

Royal Mail plc

Annual Report and
Financial Statements

2016-17



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Who we are

Royal Mail is the UK's pre-eminent delivery company. We deliver more letters and parcels, to more addresses in the UK, than all of our competitors combined. We are proud to deliver a 'one-price-goes-anywhere' service on a range of letters and parcels to around 30 million addresses, across the UK, six-days-a-week, in our role as the UK's sole designated Universal Service Provider¹. Royal Mail has helped to shape the history of the UK and the way the world communicates for 500 years.

We make a very significant contribution to the wider UK economy. Through UK Parcels, International & Letters (UKPIL), our impact, including through employment and procurement, totalled £10.8 billion last year in terms of value added. We made the fifth largest contribution to the UK economy of all UK corporations². General Logistics Systems (GLS), our pan-European parcels business, operates one of the largest, ground-based deferred parcel delivery networks in Europe.

Our position

E-substitution continues to drive a structural decline in UK addressed letter volumes. We forecast a four to six per cent annual decline (excluding the impact of political parties' election mailings) in the medium-term. Despite this, letters are an important part of our business. We believe they will be for years to come. They account for around 45 per cent of our revenue as a Group; and almost 60 per cent of our revenue in the UK. Royal Mail is the largest parcel delivery company in the UK. But, we operate in a very challenging environment. We face significant competition from companies with established delivery capabilities and from new entrants. E-retail continues to fuel overall growth in parcel volumes. Growth available in the UK parcels market continues to be impacted by Amazon's activities.

International markets are also intensely competitive, as growth continues to be fuelled by increasing cross-border trade, driven by e-retail.

Our people

We employ around 159,000 people across our Group. One in every 185 jobs in the UK is provided by Royal Mail³. We are committed to preserving the trust members of the public place in Royal Mail and our hard-working employees. 78 per cent of our customers say they are favourable to us, while 88 per cent are satisfied with the service we provide, putting us ahead of the companies surveyed⁴. Royal Mail also ranks as the most trusted and most preferred delivery company in Business CSI's Brand Tracker 2016-17 survey.

Our strong brand position means we are proud to offer the best pay and terms and conditions in our industry. The vast majority of our employees are employed on permanent contracts, except where there is a short-term need. Our permanent employees are paid above the Living Wage which, in turn, is above the legal minimum set by the UK Government. They also receive the additional benefits associated with permanent employment, such as paid holidays and a good pension. In return, however, we continually work with our unions to agree changes to our working practices and labour model. This process of change is about sustaining our business now and in the future, particularly given the decline in letter revenues.

Our customers

Royal Mail Group has a wide range of customers using our letters, parcels and data services. This includes consumers, small and medium-sized enterprises (SMEs), some of the UK's largest businesses and retailers, and other postal operators who use our downstream network. (This is where a postal operator other than Royal Mail collects mail from the customer, sorts it and then

transports it to Royal Mail for delivery.) GLS also provides a whole range of business-to-business (B2B) and business-to-consumer (B2C) services across continental Europe.

Only Royal Mail delivers to all parts of the country to the same high service standards with a geographically uniform tariff. In May 2016, our regulator, Ofcom, found that the postal services sector saw an increase in customers' perception of value for money from 2005 to 2015. This was at a time when ratings declined in many other sectors⁵. Ofcom did further research on value for money in post that concluded 75 per cent of residential consumers said that they were either fairly or very satisfied with the value for money of postal services⁶.

Royal Mail adheres to a stringent set of regulatory standards for the delivery of parcels and letters. Consumer protections are key. Royal Mail has the greatest number of protections for parcels customers. Other major parcel operators have limited or no regulatory consumer protection standards applied to them.

Our shareholders

Royal Mail is part of the fabric of UK life. As such, we are pleased to have a large and diverse shareholder base. We have a proactive programme of engagement with all of our shareholders, including institutional investors in the UK and overseas. Following our flotation on the London Stock Exchange in 2013, we have a relatively large retail shareholder base. It includes many of our own people.

All of our eligible full-time employees have received a maximum of 913 Free Shares, regardless of grade. This means that, in total, 12 per cent of the Company has been awarded to eligible colleagues. This is one of the largest free stakes made available to employees as part of any major UK privatisation.

Our transformation

Our UK operation is organised to deliver to every household and business in the UK, Monday to Saturday. This means we benefit when we deliver letters and parcels together. More than 90 per cent of the parcels we handle in the UK pass through the Royal Mail core network, which delivers the Universal Service.

We will continue to invest a significant amount of cash in our core network, although we are now past the peak of investment.

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.

² 2016-17: comprising direct and indirect contributions.

³ Cebir research, conducted for Royal Mail in May 2017.

⁴ Ipsos MORI Corporate Image Survey Winter 2016.

⁵ Ofcom, Consultation on Review of the Regulation of Royal Mail, 25 May 2016, Paragraph 4.12.

⁶ Ofcom, Review of the Regulation of Royal Mail, 1 March 2017, Paragraph 3.17.

At present, around 80 per cent of our revenue comes from our UK business. We also want to develop a broader revenue base and grow in the UK and overseas. GLS remains a focus for investment to help drive growth as it continues to expand, including into new geographies. It provides exposure to markets where revenues are growing above gross domestic product (GDP). It is well positioned to support our overall strategy by increasing its footprint and focusing on growth opportunities in the deferred parcels space, and selective growth in the B2C parcels market. In addition, in the UK, we are actively looking at areas where there is market opportunity and the potential to make the most of our assets. They include our large network infrastructure, our trusted brand and our data.

We need to stay ahead of the competition in both letters and parcels if we are to remain our customers' number one choice. In the medium-term, the faster areas of growth in the parcels market are expected to be clothing and footwear, returns and 'same-day' delivery. We are becoming more flexible to accommodate the needs of e-retailers and online shoppers. This includes increasing the number of pick-up and drop-off points in our network, better systems integration with retailers and extending acceptance times at Mail Centres and Regional Distribution Centres.

We are also seeking to become a digital organisation and build our overall e-commerce capability. Becoming a digital business is about fundamentally changing the way we use technology and data. It is about changing our internal and external processes. In so doing, we aim to digitise as many of these as possible. With better use of technology and data, we can create better products, services and customer experience. We want to be able to help our customers with every step: from purchase, to delivery, to returns.

Our operations and networks

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.

GLS

GLS is our 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 companies and partner companies.

The GLS footprint was expanded this year. In Europe, GLS acquired Agencia Servicios Mensajería S.A.U. (ASM) in Spain. As part of its careful and focused expansion outside Europe, GLS acquired Golden State Overnight Delivery Service Inc. (GSO) and Postal Express⁷. GSO is a leading provider of regional next day delivery services principally in California⁸. Postal Express is a regional overnight carrier operating in the states of Washington, Oregon and Idaho.

UKPIL

c.142,000

Employees

6

Regional Distribution Centres

38⁹

Mail Centres

c.1,400

Delivery Offices

c.11,600

Local Collect locations

54

Parcelforce Worldwide depots

c.48,000¹⁰

Vehicles

GLS

c.17,000

Employees

62

Network hubs

c.1,100

Depots

c.17,000

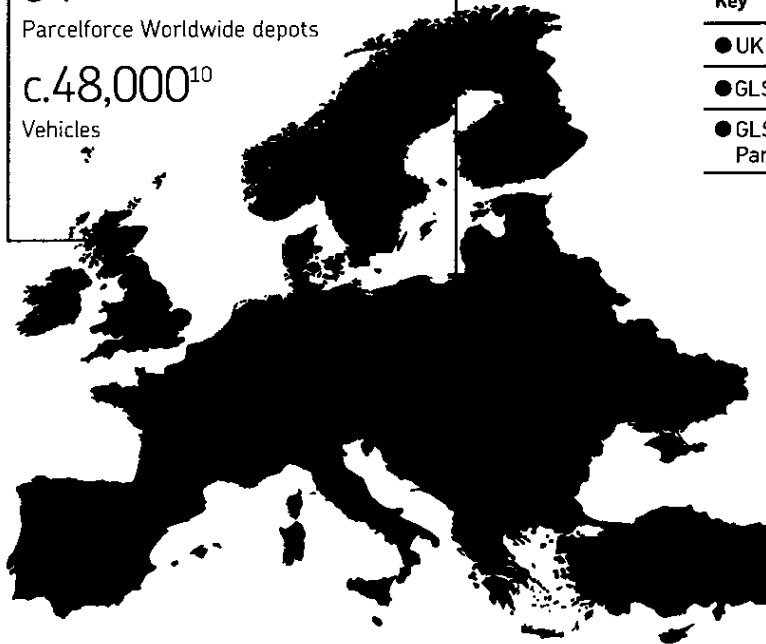
Parcel shops

Key

● UKPIL

● GLS

● GLS Network Partners



⁷ Postal Express was acquired after the financial year end.

⁸ GSO also operates in Arizona, Nevada and New Mexico.

⁹ Ipswich Mail Centre has ceased outward processing but continues inward processing until the second quarter of 2017-18.

¹⁰ Includes around 2,300 trailers.

Financial and operating performance summary

Group financial summary¹

Reported results (£m)	52 weeks ended 26 March 2017	52 weeks ended 27 March 2016	Underlying ² change
Revenue	9,776	9,251	1%
Operating profit before transformation costs	490	485	
Operating profit after transformation costs	353	294	
Profit before tax	335	267	
Basic earnings per share – continuing operations (pence)	27.5p	21.5p	
In-year trading cash flow	420	254	
Net debt	(338)	(224)	
Proposed full year dividend per share (pence)	23.0p	22.1p	4%
Adjusted results (£m)			
Revenue	9,776	9,251	1%
Operating profit before transformation costs	712	742	(6)%
Operating profit after transformation costs	575	551	2%
Margin	5.9%	6.0%	10bps
Profit before tax	559	538	
Basic earnings per share (pence)	44.1p	41.3p	

Business units

(£m)	Revenue			Adjusted operating profit before transformation costs	
	52 weeks ended 26 March 2017	52 weeks ended 27 March 2016	Underlying change	52 weeks ended 26 March 2017	52 weeks ended 27 March 2016
UKPIL	7,658	7,671	(2%)	548	625
GLS	2,118	1,580	9%	164	117
Group	9,776	9,251	1%	712	742

Group performance^{1,2}

- Revenue was up one per cent on an underlying basis. Growth in GLS more than offset the decline in UKPIL revenue.
- Adjusted operating profit before transformation costs was £712 million, down six per cent.
- Adjusted operating profit margin after transformation costs increased on an underlying basis by 10 basis points.
- Reported operating profit before transformation costs was £490 million.

- We are past the peak of investment spend. Net cash investment was £492 million compared to £656 million in 2015-16.
- In-year trading cash flow increased to £420 million.
- Net debt increased to £338 million following the acquisition of GSO and ASM.
- The Board is recommending a final dividend of 15.6 pence per ordinary share, giving a total dividend of 23.0 pence per share for 2016-17, up four per cent.

¹ Reported results are prepared in accordance with International Financial Reporting Standards (IFRS). Adjusted results exclude the pension charge to cash difference and specific items, consistent with the way that financial performance is measured by Management and reported to the Board.

² Movements are presented on an underlying basis. For further details of reported results, adjusted and underlying Alternative Performance Measures (APMs) used in the Annual Report and Financial Statements 2016-17, including reconciliations to the closest IFRS measures where appropriate, see page 33.

³ Internal estimate based on Triangle Management Services/RMG Fulfilment Market Measure (2015); 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. Excludes Amazon Logistics and other retailers own-delivery networks.

