

6. Investment in subsidiary

	At 27 March 2016 £m	At 29 March 2015 £m
At 30 March 2015 and 31 March 2014	**1,759**	1,591
Investment in subsidiary – charge for Employee Free Shares/LTIP/SAYE[1]	**170**	168
At 27 March 2016 and 29 March 2015	**1,929**	1,759

[1] Excludes £7 million (2014-15 £7 million) associated National Insurance costs

7. Trade and other receivables

This balance mainly consists of an intercompany loan to Royal Mail Group Limited amounting to the proceeds from the issue of the €500 million bond (see Note 9).

8. Provisions

In relation to the transfer of Royal Mail Group Limited to the Company in 2013-14, a provision of less than £1 million remains.

9. Interest-bearing loans and borrowings

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 loaned to Royal Mail Group Limited.

10. Share capital

	At 27 March 2016 £m	At 29 March 2015 £m
Authorised 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 27,042 (2014-15 40,935) are held by an Employee Benefit Trustee (EBT) administered by Sanne Fiduciary Services Limited. These shares are treated as treasury shares for accounting purposes in accordance with IAS 32 'Financial Instruments: Presentation'. The Company, however, does not hold any shares in treasury.

The EBT is funded by the Company and has been treated as an extension of the Company for accounting purposes within these financial statements.

Group five year summary (unaudited)

The following information has been prepared on a 52 week basis and excludes, for the 2012 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, up to and including the 2014 reporting year, after which time it was sold (on 31 March 2015).

	Financial reporting year (52 weeks) ended March				
Income statement – Adjusted	**2016 £m**	2015 £m	2014 £m	2013 £m	2012 £m
Revenue	**9,251**	9,328	9,456	9,146	8,764
Operating profit before transformation costs	**742**	740	729	595	372
Transformation costs	**(191)**	(145)	(241)	(195)	(229)
Operating profit after transformation costs	**551**	595	488	400	143
Finance costs	**(13)**	(26)	(67)	(99)	(100)
Profit before tax	**538**	569	421	301	43
Tax	**(118)**	(138)	(110)	(81)	(13)
Profit after tax	**420**	431	311	220	30

	Financial reporting year (52 weeks) ended March				
Income statement – Reported	**2016 £m**	2015 £m	2014 £m	2013 £m	2012 £m
Revenue	**9,251**	9,328	9,456	9,146	8,764
Operating profit before transformation costs	**485**	611	671	598	381
Transformation costs	**(191)**	(145)	(241)	(195)	(229)
Operating profit after transformation costs	**294**	466	430	403	152
Operating specific items	**(156)**	(248)	1,213	(77)	(57)
Non-operating specific items	**29**	133	21	4	182
Earnings before interest and tax (EBIT)	**167**	351	1,664	330	277
Finance income/(costs) – mainly net pension interest (non-operating specific item)	**113**	75	69	52	(230)
Finance costs	**(13)**	(26)	(67)	(99)	(100)
Profit/(loss) before tax	**267**	400	1,666	283	(53)
Tax (specific items and other)	**(45)**	(72)	(386)	246	(51)
Profit/(loss) after tax	**222**	328	1,280	529	(104)

	Financial reporting year (52 weeks) ended March				
Free cash flow[1]	**2016 £m**	2015 £m	2014 £m	2013 £m	2012 £m
EBITDA before transformation costs	**756**	889	940	915	681
Pension charge to cash difference	**257**	129	58	(3)	(9)
Adjusted EBITDA before transformation costs	**1,013**	1,018	998	912	672
Trading working capital movements	**(26)**	(5)	(57)	(60)	(19)
Total investment	**(694)**	(648)	(617)	(665)	(615)
Other (dividends, tax, interest)	**(39)**	(50)	(67)	(81)	(87)
In-year trading cash inflow/(outflow)	**254**	315	257	106	(49)
Other working capital movements	**6**	17	140	202	–
Cash cost of operating specific items	**(6)**	(8)	(35)	(26)	(37)
Proceeds from disposal of assets/business	**38**	129	36	52	240
Free cash inflow	**292**	453	398	334	154

[1] An explanation of free cash flow is provided in the Financial Review on page 25