Business performance^{1,2}

- UKPIL revenue was down two per cent. Parcel revenue increased by three per cent; total letter revenue declined by five per cent.
- UKPIL parcel volumes were up three per cent, driven by growth in Royal Mail account parcels.
- Addressed letter volumes (excluding the impact of political parties' election mailings) declined by six per cent. As previously stated, overall business uncertainty in the UK is impacting letters.
- Strategic focus on costs drove a one per cent reduction in UKPIL underlying operating costs before transformation costs. This is the third year of underlying UKPIL cost reduction.
- UKPIL collections, processing and delivery productivity improved by 2.7 per cent. This is at the better end of our target range.
- We exceeded our 93.0 per cent regulatory First Class mail target, with 93.1 per cent delivered the next working day. We also exceeded our regulatory Quality of Service target of 98.5 per cent for Second Class Mail.
- GLS performed well. Volumes and underlying revenue were up nine per cent. GLS achieved revenue growth in almost all its markets from a broad customer base.
- As part of a careful and focused expansion by GLS, it acquired GSO in California and ASM in Spain.

Outlook summary

- Responding to challenging operating environment and continuing to focus on sustainable cash generation.
- Expect to keep in step with addressable UK parcels market³ growth of around three per cent due to IT-enabled improvements.
- Maintain outlook for addressed letter volume decline of between four to six per cent per annum (excluding the impact of political parties' election mailings) – expect to be at higher end of range of decline in 2017-18 if business uncertainty persists.
- Continue to invest in GLS' careful and focused international expansion to help drive growth for the Group.
- Remain on track to avoid around £600 million of annualised operating costs in UKPIL by 2017-18.
- Expect net cash investment of around £450 million in 2017-18 and less than £500 million per annum going forward.
- Progressive dividend policy supported by in-year trading cash flow generation of the Group.

Chairman's statement

2016-17 has been another year of significant change. In my first full year as your Chairman, I have seen first-hand – in this our 500th year – the pivotal role this institution plays supporting households, businesses and communities.

We connect companies, customers and communities across the UK through Royal Mail and overseas through GLS, our pan-European parcels business. GLS is strategically important to the Group. It is a focus for investment to help drive growth as it continues to expand, including into new geographies.

We are committed to the Universal Service, delivering sustainable value for our shareholders and being a high quality employer. Our delivery services, including the Universal Service, are an important part of the digital economy. We are working with our key stakeholders to provide the Universal Service, deliver innovation and growth and create sustainable shareholder value.

Dividends and Free Shares

Our employees own a significant proportion of the Company. In fact, I am delighted to be able to say that, following the disposal of HM Government's holding in 2015-16, 12 per cent of the Company has been awarded to eligible colleagues. This means that eligible full-time employees have now received a maximum of 913 Free Shares, regardless of grade.

The Board is committed to our progressive dividend policy. The Board recommends the payment of a final dividend of 15.6 pence per ordinary share on 28 July 2017, giving a total dividend of 23.0 pence per share for 2016-17, subject to shareholder approval at our 2017 Annual General Meeting (AGM). The proposed total dividend is a four per cent increase on the total dividend of 22.1 pence per ordinary share for 2015-16.

Connecting companies, customers and communities

We are the proud provider of the Universal Service. We are committed to the Government's overarching policy objective – delivering a high quality Universal Service without recourse to public subsidy.

The postal Universal Service Obligation (USO) is vital for economic growth. It is a key part of the digital economy and is a key enabler of the Government's broadband strategy. As the physical fulfilment arm of the digital economy, I am pleased to report that the USO has high customer satisfaction ratings. As Ofcom recently noted, 82 per cent of residential consumers are either fairly or very satisfied with Royal Mail services¹.

Royal Mail is the delivery partner of choice for UK SMEs. Research we commissioned from Triangle Management shows that the Universal Service provides depth of coverage, value for money and convenience for SMEs (see overleaf). The substantial investments we are making in our business – major digitisation programmes such as the roll-out of Postal Digital Assistants (PDAs) – are helping SMEs to develop their e-commerce proposition by providing more information to their customers about the journey of their parcels. The vital role of the letter for many businesses, including SMEs, also remains very much in place.

We are an international parcels business, both through our UK and GLS operations. GLS provides geographical diversification of our earnings. It is well positioned to grow in new markets. This includes careful and focused expansion outside Europe.

This year – in Europe itself – GLS acquired ASM in Spain. Further afield, it purchased

¹ Ofcom, Review of the Regulation of Royal Mail, 1 March 2017, paragraph 3.16.

GSO and Postal Express². As our gateway to Europe and the US, GLS is a strategically important part of the Royal Mail Group.

Value for money:

- **Royal Mail offers a very competitive service across lighter parcels.**
- **Other than Royal Mail, only one alternative provider offers Saturday delivery at no extra charge.**

Depth of coverage:

- **Royal Mail provides universal coverage. Only two other companies offer all their products everywhere, including rural areas.**
- **80 per cent of UK addresses are within one kilometre of a Royal Mail parcel access point.**

Triangle Management Insights, 2015.

A responsible employer

Royal Mail is proud to be a responsible employer. We offer the best pay and terms and conditions in our industry. We welcome the ongoing Taylor Review; it is currently looking at employment conditions across the UK, including the delivery sector. We believe co-ordinated and effective Government action is required to lift labour standards. Better labour standards will lead to better service standards for consumers.

We are committed to continuing to provide the best pay and terms and conditions in our industry. In return, however, we continually work with our unions to agree changes to our working practices and labour model. This process of change is about sustaining our business now and in the future, particularly given the decline in letter revenues.

The safety of our employees is always our first priority. In 2016-17, we delivered a 12.3 per cent reduction³ in road traffic collisions, one of our 2016-17 key performance indicators (KPIs).

A responsible company

Royal Mail is a great British brand. We are part of many local communities. We deliver to all parts of the country to the same service standards and have a dense network of access points for local communities. As the Government seeks to stimulate growth outside major metropolitan areas, we have an important role to play in this key policy area.

Alongside our direct and indirect economic contributions, there is, of course, the broader role we play in UK life. That is why I have once again been humbled by the dedication and commitment of our people to raise money for good causes. March 2017 saw the end of our successful partnership with the Stroke Association, for which we have raised a total of £2 million, including matched giving from Royal Mail. We – in short, our colleagues – hold the Guinness World Record for the most registered charities supported by a payroll giving scheme. Since the scheme began in 1989, almost £58 million has been raised for hundreds of registered charities and good causes.

GLS is active in supporting community causes across Europe. In November 2016, GLS Denmark was named as one of the top five large Danish companies to work for by the international Great Place to Work Institute.

In the Netherlands, GLS launched a partnership with Heppie, a charity that provides outings and activities for disadvantaged children.

Last year, I touched on the importance of mental health. Poor mental health is a leading cause of illness in the UK and our workforce. This year we will be devoting more resources to this key issue. We are a signatory of the Time to Change pledge, which aims to end the stigma of mental ill-health. We became an official supporter of the 'Heads Together' campaign, led by their Royal Highnesses, The Duke and Duchess of Cambridge, and Prince Harry. We launched a ground-breaking partnership with The Prince's Trust, providing funding for the charity to develop a mental health strategy. This will ensure that every young person accessing a Prince's Trust programme has the mental health support they need.

We are expanding our support for mental health by launching a strategic partnership with Action for Children. We are seeking to increase people's awareness of mental health and support more of our own people with mental health problems. The partnership covers a number of key pillars: mental health training, awareness-raising, communications, pro-bono support, work placements and fundraising. We hope to raise at least £2 million to enable Action for Children to employ specialist youth workers to deliver face-to-face support sessions for 8,000 young people aged 15-18.

Our Board

There have been some changes to our Board over the last 12 months. Nick Horler, who has been with us for nearly seven years and during a time of unprecedented change, stepped down from the Board in February 2017.

Nick made an invaluable contribution and will be missed. Rita Griffin, a senior executive at BP, joined us during the year; her expertise in marketing, logistics and change management

will be very helpful as we continue to transform Royal Mail.

In December 2016, Matthew Lester informed the Board of his intention to step down as Chief Finance Officer (CFO) and leave the Board following the Company's AGM in July 2017. Matthew has made a very considerable contribution to our business across a wide range of areas during the seven years he has been with us. We are grateful he is staying beyond his contractual notice period. Moya and I join the Board in offering him our sincere thanks and best wishes for the future.

On 15 May 2017, we announced that Stuart Simpson, Director of Group Finance, will be appointed CFO and join the Royal Mail Board at the conclusion of the AGM on 20 July 2017. Stuart's appointment follows a comprehensive search that included both internal and external candidates.

Turning to broader issues, as I mentioned in last year's Annual Report, the effectiveness of the Board, its Committees, the Executive Directors, Non-Executive Directors, and the Chairman was assessed from January-March 2016 by an external consultancy. The review covered a range of topics, including succession planning, operations, composition, skills and experience. This year, the review was carried out internally and the main findings are set out on page 57. The review concluded that the Board and its Committees are effective but identified areas of focus that will strengthen the performance of the Board overall.

Thank you

This is a very special Company. The 500th anniversary of the postal service in 2016 was a major milestone that deserved celebration. At a special 500 years event we hosted, Moya and I were delighted to welcome Their Royal Highnesses The Prince of Wales and The Duchess of Cornwall. In his speech, the Prince praised our contribution to the British economy and offered his heartfelt thanks and congratulations. It was a privilege to introduce the Royal couple to so many inspirational people from across our business.

Thanks to the continued hard work, commitment and dedication of our people, Royal Mail is making a difference on a daily basis. I look forward to playing a part in our continued focus on delivering shareholder value. This is about working together with our people, our unions and our customers to deliver innovation and growth and become a more efficient business.

Peter Long

Chairman

17 May 2017

² Postal Express was acquired after the financial year end.

³ As calculated per 1,000 vehicles.

Chief Executive Officer's review

We have made good progress against all of our strategic priorities. This has been a more challenging period for UK businesses and we have come through it well. Our multi-year focus on costs is a key priority. We are on track to avoid around £600 million of annualised costs in UKPIL by 2017–18. We are past the peak of investment; we now expect net cash investment of around £450 million in 2017–18. GLS is performing very well and is growing revenue organically and through acquisitions. Its deep expertise and focus on B2B parcels in multiple geographies – now 41 European countries and seven states in the US – positions it to be a greater force for growth for the Company. We will continue to invest in careful and focused international expansion by GLS. Through a combination of our strategic approach to costs and more efficient investment spend, we will support our progressive dividend policy with the in-year trading cash generation of the Group.

Our performance^{1,2}

Group revenue was up one per cent. GLS performed well, with revenue growth of nine per cent more than offsetting a two per cent reduction in UKPIL revenue.

Adjusted Group operating profit before transformation costs was £712 million and £575 million after transformation costs. Adjusted Group operating profit margin after transformation costs increased by 10 basis points to 5.9 per cent.

UKPIL parcel volumes grew by three per cent and revenue increased by three per cent. Addressed letter volumes (excluding the impact of political parties' election mailings) decreased by six per cent, while total letter revenue was down five per cent.

We are past the peak of investment so our spend reduced this year. As a result, in-year trading cash flow increased to £420 million.

Winning in parcels

Competitive marketplaces

We are the UK's pre-eminent parcel delivery company with over 50 per cent of market share by volume. At 56 per cent³, parcels account for a higher proportion of Royal Mail's Group revenue than for any of our benchmarked peers. We connect businesses, households and communities up and down the country. As the Universal Service Provider, Royal Mail facilitates e-commerce growth for UK businesses, especially SMEs.

The UK has one of the most developed e-commerce markets in the world. Amazon has an extensive presence in retailing as well as logistics, including delivery. It is expanding its presence, including in a range of new segments. Growth available in the addressable UK parcels market continues to be impacted by Amazon's activities. There is significant spare capacity in the market at non-peak times of the year, putting downward pressure on prices. Competition remains intense. International express carriers are showing renewed interest in UK e-commerce.

In the consumer/SME segment, product and service innovations provide more choice and convenience for customers. For example, e-commerce services are evolving to provide

¹ Adjusted results exclude the pension charge to cash difference and specific items, consistent with the way that financial performance is measured by Management and reported to the Board.

² Movements are presented on an underlying basis. For further details of adjusted and underlying Alternative Performance Measures (APMs) used in the Annual Report and Financial Statements, including reconciliations to the closest IFRS measures where appropriate, see page 33.

³ Based on 2016 calendar year.

greater visibility over delivery windows and more control over delivery options.

International markets are intensely competitive. E-retail continues to fuel growth in cross-border parcel volumes. There is increasing demand for faster services and tracked products. Intra-European e-commerce trade is growing. This is driving cross-border volumes and a significant part of the growth is B2C. The European deferred parcels segment grew faster than the express segment⁴.

Our progress

- **Around two-thirds of our parcels are barcoded and one-third can be tracked in some way**
- **We can offer any retail account customer a tracked product**
- **We have improved our international services**
- **We strengthened GLS' network and extended the service offering in Spain**

The depth of coverage, value for money and convenience for customers is unparalleled – wherever they are based in the UK. We operate in every business segment of the parcels market. Our tracked products continue to grow at a fast rate. We can offer any retail account customer a tracked product. Royal Mail Tracked 24®/48® volumes have grown by 38 per cent; returns volumes are up 18 per cent. Our major technology rebuild over the last five years has been a key enabler for the repositioning of what was already a very good parcel business. Our customer service is good and we focus on key areas like complaints, where we have more work to do. We have the highest standards of consumer protections for our parcels customers.

We deliver more parcels each year in the UK than all of our competitors combined. The service and product improvements we put in place are delivering real benefits. We have won further volumes from major retailers, including Vistaprint and River Island. Senders and recipients now have better visibility of when their parcel has been delivered. When we started using the new 2D data-rich barcodes in 2015, we were tracking around 20 per cent of our parcels. Today, enabled by our enhanced IT parcels systems, around two-thirds of parcels are barcoded and one-third can be tracked in some way. We aim to barcode as many of our parcels as possible.

We have focused on improving average unit revenues (AUR) in import parcels by improving the service levels we offer and securing better Universal Postal Union (UPU) rates. International

accounts for 18 per cent of UKPIL parcel volumes and 19 per cent of revenue. We reported in 2015-16 a reduction in export volumes, so we built a better solution for exports. The rate of decline in export parcel volumes has moderated significantly. Exports have high AURs but higher cost of sales too.

Pursuing faster-growing areas of the UK and international markets

We are targeting higher growth areas; for example, clothing and footwear. We have worked with e-retailers to be more flexible about the dimensions of the parcels we handle.

We have expanded our relationships with retailers and network partners to maximise the opportunities developing from cross-border volume growth between the UK and Asia. For example, we are working with China Post to provide Chinese and UK customers with faster delivery and a tracked service.

GLS is performing well and is growing revenue organically and through acquisitions. Its deep expertise and focus on parcels positions it to be a force for growth for the Company. We will continue to invest in careful and focused international expansion by GLS.

As in the UK, B2C is the fastest growing segment in the European parcels market. GLS provides new points of synergy for our international business based in the UK. It also continues to develop its premium B2C delivery services. Launched in Germany in April 2016, GLS Sameday offers same-day evening deliveries in 11 cities, providing an attractive offering for online shoppers. We are able to leverage the deep expertise of GLS to help forge a presence in new areas, for example, our careful expansion in the US.

Adding value by improving our products and services

Improving the customer experience remains a key focus for us. This includes rolling out delivery confirmation for the majority of barcoded parcels. This informs the sender whether a parcel has been delivered, or returned to the Delivery Office.

We are the delivery partner of choice for the UK's SMEs. There are 5.4 million SMEs in the UK generating 47 per cent of total UK turnover (£1.8 trillion)⁵. We support the growth of SMEs through extended weekend collections. Local Collect remains the largest UK network of click and collect locations, with around 11,600 sites.

We have made it easier for customers to access our international services. We have built on our shipping solutions, using the cross-border capabilities of Intersoft. With Intersoft, we have developed our export solutions and now have the capability to offer tracked cross-border outbound and returns services to our larger customers.

In Europe, GLS recently expanded GLS-ONE in Germany. This is a portal to facilitate the sending and receiving of parcels. Consumers can create their own label to send a parcel and have it delivered to a specific address, parcel box or GLS ParcelShop.

Expanding and automating our networks

Our first parcel sorting machine is now in operation in Swindon. It can sort and scan around 10,000 small parcels per hour. Machines are currently being installed at Home Counties North, Greenford and Chelmsford Mail Centres. Subject to successful deployment of the first set of machines, further machines are planned to be installed over the next two years. We have worked closely with our unions on this.

We have a denser network of parcel access points for shipping, returns and collections than our competitors⁶. Sending customers can use approximately 11,500 Post Office branches and around 1,200 Royal Mail Customer Service Points to drop off pre-paid items for delivery within the UK. Over 250 Customer Service Points are now open on a Sunday, covering 38 per cent of all delivery points across the UK.

Parcelforce Worldwide, our express parcels business, has improved services for heavy and bulky parcels. Parcelforce has introduced two new next day services for contract customers. It has also extended the express48^{large} service for consumers. It builds on Parcelforce's position as a premium quality carrier within the courier express market.

The recent acquisition (June 2016) of ASM has significantly extended the GLS service offering in Spain, in particular, in the B2C segment, where growth rates are expected to be higher than B2B. GLS Spain now has a much bigger footprint both in terms of size and scale. ASM has exceeded performance expectations since acquisition. Given the potential synergies, the transaction is expected to be economic profit accretive for GLS in 2018-19.

GLS has also rolled out its ParcelLockers in four countries across Eastern Europe – the

⁴ Effigy Consulting: European Courier, Express and Parcel 2016 Market Summary of 2014-15 data.

⁵ National Federation of Self Employed & Small Businesses Limited.

⁶ Triangle Management Insights, 2015.

first parcel provider to do so. More than 70 terminals have been installed, offering consumers an easy to use and secure way of receiving their parcels. Other options include collecting parcels from a GLS ParcelShop or delivery within a certain time frame.

Defending letters

- **Rolling out collaborative projects with the advertising industry**
- **Continuing to win back and retain key contracts**
- **Coordinating an industry-wide response to tackle fraudulent mail at its source**

We are seeing the impact of overall business uncertainty in the UK on letter volumes, in particular on advertising and business letters. Marketing mail is sensitive to changes in economic activity. In 2016-17, our marketing mail revenue decreased by eight per cent, the same trend as at the half year. Other forms of advertising, particularly print media, have seen steeper declines. In 2016, there was an overall decline of 10 per cent in direct mail. Print advertising saw a 13 per cent decline in revenues⁷.

In March 2017, the price of a First Class stamp increased by 1p to 65p and the price of a Second Class stamp went up by 1p to 56p. These changes are needed to help ensure the sustainability of the Universal Postal Service. Royal Mail's stamp prices are amongst the best value in Europe. The UK has one of the highest quality of service specifications of any major European country.

From the Residential Postal Tracker 2016, Ofcom found that a large majority of residential customers said that they were satisfied with postal services overall in 2016. 82 per cent of respondents stated they were either 'very satisfied' or 'fairly satisfied' with Royal Mail's services⁸. In a previous report, the regulator also found postal services/delivery to be the only sector where customers' perceptions of value for money had increased from 2005 to 2015⁹.

Promoting the value of mail

This year, we launched and built upon a number of initiatives to add value to letters. We are working with mailing customers and access operators to incentivise customer mailings.

We have rolled out initiatives to mitigate the impact of e-substitution and business uncertainty on letter volumes and revenues. Through our MarketReach business, we are demonstrating the positive impact marketing mail can have on campaign results.

The Strategic Mailing Partnership™, a joint initiative with the mailing house industry, promotes mail through collaboration and working to resolve critical industry issues. It aims to improve overall efficiency and operational processes and to grow mail volumes.

We are winning business. For example, in 2016, we won a three-year contract to handle all London Boroughs' postal services. We also announced that we had been awarded a three-year framework to provide Scottish Public Bodies with postal services. The framework means that Royal Mail has become the supplier for Scottish Government, local authority and public body postal services.

Improving mail handling

We continue to transform our network with more automation of letter sorting and the reorganisation of delivery routes. We have increased letter sequencing to the final delivery point to 83 per cent. We plan to install more letter sorting machines and automation equipment for large letters. This is further increasing our efficiency.

Around 80 per cent of suitable letters now carry a Mailmark® barcode. This enables sending customers to track the delivery progress of mail more closely and ensures that we are accurately billing for the services we provide.

Cotswold Collections mails seven catalogues a year. Customers know the collections are unique so many orders are received within the first few hours after delivery. It is critical the business can respond to customer demand. Royal Mail's Mailmark® has helped Cotswold Collections improve its business management with accurate tracking. Mailmark® allows Cotswold Collections to know exactly when, where and how many catalogues are delivered each day. This ensures staffing is at peak efficiency, reducing costs and maximising customer satisfaction.

Tackling the scourge of scam mail

We understand the upset and distress that scam mail causes. This year, we worked with our employees, industry partners and law enforcement agencies to tackle this issue even more vigorously. A range of new measures were implemented to strengthen our ability to stem the flow of scam mail. We launched an industry-wide Code of Practice on scam

mail and secured all major UK mail operators' commitment to it. We changed the terms and conditions for retail customers. We can now check items we suspect to be scam mail, refuse to process or deliver them and terminate a customer's contract in certain circumstances. Since launching this new scheme, we have stopped over 700,000 suspect mail items from reaching customers.

Since November 2016, over 700,000 items of scam mail have been stopped from reaching customers.

Following the year end, we launched a major new initiative for customers who – we believe – are receiving high volumes of scam mail. We will block and impound scam mail at our major distribution centres before it reaches the customer's letterbox. Legitimate business and personal mail will continue to be delivered to the customer in the usual way. This latest anti-scam initiative will initially focus on the most impacted customers, with plans for it to be extended in the future.

Regulation

The USO is a key driver of UK economic growth. It is a key part of the digital economy – the physical fulfilment arm – and is crucial to the UK's economic future.

We note that Ofcom continues to find high levels of customer satisfaction and value for money with postal services. Ofcom has also recognised our progress on efficiency.

We are disappointed that Ofcom does not agree with us that there is a pressing need for a proactive framework to help sustain the Universal Service. There is a real need to ensure that the revenue pools that sustain the USO are underpinned. We need a proactive sustainability framework and a focus on removing regulation which restricts these vital revenue pools.

In a similar vein, we welcome the UK Government's focus on employment models, and in particular, the Taylor Review. We believe there is a public policy issue around fictitious self-employment and poor labour standards in the delivery sector. A level playing field is needed.

⁷ WARC expenditure report for 2016 calendar year.

⁸ Ofcom, Review of the Regulation of Royal Mail, 1 March 2017, Paragraph 3.17.

⁹ Ofcom, Consultation on Review of the Regulation of Royal Mail, 25 May 2016, Paragraph 4.12.