Group five year summary (unaudited) (continued)

Balance sheet	At March financial reporting year end date 2016 £m	2015[1] £m	2014 £m	2013 £m	2012 £m
Property, plant and equipment	**2,000**	1,933	1,989	1,916	1,822
Intangible assets (mainly software)	**451**	300	195	139	135
Inventories	**21**	20	22	24	32
Trade and other receivables	**1,038**	960	939	1,012	1,036
Trade and other payables	**(1,741)**	(1,708)	(1,683)	(1,647)	(1,548)
Other net (liabilities)/assets	**(16)**	(31)	(20)	–	4
Provisions	**(247)**	(253)	(268)	(246)	(217)
Goodwill (mainly relates to GLS)	**206**	182	197	196	189
Investments in associates	**9**	5	4	3	3
Net operating assets and investments in associates	**1,721**	1,408	1,375	1,397	1,456
Cash and cash equivalents	**368**	287	366	351	473
Pension escrow investments	**20**	20	20	20	149
Loans and borrowings	**(392)**	(366)	(600)	(973)	(1,522)
Other net financial liabilities	**(220)**	(216)	(341)	(304)	(286)
Net debt	**(224)**	(275)	(555)	(906)	(1,186)
Deferred tax (liabilities)/assets	**(460)**	(504)	(175)	89	(9)
Net assets before pension deficit and pension escrow investments	**1,037**	629	645	580	261
Pension surplus/(deficit)[1]	**3,430**	3,367	1,889	825	(2,716)
Net assets/(liabilities)[1]	**4,467**	3,996	2,534	1,405	(2,455)

People numbers – year end headcount	Financial reporting year (52 weeks) ended March 2016	2015	2014	2013	2012
UKPIL	**139,408**	142,910	148,441	149,940	151,156
GLS	**13,991**	14,409	13,811	13,646	13,362
UK partially owned subsidiaries	**3,136**	3,199	3,999	4,030	3,926
Group total	**156,535**	160,518	166,251	167,616	168,444

[1] Restated at 29 March 2015 for change in accounting policy relating to pensions administration costs

Shareholder information

Financial calendar
Trading update – 19 July 2016
Annual General Meeting – 21 July 2016

Dividend dates
Ex-dividend date – 30 June 2016
Record date – 1 July 2016
Payment date – 29 July 2016

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.

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www.royalmailemployeeshares.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:

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Lines are open 8.30am to 5.30pm UK time, Monday to Friday, excluding public holidays in England and Wales.

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Company number 08680755

Corporate websites
Information made available on the Group's websites does not, and is not intended to, form part of these Results.

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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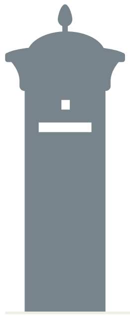
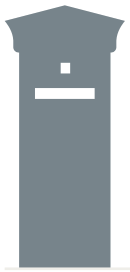
CELEBRATING 500 YEARS OF ROYAL MAIL

Postboxes: the start of a legend

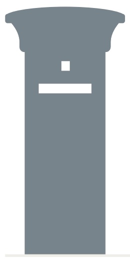
Origins of a national icon



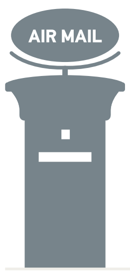
The first pillar box was erected in Guernsey in the Channel Islands in 1852 as an experiment. The idea of postboxes was introduced by novelist, Anthony Trollope, after he saw them in France. The boxes proved such a success that they were soon introduced on the mainland.



It is said that the early postboxes were made tall enough so that a man wearing a top hat could use them.



Right from their introduction, postboxes have carried the insignia, or cipher, of the reigning monarch at the time of placement. Queen Elizabeth II is the most common cipher, featuring on more than 60 per cent of current postboxes.



Blue airmail postboxes were introduced in 1930 and were designed to advertise the new air mail service. By 1936, there were 139 airmail boxes in London and 174 in other towns and cities around the country.

Celebrating 500 years of service and innovation

To mark this momentous anniversary, Royal Mail has launched a special website showcasing the people, objects and events that played a key role in the development of the world's first national postal service.

Discover more by visiting our website: www.royalmailgroup.com/500years