Growing in new areas

- **Acquisition of GSO and Postal Express¹⁰**
- **Developed customer-facing products and services that leverage our data and relationships**

We have made investments in projects to support growth. We are looking at areas where there is a market opportunity and the potential to make the most of our existing assets, experience and relationships.

We are an international parcels business, through both our UK and GLS operations. GLS has a very strong network. Together with network partners, it operates across 42 countries with different languages, labour models and regulatory environments. In addition, its expertise and focus on parcels positions GLS to be an accelerating force for growth for the whole Company.

In line with its strategy of targeted and focused geographic expansion, GLS acquired GSO in California. The area in which GSO operates has a GDP roughly equivalent to the UK. The region is experiencing faster GDP growth than both the UK and continental Europe. GSO is well-positioned to benefit from growth in intra-state deliveries within its existing geographic footprint. We expect GSO to perform in line with our expectations in the first full year of its ownership by the Group. The transaction is expected to be profit accretive for GLS in 2019-20.

In April 2017, we announced the acquisition of the US overnight parcel delivery company, Postal Express. Postal Express is a regional overnight carrier operating in the states of Washington, Oregon, and Idaho. It offers overnight parcel delivery, mainly to B2B customers, across a number of industries.

Our corporate strategy is in part enabled by our focus on becoming a digital organisation. We are becoming more digitally-enabled internally as well as in our interactions with customers and consumers. We are trialling a number of initiatives as part of our customer-facing digitisation. This approach is supported by a more resilient IT backbone as a result of our major IT transformation programme. We have also developed apps such as LovetoPost, enabling customers to turn photographs into personalised postcards. In 2016-17, we saw a 60 per cent increase in consumers visiting our website using smartphones. This leaves us well placed for the continued growth in the use of mobile devices to purchase delivery services.

¹⁰ Postal Express was acquired after the financial year end.

Strategic focus on costs

- **Achieved our cost reduction targets for three consecutive years**
- **Delivered productivity improvement of 2.7 per cent in 2016-17, at the higher end of our target range**
- **Cost avoidance programme on track, with £225 million of costs avoided in 2016-17**
- **Reducing the number of managerial layers**

We are transforming our UK network at an absorbable rate of change. UKPIL adjusted operating costs before transformation costs reduced by one per cent. This is the third year we have been able to deliver underlying cost reduction in UKPIL.

The USO and the regulated quality of service standards require a large fixed cost base in order to be able to deliver our obligations. While we are proud to be the Universal Service Provider, it is expensive to deliver. In addition, our workforce has the best pay and terms and conditions in the industry. Almost 70 per cent of our UKPIL costs are in relation to people and their benefits.

UKPIL collections, processing and delivery productivity increased by 2.7 per cent. This is at the better end of our target range of a 2.0-3.0 per cent improvement per annum. This improvement in productivity was achieved through a 1.9 per cent reduction in core network hours, despite an increase in workload.

We know that becoming more efficient has a human face. Over the last four years, we have seen a net reduction of around 12,000 UKPIL employees. We continue to reduce the number of managerial layers – which reduces costs and streamlines our decision making. We work closely with our unions to ensure our people exiting the business do so with dignity and respect.

Non-people costs have reduced in real terms by 15 per cent over the last four years. We continue to reduce the number of our facilities while ensuring we have – by some distance – the most accessible and convenient Delivery Office network in the UK.

We are targeting to avoid around £600 million of annualised operating costs by 2017-18¹¹. More significant cost reduction will need further modernisation of our processes and more streamlined structures. We are also facing the impact of wage inflation and increases due to employment legislation. In non-people costs, we are facing headwinds

¹¹ Cumulative over financial years 2015-16, 2016-17 and 2017-18.

from increasing cost of sales associated with tracked parcels and export parcels growth and higher depreciation.

Technology and innovation

- **Completed roll-out of our new PDA technology in our core network**
- **Introduced new functionality to our online postage service Click & Drop**
- **Launched our new self-service solution, Labels to Go**

We have invested a significant amount in technology over the past five years. Some key technological builds had to be put in place before we could proceed. This investment is making us a better, safer and more cost effective operation. The rollout of our new PDA technology is now complete in our core network. This is one of the largest estates of its kind in Europe.

Our PDAs significantly increase our scanning capability. They give us more interfaces with our customers, expanding the number of interactions they have with their parcels. Our postmen and women handle over one billion parcels and nearly 15 billion letters every year.

Our shipping tools – Storefeeder, for example – connect retail customers and give us the ability to dynamically capture the choices for end customers. We introduced new functionality to Click & Drop. We are leading the way by providing account customers with free access to our multi-channel despatch management tool. Marketplace traders can now use our software to integrate with the marketplace and print off their barcoded shipping labels.

We have developed digital capabilities to enhance customer convenience. In April 2017, we launched our new self-service solution, Labels to Go. Customers

Click&Drop®

What is Click & Drop?

Our Click & Drop service integrates data from online shopping platforms (e.g. eBay, Amazon) to make it quicker and easier to buy postage and print address labels online. Individuals, marketplace sellers and businesses can manage all their sending needs. Customers can pay by PayPal, credit card or via their Royal Mail Online Business Account. Account features include multi-marketplace integration and the ability for customers to print up to 100 labels in one transaction.

buying postage online can now print off delivery and return labels from their mobile phones at the majority of our 1,200 Customer Service Points.

Telemetry lowers maintenance costs due to improved driving styles. The more telemetry we have, the better our driver behaviour and safety should be. It is more cost effective if we know where our vehicles are and we are better able to get paid fairly for what we do.

Our workforce

- **Exceeded our full year regulatory First Class target of 93.0 per cent**
- **Mean business satisfaction score increased to 78**

As one of the largest employers in the UK, we are proud to provide the best pay and terms and conditions in our sector. We remain committed to high quality employment in a very competitive industry.

We know how important pensions are to our people. Our focus is on continuing to provide the best retirement benefits in the industry. We were sorry to have to conclude that the Royal Mail Pension Plan (RMPP) is not affordable in its current form. The RMPP was closed to new employees joining the Group from 1 April 2008. The RMPP is currently in surplus¹² but we expect this surplus would run out in 2018 if members continued to build up benefits on the current defined benefit pension basis. The Company's contributions would then increase to £1.15 billion a year. We could not increase the cash contribution without materially reducing the necessary investment in the UKPIL business. We set out our proposal for the RMPP's future after March 2018, for consultation with all active members. We are committed to not making any changes before April 2018.

The consultation closed on 10 March 2017. We have concluded that there is no affordable solution to keeping the RMPP open in its current form. Therefore, the Company has come to the decision that the RMPP will close to future accrual on 31 March 2018. We continue to work closely with our unions on a sustainable and affordable solution for the provision of future pension benefits. We will write to RMPP members once further decisions have been made.

Our people are at the heart of everything we do. Our mean business customer satisfaction score – across large and medium sized businesses and SMEs – increased from 76 to 78. Royal Mail is committed to delivering a high Quality of Service.

We are pleased to report that we exceeded our full year regulatory First Class target of 93.0 per cent, with 93.1 per cent of mail delivered the next day. We again exceeded our Second class target of 98.5 per cent, with a performance of 98.9 per cent.

We were disappointed to see an increase in the overall number of complaints. This is against the backdrop of an increase in customer text and email delivery notifications as the number of tracked parcels we handle continues to increase. Customers have increased visibility over whether their parcel has been delivered or an attempt has been made to deliver it, which can lead to an increase in complaints.

Royal Mail takes complaints seriously and we have a consistent approach to tackling any issues. We continue to highlight business standards and key procedures to tackle denial of receipt through the use of 'With your Neighbour' cards and correct doorstep scanning. Our focus on tackling issues as quickly as possible contributed to an improvement in two out of our five main complaint categories¹³.

Delivery to home remains the most popular way to receive a parcel. Around 81 per cent of customers prefer delivery to home over other options¹⁴.

Outlook

These results demonstrate that as a business we can respond to our challenging operating environment and continue to focus on sustainable cash generation.

Royal Mail operates internationally and in many markets with different dynamics.

In the UK, IT-enabled innovation has improved our parcel offering, such that we expect to be able to keep in step with the addressable UK parcels market growth of around three per cent. Pricing remains constrained due to the highly competitive market but parcel revenue should benefit from improvements in mix.

We maintain our outlook for addressed letter volume declines of between four to six per cent per annum (excluding the impact of political parties' election mailings) over the medium term but would expect to be at the higher end of the range of decline in 2017-18 if the current climate of business uncertainty persists. We continue to focus on costs and remain on track to avoid around £600 million of annualised operating costs in UKPIL by 2017-18.

GLS has consistently performed well since IPO, growing revenue on an organic basis as well as through acquisitions. It now contributes nearly a third of adjusted Group operating profit. We will continue to invest in GLS' careful and focused international expansion to help drive growth for the Group.

We now expect net cash investment of around £450 million in 2017-18 and less than £500 million per annum going forward. Through a combination of our strategic approach to costs and more efficient investment spend, we will support our progressive dividend policy with the in-year trading cash flow generation of the Group.

Thank you

The 500th anniversary of the postal service was all about our people – they are the ones who have sustained our continued important role over the centuries in the UK. Simply put, they are our Company. We will continue to focus on delivering our key mission: connecting companies, customers and communities and making e-commerce happen.

Moya Greene
Chief Executive Officer
17 May 2017

¹² On an actuarial funding basis using 2015 valuation assumptions.

¹³ Redirections and misdeliveries.

¹⁴ IMRG UK Consumer Home Delivery Review 2016.

Market overview

As the Universal Service Provider, Royal Mail plays a vital role in the UK economy. We enable the continued growth of e-commerce through the Universal Service network and play a key part in the digital economy. The Universal Service provides depth of coverage, value for money and convenience for businesses wherever they are based in the UK¹. But, we operate within an increasingly dynamic market. Intense competition in parcels and ongoing structural decline in letters makes the postal sector very challenging. To compete effectively, we need to continue to invest to meet fast changing customer expectations.

UK parcels market

E-commerce continues to drive parcel volume growth. It is estimated that online retail made up 14.8 per cent of all retail sales in 2016. This is the highest it has ever been². UK customers spend more online per head than consumers in any other major market, including the US and China.

The UK is one of Europe's most competitive parcels markets, with 15 major players. We estimate that the blended UK parcels market^{3,4} is growing by around four per cent a year⁵. The structure and behaviour of the parcels market continues to be influenced by the rapid expansion of Amazon and its logistics innovations. At the same time, parcel carriers continue to invest in new capacity. Traditional retailers are improving their in-house collection and delivery services. For example, Sainsbury's recently completed its £1.4 billion acquisition of Argos. We expect that competition will continue to intensify, driven by retailers' investment in delivery options, logistics and technology to support the growth of their online sales.

There is also an emerging threat from on-demand delivery platforms that speed up the way goods are transported in urban areas. Innovative logistics companies are starting to roll out parcel delivery services beyond trial stage in the US and Europe. They typically connect retail stores with local 'individual' couriers, enabling fast and flexible deliveries.

Growth areas

The rapid pace of change in the UK parcels market is expected to continue, due to low barriers to entry, greater disintermediation and disruptive business models. Next day parcels now account for 56 per cent of domestic volumes⁶. Next day delivery is increasingly becoming a standard, rather than a premium delivery service for online retailers.

Online retail growth continues to be driven by advances in fulfilment, easier returns, new technology and ease of shopping. Clothing and footwear is the fastest growing sector online. It is also driving returns of online purchases, which are forecast to reach £5.7 billion in 2021⁷.

In 2016, the extension of Black Friday promotions for a week or longer was a big draw for the UK's increasingly value-driven consumers. A new online peak trading pattern is emerging, characterised by the Black Friday week in November and the run up to Christmas.

Home delivery remains the preferred delivery option for 81 per cent of consumers⁸. Nevertheless, click and collect is now

becoming established as an alternative delivery option, particularly during peak periods, whether in the retailer's own stores or through third-party parcel shops and lockers.

Consumers are increasingly shopping at a time and place which suits them. Mobile commerce (M-commerce) is making it easier than ever for people to shop on the internet. In December 2016, just over half of all visits to e-commerce websites were from mobile devices⁹. This is the first time that mobile (including tablet) has overtaken desktop as the primary channel through which consumers engaged with retailers. It is a trend that is likely to continue as retailers invest more in their mobile websites and connectivity improves.

UK letters market

The UK's letters market is significantly more competitive than people think. E-substitution is a potent form of competition. 82 per cent of adults use the internet on a daily basis, up from around 35 per cent in 2006¹⁰. Addressed letter volumes have declined by 22 per cent over the last five years. Total letter revenue has fallen two per cent over the same period.

We are seeing the impact of overall business uncertainty in the UK on letter volumes, in particular, advertising and business letters. Television, print and mail advertising declined in 2016, with advertisers delaying or substituting investment decisions and shifting from traditional to digital forms of advertising. Advertising mail has fallen from 16 per cent to eight per cent (a c.50 per cent reduction) of total advertising spend since 2001. Digital advertising represented almost half (47 per cent) of all advertising spend in 2016.

In letters, the 'Access' market is, by some distance, the biggest in Europe. Access competition is where a postal operator other than Royal Mail collects mail from the customer, sorts it and then transports it to our Mail Centres for us to deliver. This enables other operators to offer postal services to larger business customers for letters and large letters without setting up a delivery network. Access operators now account for nearly 60 per cent of addressed inland letters in the nation's postbag. In other EU markets, no more than 11 per cent of upstream letters volumes are handled by Access operators.

International parcels

E-retail is also fuelling growth in cross-border parcels. In 2016, European B2C e-commerce grew 12 per cent to €510 billion, with 42 billion

¹ Triangle Management Insights, 2015.

² GlobalData, 2017.

³ Internal estimate based on Triangle Management Services/RMG Fulfilment Market Measure (2015); 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.

⁴ Includes Amazon Logistics and other retailers own-delivery networks.

⁵ Based on Verdict UK E-retail survey and RMG market insight.

⁶ Ofcom Annual Monitoring Update 2015-16.

⁷ GlobalData etail, April 2017.

⁸ IMRG UK Consumer Home Delivery Review 2016.

⁹ IMRG Capgemini Sales Index Report, January 2017.

¹⁰ ONS: Internet Access-Households and Individuals, 2016.

parcels sent annually¹¹. This growth is uneven across Europe, due to varying economic performance and e-commerce adoption. The largest B2C parcels markets outside the UK are Germany, France and Italy.

We are seeing an increasingly competitive environment, with operators providing innovative, high quality services at lower prices. Consumers expect a seamless cross-border delivery and returns experience¹². For example, in the UK, there are a range of major national operators that deliver cross-border services, alongside hundreds of smaller operators looking to increase market share.

A recent Royal Mail study into the international ambitions of small UK e-retailers found that 35 per cent of small businesses think Europe holds the most potential to generate new sales for their business. 28 per cent think the USA and North America are the most promising markets.

Outside the EU, Chinese e-commerce marketplaces Tmall and AliExpress are strengthening international cross-border services. Alibaba has reported that the value of goods sold on its marketplace on Singles' Day (11 November) rose 32 per cent to almost \$18 billion, compared with \$14 billion last year. Launched in 2009, Singles' Day now runs every 11 November, and has become the biggest global shopping event.

¹¹ E-commerce European B2C Report 2016.

¹² IPC cross-border e-commerce shopper survey 2016.

UK leading in e-commerce



E-commerce accounted for

14.8% of all retail trade in 2016, the highest ever¹³.

¹³ GlobalData, 2017.

Black Friday/Cyber Week



£25 billion

is estimated to have been spent in internet sales between 13th November and 24th December 2016¹⁴.

¹⁴ IMRG 2016.

M-commerce



Mobile devices continue to account for a growing share of e-commerce activity¹⁵.

¹⁵ IMRG Capgemini Sales Index Report, January 2017.

Delivery matters



81%

of online shoppers prefer to have items delivered to their home¹⁶.

¹⁶ IMRG UK Consumer Home Delivery Review 2016.

Our business model

We have a clear vision to be recognised as the best delivery company in the UK and across Europe. Our business model leverages our resources and relationships (for example, our networks, our people and brand) to deliver high-quality, value for money services for sending and receiving customers. We benefit when we deliver letters and parcels together. But the network is expensive to run, particularly against the backdrop of a continuing decline in letter revenues. Parcelforce Worldwide, our express delivery business, provides more parcel fulfilment options – particularly for UK business customers. Our core UK network is unparalleled in size and scope. Our European business, GLS, provides geographical diversification of our earnings and is well positioned to grow in new markets. Through this, we generate cash to reinvest appropriately in our core business, invest in new growth areas and pay dividends to our shareholders.

Operating through our resources and relationships



Our networks

Our role as the Universal Service Provider means Royal Mail has the capability to deliver to every address across the UK. Through our long-term relationship with the Post Office, we have the largest retail network for parcels and letters. With Local Collect, the UK's largest click and collect network, customers can now collect their parcels from 11,600 sites – by far the largest network. Parcelforce Worldwide provides additional fulfilment options, providing premium parcel services within the courier express market.

GLS, one of the largest European ground-based delivery networks, offers reliable, high-quality parcel services, complemented by logistics and express services. The GLS network covers 41 European countries and nation states through a combination of wholly-owned companies and partner companies. The GLS footprint was expanded this year. In Europe, GLS acquired ASM in Spain. As part of its careful and focused expansion outside Europe, GLS acquired the regional next day parcel delivery companies GSO in California and Postal Express¹ in the states of Washington, Oregon, and Idaho. GLS is well positioned to support Royal Mail Group's overall strategy.



Our people

As one of the largest employers in the UK, we are proud to provide the best pay and terms and conditions in our industry. One in every 185 jobs in the UK is provided by Royal Mail. We were pleased to have been named in the *Times Top 50 Employers for Women* for the fourth consecutive year for our commitment to gender equality in the workplace.



Our customers and our brand

We deliver to around 30 million business and consumer addresses. Around 80 per cent of addresses are within one kilometre of a Royal Mail parcel access point. GLS has more than 270,000 customers across Europe.

Research we commissioned found that 79 per cent of online shoppers say they trust Royal Mail, compared to 64 per cent for the nearest competitor². Royal Mail ranked second globally in our industry in the Dow Jones Sustainability Indices. We are also a constituent of the FTSE4Good Index, ranking in the top 15 per cent of companies.



Investment in our business

We will continue to invest in our core network, although we are now past the peak of investment. Over the last five years, we have made significant investments to support growth and to replace and replenish our assets. Now that some of the larger projects – rebuilding our legacy IT systems and resizing the core network – are largely complete, we have reduced our investment spend. In 2016-17, we invested a net £492 million, predominantly in the UK, and focused on growth.

¹ Postal Express was acquired after the financial year end.

² Royal Mail Delivery Matters 2015, page 21.

How we create value

Continually improving our efficiency and productivity allows us to be more competitive. This helps us to **meet changing customer expectations**. This means we are better positioned to 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 fair terms and conditions to ensure we continue to employ **engaged and motivated people**. This is the best way of delivering sustainable shareholder value.

Continually improving efficiency

- Adopting a strategic approach to costs and efficiency
- Delivering efficiency improvements and meeting productivity targets
- Improving the efficiency of our logistics network; promoting more efficient driving using telemetry technology
- Streamlining processes in areas, including central functions

Meeting changing customer expectations

- Increasing the number of parcels we barcode and scan
- Opened over 250 of our busiest Customer Service Points on Sundays, covering over one-third of UK addresses
- Drop off pre-paid items for delivery at around 1,200 Customer Service Points
- Demonstrating the value of letters through initiatives such as the Strategic Mailing Partnership™

Maintaining financial flexibility

- Harvesting the benefits of the technology rebuild
- Investing in new areas to support growth. This includes the careful and focused expansion of GLS outside Europe. It is strategically important to the Group
- More efficient investment spend
- Investing in GLS which delivers higher returns than our core business

Engaged, motivated people

- Continuing to offer the best pay and terms and conditions in the industry
- Our employees have a meaningful stake in the Company through the Free Share offers
- In total, each eligible full-time employee, with the full allocation of 913 free shares, has received over £500 (before tax) in dividends since privatisation

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 have maintained our pre-eminent position by pursuing faster growing parts of the UK parcels market while making it easier for consumers, SMEs and marketplace sellers to use Royal Mail services. Our investments in tracking and automation have been key to maintaining our position. Through our significantly enhanced IT, we have the ability to offer any retail account customer a tracked service.

Key initiatives:

- Delivery confirmation on all barcoded standard parcels
- Automated parcels sortation enables us to process small parcels more quickly
- Growing tracked and return volumes through initiatives and service improvements
- Working with China Post to provide Chinese and UK customers with faster delivery and tracking services
- Expanding GLS-ONE in Germany, enabling customers to create their own labels and choose delivery to a specific address, parcel box or GLS ParcelShop. GLS Sameday offered in 11 cities
- Acquisition of the Spanish express parcels delivery company, ASM

Defending letters

Letters are very important to our business. They account for almost 60 per cent of our UK revenue. We continually seek to add value to mail and increase the efficiency and effectiveness of our operation.

Key initiatives:

- The Strategic Mailing Partnership™, a joint initiative with the mailing house industry, to improve overall efficiency and operational processes
- Establishment of new collaborative projects with the advertising industry to raise the profile of marketing mail
- Working with advertising agencies to sell direct mail alongside other media as part of integrated advertising plans
- Giving customers incentives to use direct and advertising mail at a discount rate
- Completing the roll-out of software upgrades to letters and large letters sortation equipment

Growing in new areas

We are making the most of our existing assets and increasing our capability through carefully selected investments. We want to develop a broader revenue base and grow in the UK and overseas. GLS is well positioned to grow in new markets and to support the Group's careful and focused geographic expansion. We are also increasing our digital capabilities across the Group, particularly in e-commerce.

Key initiatives:

- Acquisitions of GSO and Postal Express¹, leading regional next-day parcel delivery companies, operating principally on the US west coast
- Expanding our relationships with retailers and network partners to stimulate cross-border volumes between the UK and Asia
- Developing consumer-facing products and services that leverage our data, brand and relationships
- Continuing to roll-out our UK fleet maintenance services to other businesses, employees, friends and family

¹ Postal Express was acquired after the financial year end.

Enabling our strategic priorities

Strategic focus on costs

The highly competitive UK parcels market, coupled with the ongoing structural decline in letters, has resulted in increased revenue pressures for the Group. Being more efficient and controlling our costs means we can become more competitive, win and retain more business and continue to provide the best employment terms and conditions in the industry.

Key initiatives:

- Improving the efficiency of our logistics network, through the use of telemetry
- Continuing to progress efficiency opportunities to use shared delivery resources for the collection of mail from low volume postboxes
- Delaying management structures
- Reducing road and air routes
- Reducing the number of facilities while ensuring we have the most accessible Delivery Office network in the UK
- Bringing down costs in central functions

Technology and innovation

We are harvesting the benefits of investments in our technology backbone to support our strategic priorities to win in parcels, defend letters and grow in new areas. We are working with partners to provide delivery management software for international parcel shipments, better data management and improved labelling capabilities. We continue to deploy technology to drive efficiency and increase the pace of change through our operation.

Key initiatives:

- Completed national roll-out of our new PDA technology in our core network
- Introduced new functionality to our online postage service Click & Drop, making it quicker and easier to buy online postage and print address labels
- Developing international shipping solutions using the cross-border capabilities of our acquisition, Intersoft
- Customers can print delivery and return labels from their mobile phones at Customer Service Points
- More than eight billion items have now been sent with Mailmark®

An engaged and motivated workforce

Our employees drive the continued success of Royal Mail Group. We believe good employment conditions drive quality of service. Our permanent employees are paid above the Living Wage, which, in turn, is above the legal minimum set by the Government. They also receive the additional benefits associated with permanent employment, such as National Insurance contributions, paid holidays and a good pension. This is underpinned by a proactive relationship with the unions and a strategic focus on efficiency in our operations.

Key initiatives:

- Introduced My Bundle, home of the total reward statement, which includes our employees' flexible benefits range
- Initiatives to support women who want to progress their careers, including our Springboard programme
- More than 70,000 of our people took part in the 'Big Conversation' to identify areas that will make Royal Mail a better place to work
- Making it easier for our employees to find out what is going on in the business through our Royal Mail app, available on all Royal Mail and personal devices

Key performance indicators

The 2016-17 Corporate Balanced Scorecard has been simplified this year to include 10 equal measures, all weighted at 10 per cent. The 10 measures alongside the relevant key performance indicators (KPIs) are set out below.

Further details relating to the link between our KPIs and Executive Remuneration, and the Corporate Balanced Scorecard for 2017-18, can be found in the Directors' Remuneration Report on page 66.

Key

Link to strategy



Winning in parcels



Defending letters








Growing in new areas

	Target/stretch	Threshold	Below threshold
KPI and strategic link(s)	Measured by	Key activities and achievements in the year	Performance against target
Reduction in road traffic collisions (%) 	Reduction in road traffic collisions per 1,000 vehicles ¹ .	<ul style="list-style-type: none"> This year, we reduced our reported road traffic collisions by 12.3 per cent Maintained our Lost Time Accident Frequency Rate (LTAFR) of 0.49 	2016-17 Actual: 12.3% <hr/> 2015-16: not a KPI 2014-15: not a KPI
Employee engagement (score) 	Average score from the Ipsos MORI annual employee opinion survey measuring involvement, alignment and loyalty of colleagues through a number of employee engagement questions.	<ul style="list-style-type: none"> We maintained our employee engagement score of 57 Engaged more than 70,000 colleagues in the Big Conversation Over 10,000 colleagues participated in our Operations Fundraising Challenge 	2016-17 Actual: 57 <hr/> 2015-16: 57 (above target) 2014-15: 56 (above target)
First Class Retail 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 ² .	<ul style="list-style-type: none"> We exceeded the 93.0 per cent First Class mail target Exceeded 98.5 per cent Second Class mail target 	2016-17 Actual: 93.2% <hr/> 2015-16: 92.6% (threshold) 2014-15: 93.1% (above target)
Mean business customer satisfaction (score) 	Results from the customer satisfaction survey completed by business customers.	<ul style="list-style-type: none"> We improved our levels of satisfaction amongst our business customers Improvements in first time delivery rates through Delivery to Neighbour, Safe Place and Work Time Listening and Learning sessions 	2016-17 Actual: 78 <hr/> 2015-16: 76 (above threshold) 2014-15: 76 (stretch)
Customer complaints ('000) 	Number of complaints (not claims) opened by our Customer Service team.	<ul style="list-style-type: none"> There was an overall increase in complaints in 2016-17, driven principally by the growth in tracked parcels. We achieved a reduction in two out of our five major categories (redirections and misdeliveries) 	2016-17 Actual: 517 <hr/> 2015-16: 476 (below threshold) 2014-15: 453 (above target)

¹ Added to Corporate Balanced Scorecard in 2016-17.

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

KPI and strategic link(s)	Measured by	Key activities and achievements 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) and Regional Distribution Centres.	<ul style="list-style-type: none"> An improvement in productivity was achieved through a reduction in frontline hours despite an increase in workload 	2016-17 Actual: 2.7% 2015-16: 2.4% (above target) 2014-15: 2.5% (above target)
UKPIL costs (£m)^{3,4} 	Adjusted operating costs for UKPIL.	<ul style="list-style-type: none"> Total UKPIL costs reduced by one per cent 	2016-17 Actual: £7,082m 2015-16: not a KPI 2014-15: not a KPI
Group revenue (£m)⁴ 	Group revenue adjusted for budgeted foreign exchange rate and the impact of GLS acquisitions.	<ul style="list-style-type: none"> Group revenue was up one per cent Revenue growth in GLS more than offset a decline in UKPIL revenue 	2016-17 Actual: £9,455m 2015-16: £9,191m ⁵ (above target) 2014-15: £9,556m ⁵ (above threshold)
Group operating profit before transformation costs (£m)⁴ 	Adjusted Group operating profit before transformation costs, adjusted for budgeted foreign exchange rate and the impact of GLS acquisitions.	<ul style="list-style-type: none"> Adjusted Group operating profit before transformation costs decreased 	2016-17 Actual: £701m 2015-16: £738m ⁵ (above target) 2014-15: £620m ⁵ (target)
In-year trading cash flow (£m) 	In-year trading cash flow before cash flows relating to London development property portfolio.	In-year trading cash flow was £420 million	2016-17 Actual: £420m 2015-16: not a KPI 2014-15: not a KPI

³ Added to Corporate Balanced Scorecard in 2016-17.

⁴ Reported results are adjusted to reflect a constant foreign exchange rate of £1/€1.3 in GLS. Adjustments are also made to remove the impact of GLS acquisitions in the year and the underlying impact of weaker £ Sterling in UKPIL.

⁵ Prior year results are on a reported basis, adjusted for budgeted foreign exchange rate.

Adding value and convenient services

What we have done...



Improved tracked and return volumes through initiatives and service improvements



GLS SameDay offering same day evening deliveries in 11 cities



Launched Labels to Go



Completed PDA roll-out in our core network

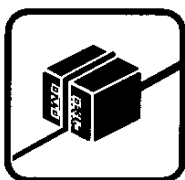


Delivery confirmation available on all barcoded parcels

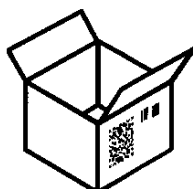


Improved service and systems for international shipments

What's in our plan...



Parcels automation live and rolling-out to further sites



Increasing the number of parcels we track



Careful and focused geographic expansion through GLS



Expanding our relationships with retailers and network partners to stimulate cross-border volumes between the UK and Asia

Financial review

Reported results and Alternative Performance Measures (APMs)

Reported results are prepared in accordance with International Financial Reporting Standards (IFRS).

In addition to reported results, the Group's performance in this Financial Review and throughout this Annual Report and Financial Statements is also explained through the use of APMs that are not defined under IFRS. These APMs relate to adjusted results and movements on an underlying basis. Management are of the view that these measures provide a more meaningful basis on which to analyse business performance and are consistent with the way that financial performance is measured by Management and reported to the Board.

These APMs are explained in detail on pages 33 to 36 and include reconciliations to the closest measure prescribed under IFRS where appropriate. The analysis of underlying movements in adjusted results is set out at the end of the Financial Review. Following the publication of an amendment to IAS 1, the Group no longer shows non-IFRS adjustments on the face of its income statement.

UK Parcels, International & Letters (UKPIL)

Summary trading results (£m)	Adjusted 52 weeks ended 26 March 2017	Re-presented ¹ 52 weeks ended 27 March 2016	Underlying change
Letters and other revenue	3,234	3,299	(3%)
Marketing mail	1,087	1,176	(8%)
Total letters	4,321	4,475	(5%)
Parcels	3,337	3,196	3%
Revenue ²	7,658	7,671	(2%)
Operating costs before transformation costs	(7,110)	(7,046)	(1%)
Operating profit before transformation costs	548	625	(11%)
Transformation costs	(137)	(191)	
Operating profit after transformation costs	411	434	(4%)
Margin	5.4%	5.7%	(10bps)
Volumes (m)			
Letters			
Addressed letters	11,922	12,563	(6%)
Unaddressed letters	2,934	2,993	(3%)
Parcels			
Core network	1,073	1,034	3%
Parcelforce Worldwide	96	96	(1%)
Total	1,169	1,130	3%

Reported results

UKPIL revenue decreased to £7,658 million (2015-16: £7,671 million). Operating costs before transformation costs increased to £7,332 million (2015-16: £7,303 million). UKPIL operating profit before transformation costs decreased to £326 million (2015-16: £368 million) and operating profit after transformation costs increased to £189 million (2015-16: £177 million).

Adjusted results

UKPIL revenue declined by two per cent, with parcel revenue up three per cent and total letter revenue down five per cent. Weaker Sterling had a positive impact of £28 million on UKPIL revenue. This has been excluded from underlying movements.

Total parcel volumes increased by three per cent, with growth largely driven by Royal Mail account parcels. Account parcel volumes, excluding Amazon, grew by four per cent. In the consumer channel, we saw improving trends in volume and revenue. The weakening of Sterling has impacted our international parcel volumes. The rate of growth of import volumes slowed compared to last year. We undertook a number

¹ Following the Group's acquisition of the remaining 49 per cent shareholding in Romec Limited (Romec) at the beginning of 2016-17, Romec has been consolidated into the UKPIL segment (previously the Group's 51 per cent shareholding was reported within 'Other' segment). The 2015-16 UKPIL results have been re-presented to reflect this change.

² Stamped, metered and other prepaid revenue channels are subject to statistical sampling surveys to derive the revenue relating to parcels, marketing mail and letters. These surveys are subject to continuous refinement, which may over time reallocate revenue between the products above, and which may occasionally lead to a consequent change to this estimate.

of initiatives, including working to improve the UK delivery service with China Post which improved import AURs and revenue. Export volumes declined for the year overall but grew in the second half. Total parcel revenue was up three per cent.

Addressed letter volumes declined by six per cent (excluding the impact of political parties' election mailings), at the higher end of our forecast range of decline of four to six per cent per annum. This reflected the levels of business uncertainty following the EU Referendum and a strong prior year which saw a one-off return of direct delivery volumes. Total letter revenue (including marketing mail) decreased by five per cent reflecting the impact of low inflation on pricing and declines in volumes across all main letter products.

The methodology used to estimate the value of marketing mail revenue was refined during the year. The prior year estimate for marketing mail revenue has been re-presented to reflect the change in methodology resulting in a reallocation of £18 million of revenue from 'Letters and other' to 'Marketing mail' revenue.

Marketing mail revenue, which includes our data businesses, declined by eight per cent. There was a slowdown in marketing activity over the year reflecting a softening in economic conditions. Low AUR unaddressed letter volumes were down three per cent.

Revenue from election mailings relating to the EU Referendum was in line with that in the prior year relating to the 2015 General Election. We are expecting revenue from election mailings relating to the General Election called for June 2017. Given the short run-up, it is likely to be lower than in 2016-17.

UKPIL's performance in the first half of 2017-18 will be impacted by the phasing of performance over the prior year. In particular, letters performance in the first quarter of 2017-18 may look relatively weak given the strong comparative quarter last year (Q1 2016-17: Addressed letter volume two per cent decline).

Operating costs before transformation costs

(£m)	Adjusted 52 weeks ended 26 March 2017	Re-presented ¹ 52 weeks ended 27 March 2016	Underlying change
People costs	(4,865)	(4,841)	(1%)
Non-people costs	(2,245)	(2,205)	Flat
Distribution and conveyance costs	(828)	(776)	1%
Infrastructure costs	(740)	(749)	(1%)
Other operating costs	(677)	(680)	Flat
Total	(7,110)	(7,046)	(1%)

Total adjusted operating costs before transformation costs were down one per cent on an underlying basis, reflecting a better performance in the second half. Our cost avoidance programme in UKPIL delivered £225 million costs avoided in the year, comprising people costs of £132 million and non-people costs of £93 million. We have delivered benefits across a number of initiatives during the year, including reducing layers in our management structures within operations, better vehicle utilisation, transformation of our IT infrastructure and lower property costs.

As previously disclosed, as a result of the new single-tier state pension scheme introduced in April 2016, the Group saw an increase in its employer National Insurance contributions for employees participating in the RMPP of £65 million in the year. This has been excluded from underlying movements.

People costs declined by one per cent, largely driven by a 2.7 per cent improvement in collections, processing and delivery productivity in the core network. This more than offset pay increases, largely the 1.6 per cent frontline pay award. The improvement in productivity was achieved through a 1.9 per cent reduction in core network hours, coupled with the absorption of a higher workload. The higher workload was driven by an increase in tracked products which more than offset the impact of declining letter volumes. We continue to target annual productivity improvements of 2.0-3.0 per cent per annum.

As previously disclosed, wage legislation such as the Working Time Directive, Apprentice Levy and increased costs relating to redundancy payments will impact people costs in the future. The impact of the Apprentice Levy for 2017-18 is expected to be around £20 million. We would expect to exclude the first year impact of such legislative changes from underlying movements if material.

Non-people costs were flat. Distribution and conveyance costs increased by one per cent, driven by increases in the cost of sales related to the international business. Terminal dues increased by £62 million, of which £37 million reflects weaker Sterling and has been excluded from underlying movements. The remaining £25 million of the increase reflects the mix of export parcels revenue. This trend is expected to continue next year. In addition, we have seen increased costs associated with handling tracked volumes and larger parcels and we expect this to continue. Total diesel and jet fuel costs of £159 million were £13 million lower than the prior year due to lower pricing and improved fleet management. We expect diesel and jet fuel costs to be around £140 million in 2017-18.

Infrastructure costs were down one per cent with benefits from our cost avoidance programme more than offsetting the increase in depreciation and amortisation of around £20 million, due to parcels systems and tracking investments coming into use. Within infrastructure costs, the cost avoidance programme has delivered benefits in property through the integration of Romec, IT transformation and lower discretionary spend across the entire estate. Over the past five years, we have invested significantly in IT and other assets as part of the transformation programme. As a result, the depreciation and amortisation charge is expected to increase by a further £30 million in 2017-18 but should stabilise thereafter.

Other operating costs were flat, with the increased cost of marketing and other spend in our new business areas being offset by activity within the cost avoidance programme, including lower discretionary spend.

We remain on track to avoid annualised operating costs of around £600 million by 2017-18. However, there remain cost pressures, in particular, the next pay deal and increased depreciation.

Transformation costs

(£m)	Adjusted 52 weeks ended 26 March 2017	Adjusted 52 weeks ended 27 March 2016
Voluntary redundancy	(62)	(117)
Project costs	(75)	(72)
Business transformation payments	–	(2)
Total	(137)	(191)

Transformation costs were £137 million, at the lower end of our range of £130 to £160 million due to a change in mix of activity within the cost avoidance programme. There was a net decrease of around 730 employees in UKPIL in the year. However, there was a reduction of around 3,500 full time equivalent employees (FTEs)³ to 148,170 FTEs reflecting a change in the mix of full-time and part-time employees and a reduction in variable hours. Project costs were £75 million, largely relating to projects supporting the cost avoidance programme.

We expect transformation costs to be in the range £130 to £150 million per annum going forward.

Operating profit after transformation costs

Adjusted operating profit after transformation costs was £411 million, giving a margin of 5.4 per cent, down 10 basis points on an underlying basis.

³ Full time equivalent (FTE) numbers relate to the total number of paid hours (including part-time, full-time and agency hours) divided by the standard full-time working hours in the same period.

General Logistics Systems (GLS)

Reported results

The tables below reflect the reported Euro results. Underlying change excludes the impact of acquisitions.

Summary trading results (continuing operations) (€m)	Reported Year ended March 2017	Reported Year ended March 2016	Underlying change
Revenue	2,521	2,158	9%
Operating costs	(2,325)	(1,998)	9%
Operating profit	196	160	17%
Margin	7.8%	7.4%	50bps
(£m)			
Revenue	2,118	1,580	
Operating costs	(1,954)	(1,463)	
Operating profit	164	117	
Volumes (m)	508	431	9%

Revenue and volumes

GLS continued to perform well. Performance in the period benefited from the timing of Easter and other public holidays across Europe, which is estimated to have accounted for around two percentage points of the volume and revenue underlying change. Volumes were up nine 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 in Sterling terms benefited from a £233 million impact from exchange rate movements which is excluded from underlying movements. Revenue growth was achieved in almost all markets and from a broad customer base, with the largest customer accounting for around two per cent of total GLS revenue. The three major markets, Germany, Italy and France, accounted for 63 per cent of total GLS revenue down from 68 per cent in 2015-16 reflecting the impact of the acquisitions in Spain and the US.

In 2017-18, the timing of public holidays across Europe is expected to have the effect of reducing underlying revenue and volume movements by around two percentage points compared with 2016-17.

Operating costs (€m)	Reported Year ended March 2017	Reported Year ended March 2016	Underlying change
People costs	(582)	(489)	8%
Non-people costs	(1,743)	(1,509)	9%
Distribution and conveyance costs	(1,521)	(1,312)	10%
Infrastructure costs	(152)	(143)	Flat
Other operating costs	(70)	(54)	11%
Total	(2,325)	(1,998)	9%

Total operating costs were up nine per cent in line with volume.

People costs increased by eight per cent as a result of increased semi-variable costs linked to volume and increases in rates of pay. Distribution and conveyance costs were up ten per cent, driven by higher volumes. Infrastructure costs were flat, with a one-off provision release of €3 million for IT related costs offsetting inflationary pressures. Other operating costs increased by 11 per cent, partly driven by costs associated with our geographic expansion activities. The prior year benefited from a one-off provision release of around €3 million.

Operating profit

Operating profit was €196 million giving a reported margin of 7.8 per cent. This represents an underlying margin improvement of 50 basis points over the prior year. This performance was largely due to improved profitability in Italy, Germany and France. Reported profit in Sterling terms benefited from an £18 million impact from exchange rate movements which is excluded from underlying movements.

Germany

Germany remains the largest market for GLS by revenue. Revenue in GLS Germany grew by five per cent, driven by international volumes and improved domestic pricing. Profitability has been impacted by legislation which increased the minimum wage by four per cent from 1 January 2017. This has increased costs in the period by €1 million with an estimated twelve month impact of €5 million.

Italy

GLS Italy continues to perform strongly. Revenue growth of 13 per cent was due to strong B2C volume growth, driven by Amazon and other customers. Given the strong performance over the last two years, it will be challenging to maintain this rate of growth in the future.

France

GLS France delivered an improved rate of revenue growth of eight per cent, largely from domestic volumes. Reported operating losses reduced by €5 million to €8 million. France remains a challenging market and while actions are underway which target a break-even result, higher costs of sale including those associated with a changing mix of parcel sizes means that it is unlikely we will achieve this in the short term.

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 with strong growth in Denmark. In June 2016, we announced the acquisition of ASM for a total consideration (including debt taken on) of €71 million. ASM has exceeded performance expectations since acquisition. Given the potential synergies, the transaction is expected to be economic profit accretive for GLS in 2018-19.

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

We saw revenue growth in all developing/emerging European markets, with particularly strong growth in Romania. This has been largely driven by the growing parcels markets in these countries.

USA

On 4 October 2016, we announced the acquisition of GSO, a regional next day parcel delivery company operating primarily in California, for a total consideration of \$90 million. We expect GSO to perform in line with our expectations in the first full year of its ownership by the Group. The transaction is expected to be economic profit accretive for GLS in 2019-20.

On 6 April 2017, we announced the acquisition of Postal Express, a regional overnight parcel carrier operating in the states of Washington, Oregon and Idaho for a total consideration of \$13.3 million. Postal Express offers overnight parcel delivery, mainly to B2B customers, across a number of industries. The transaction is expected to be economic profit accretive for GLS in 2018-19.

GSO and Postal Express will be operated as standalone businesses but will be incorporated into the results of GLS.

Group results

Reported results

Group revenue increased to £9,776 million (2015-16: £9,251 million). Operating costs before transformation costs increased to £9,286 million (2015-16: £8,766 million). Group operating profit before transformation costs increased to £490 million (2015-16: £485 million). Operating profit after transformation costs increased to £353 million (2015-16: £294 million). Operating specific items decreased to £134 million (2015-16: £156 million). As a result, Group operating profit was £219 million (2015-16: £138 million). Profit before tax from continuing operations increased to £335 million (2015-16: £267 million), of which, UKPIL accounted for £183 million (2015-16: £150 million) and GLS accounted for £152 million (2015-16: £117 million). Earnings per share from continuing operations increased from 21.5 pence to 27.5 pence.

There is a full reconciliation of reported to adjusted results set out on page 34.

Adjusted results

Group revenue

(£m)	Adjusted 52 weeks ended 26 March 2017	Re-presented ¹ 52 weeks ended 27 March 2016	Underlying change
UKPIL	7,658	7,671	(2%)
GLS	2,118	1,580	9%
Total	9,776	9,251	1%

Parcel revenue accounted for 56 per cent of Group revenue (2015-16: 52 per cent). The main factors impacting revenue in the year are described in the sections entitled 'UK Parcels, International & Letters (UKPIL)' and 'General Logistics Systems (GLS)'.

Group operating costs

(£m)	Adjusted 52 weeks ended 26 March 2017	Re-presented ¹ 52 weeks ended 27 March 2016	Underlying change
People costs	(5,354)	(5,199)	Flat
Non-people costs	(3,710)	(3,310)	3%
Distribution and conveyance costs	(2,106)	(1,736)	6%
Infrastructure costs	(868)	(854)	(1%)
Other operating costs	(736)	(720)	Flat
Total	(9,064)	(8,509)	1%

Group operating costs increased by one per cent due to increases at 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 26 March 2017	Re-presented ¹ 52 weeks ended 27 March 2016
UKPIL	411	434
GLS	164	117
Total	575	551
Margin	5.9%	6.0%

Lower transformation costs in UKPIL led to Group operating profit margin after transformation costs increasing by 10 basis points on an underlying basis to 5.9 per cent.

¹ Following the Group's acquisition of the remaining 49 per cent shareholding in Romec Limited (Romec) at the beginning of 2016-17, Romec has been consolidated into the UKPIL segment (previously the Group's 51 per cent shareholding was reported within 'Other' segment). The 2015-16 UKPIL results have been re-presented to reflect this change.

Specific items and pension charge to cash difference adjustment

(£m)	52 weeks ended 26 March 2017	52 weeks ended 27 March 2016
Pension charge to cash difference adjustment (within People costs)	(222)	(257)
Operating specific items		
Employee Free Shares charge	(105)	(158)
Amortisation of acquired intangible assets	(11)	–
Legacy/other (costs)/credit	(18)	2
Potential industrial diseases claims	(6)	3
Personal injury provision discount rate decrease	(4)	–
Other	(8)	(1)
Total operating specific items and pensions adjustment	(356)	(413)
Non-operating specific items		
Profit on disposal of property, plant and equipment	14	29
Loss on disposal of business	(2)	–
Net pension interest	120	113
Profit on disposal of discontinued operations	–	31
Total non-operating specific items	132	173
Total specific items and pensions adjustment before tax	(224)	(240)
Total tax credit on specific items and pensions adjustment	59	68

The pension charge to cash difference adjustment was £222 million (2015–16: £257 million). The difference between the pension charge and cash cost largely comprises the difference between the IAS 19 income statement pension charge rate of 28.8 per cent and the actual cash payments agreed with the RMPP Trustee of 17.1 per cent. The IAS 19 pension service charge rate for 2017–18 is projected to significantly increase to 41.1 per cent as a result of the reduction in corporate bond yields which means that the pension charge to cash difference adjustment for 2017–18 is expected to increase to around £440 million.

Operating specific items in the year related mainly to the Employee Free Shares charge of £105 million (2015–16: £158 million). The Employee Free Shares charge has decreased as a result of SIP 2013 maturing in October 2016. This has been partially offset by the charge in relation to the Free Shares awarded in October 2015 (SIP 2015) and October 2016 (SIP 2016). The charge for Employee Free Shares will reduce over time reflecting the phasing of the charge over the vesting period. For 2017–18, the Employee Free Shares charge is expected to be around £40 million.

Amortisation of acquired intangibles of £11 million reflects the amortisation of goodwill relating largely to ASM and GSO.

The increase in the provision for legacy costs is driven by a reduction in the discount rate used to calculate the industrial diseases provision and the legislative decrease in discount rate used to determine personal injury claims announced in February 2017. Other specific items mainly relate to the integration of Romec into the Group.

Non-operating specific items include a profit on disposal of property, plant and equipment of £14 million (2015–16: £29 million). This mainly arises from the sale of a GLS property in Munich and the Maidstone Delivery Office. The loss on disposal of business relates to the sale of NDC 2000 Limited (NDC) and reflects the transfer of cash and other assets to the purchasers. The net pension interest credit was £120 million (2015–16: £113 million), higher than the prior year due to the increase in the accounting surplus at 27 March 2016. The net pension interest is expected to be £91 million in 2017–18, due to the lower discount rate more than offsetting the impact of the increased surplus.

Net finance costs

Reported net finance costs were £16 million compared with £13 million in the prior year. Interest on the €500 million bond was £11 million, £2 million higher than the prior year as a result of weaker Sterling.

Facility	Rate	Facility (£m)	Drawn (£m)	Facility end date
€500 million bond	2.5%	430	430	2024
Loans in GLS (Spain)	2.0%	1	1	2017
Revolving credit facility	LIBOR+0.55%	1,050	32	2020-22
Total		1,481	463	

The blended interest rate on gross debt, including finance leases for 2017–18, is expected to be approximately three per cent. The retranslation impact of the €500 million bond is accounted for within equity.

Taxation

(£m)	52 weeks ended 26 March 2017			52 weeks ended 27 March 2016		
	UK	GLS	Group	UK	GLS	Group
Reported						
Profit before tax	183	152	335	150	117	267
Tax charge	(20)	(42)	(62)	(14)	(31)	(45)
Effective tax rate	11%	28%	19%	9%	26%	17%
Adjusted						
Profit before tax	398	161	559	421	117	538
Tax charge	(76)	(45)	(121)	(84)	(34)	(118)
Effective tax rate	19%	28%	22%	20%	29%	22%

The Group effective tax rate on adjusted profit before tax was 22 per cent. The UK adjusted effective tax rate of 19 per cent is broadly in line with the UK statutory tax rate. GLS' effective tax rate of 28 per cent has reduced due to lower French losses for which no deferred tax is recognised and increased notional interest deductions in Italy.

In the UK, the reported effective tax rate is lower than the adjusted effective tax rate as the impact of the one-off deferred tax credit due to a reduction in future corporation tax rate is treated as a specific item and excluded from the adjusted tax result. Additionally, tax associated with property disposal profits within the reported result is offset by reinvestment relief contributing to the lower reported effective tax rate.

Earnings per share (EPS)

Adjusted basic EPS for continuing operations was 44.1 pence compared with 41.3 pence in the prior year, largely reflecting the decrease in transformation costs.

In-year trading cash flow

(£m)	52 weeks ended 26 March 2017	52 weeks ended 27 March 2016
EBITDA before transformation costs	793	756
Pension charge to cash difference adjustment	222	257
Adjusted EBITDA before transformation costs	1,015	1,013
Trading working capital movements	(3)	(26)
Share-based awards (SAYE and LTIP) charge	11	13
Dividends received from associate	–	1
Total investment	(529)	(694)
Income tax paid	(60)	(40)
Net finance costs paid	(14)	(13)
Total	420	254

In-year trading cash flow inflow was £420 million, £166 million higher than the prior year, mainly driven by lower investment spend and lower trading working capital absorption. Adjusted EBITDA before transformation costs was broadly flat, as higher EBITDA was offset by the lower pension charge to cash difference adjustment. Trading working capital outflow was £3 million, an improvement of £23 million compared with the prior year due to a change in international sales mix. Income tax paid was £60 million, £20 million higher than the prior year mainly due to a repayment received in the prior year and tax paid this year on the sale of DPD SL.

On a cash tax basis, in the UK, we continue to be able to offset the majority of taxable profits with capital allowances and brought forward losses. UK cash tax paid is now expected to stay at similar levels until 2019-20 due to research and development credits and patent box tax reliefs, and normalise thereafter.

Net cash investment

(£m)	52 weeks ended 26 March 2017	52 weeks ended 27 March 2016
Growth capital expenditure	(208)	(253)
Replacement capital expenditure	(179)	(208)
Transformation operating expenditure	(142)	(233)
Voluntary redundancy	(66)	(159)
Project costs	(76)	(72)
Business transformation payments	–	(2)
Total investment	(529)	(694)
Proceeds from disposal of property (excluding London property portfolio), plant and equipment	37	38
Total	(492)	(656)

Total gross cash investment decreased from £694 million to £529 million, due to lower spend in relation to voluntary redundancy payments and more efficient investment spend. Total gross investment was skewed towards growth capital expenditure of which parcels automation, parcel systems, PDA initiatives and investment in GLS represented the majority of spend in the year. Replacement capital expenditure reduced by £29 million, due to the timing of ongoing property maintenance and lower spending on certain property and technology projects. Both growth and replacement capital expenditure have reduced in 2016–17.

We are past the peak of investment and are targeting net cash investment of around £450 million in 2017–18 and less than £500 million per annum going forward.

Net debt

Net debt was £338 million at 26 March 2017, £114 million higher than at 27 March 2016.

A reconciliation of net debt is set out below.

(£m)	52 weeks ended 26 March 2017	52 weeks ended 27 March 2016
Net debt brought forward at 27 March 2016 and 29 March 2015	(224)	(275)
In-year trading cash inflow	420	254
Other working capital movements	(6)	6
Cash cost of operating specific items	(61)	(6)
Proceeds from disposal of property (excluding London property portfolio), plant and equipment	37	38
Cash impact of disposal of discontinued operations and subsidiary	(3)	41
Acquisition of business interests	(144)	(18)
Cash flows relating to London property portfolio	(34)	(23)
Debt transferred on acquisitions	(10)	–
Purchase of own shares	(53)	–
Foreign currency exchange impact	(30)	(21)
Dividends paid to equity holders of the parent Company	(222)	(213)
Dividends paid to non-controlling interests	(8)	(7)
Net debt carried forward	(338)	(224)

Movements in GLS client cash are included within other working capital movements. The amount held at 26 March 2017 was £22 million.

The cash cost of operating specific items largely related to the French Competition Authority fine of €55 million that was paid in April 2016. Property disposal proceeds of £37 million largely relate to the sale of a GLS property in Munich and the Maidstone Delivery Office.

A reconciliation of cash flows relating to acquisitions is shown below.

	52 weeks ended 26 March 2017
(£m)	
GSO	(66)
ASM	(49)
Other	(11)
Total consideration (see Note 10)	(126)
Add back net cash acquired on acquisition of business	4
Acquisition of business interests, net of cash acquired (see statutory cash flow statement)	(122)
Deferred consideration paid in respect of prior years' acquisitions	(4)
Acquisition of non-controlling interests	(18)
Acquisition of business interests	(144)

Other acquisitions included eCourier. The acquisition of non-controlling interests represents the purchase of the remaining 49 per cent of Romec.

Debt transferred on acquisitions includes £3 million of finance leases and £7 million of interest bearing loans and borrowings on GLS acquisitions.

Cash outflows relating to the London property portfolio of £34 million largely relate to remediation work, reprovisioning costs and planning and marketing costs in relation to the Nine Elms and Mount Pleasant sites. These sites, in particular Mount Pleasant, will require further investment once sales proceeds are received. Both sites continue to be marketed.

Approach to capital management

The Group has established four key objectives for capital management.

Objectives	Enablers	2016-17 Update
Meet the Group's obligations as they fall due	By maintaining sufficient cash reserves and committed facilities to – <ul style="list-style-type: none"> meet all obligations, including pensions; and manage future risks, including those set out in the Principal Risks section on pages 37 to 41 	At 26 March 2017, the Group had available resources of £1,317 million (2015-16: £1,418 million); made up of cash and cash equivalents of £299 million (2015-16: £368 million) and undrawn committed revolving credit facilities of £1,018 million (2015-16: £1,050 million) The Group met the loan covenants and other obligations for its revolving credit facility and £500 million bond, (see Note 20) As set out in the Viability Statement, the Directors have a reasonable expectation that the Group will continue to meet its obligations as they fall due
Support a progressive dividend policy	Generate sufficient in-year trading cash flow to cover the ordinary dividend and maintain sufficient distributable reserves to sustain the Group's dividend policy	Generated £420 million of in-year trading cash flow (2015-16: £254 million) to cover the full year dividend of 23.0 pence per share (2015-16: 22.1 pence per share) equivalent to £230 million Capital managed by the Group excluding the net assets of the pension scheme is £1,806 million (2015-16: £1,602 million) ² The Group had retained earnings of £4,940 million at 26 March 2017 (2015-16: £4,451 million). The Group considers it has a maximum level of distributable reserves of around £2 billion which excludes the impact of the pension surplus on retained earnings, more than sufficient to cover the dividend
Reduce the cost of capital for the Group	Target investment grade standard credit metrics i.e. no lower than BBB- under Standard & Poor's rating methodology	During the year, the Group maintained a credit rating of BBB with a stable outlook from Standard & Poor's
Retain sufficient flexibility to invest in the future of the business	Funded by retained cash flows and manageable levels of debt consistent with our target credit rating	During the year, the Group made total gross investments of £529 million (2015-16: £694 million) and acquisition of business interests of £144 million (2015-16: £18 million) while retaining sufficient capital headroom

Pensions

The Company's overall IAS 19 pension position at 26 March 2017 was a surplus of £3,839 million, compared with a surplus of £3,430 million at 27 March 2016. The IAS 19 accounting position and key assumptions for the valuation are provided in Note 9 to the consolidated financial statements.

² At 26 March 2017 consists of net assets (comprising of investment balances, working capital, provisions and net debt) of £4,998 million (2015-16: £4,467 million), less pension assets of £3,839 million (2015-16: £3,430 million), with the associated deferred tax liability on pension assets of £647 million credited back (2015-16: £565 million).

The accounting liabilities have increased over the year due to the fall in corporate bond yields. This has been offset by the increase in the RMPP assets, largely due to the hedging strategy adopted by the RMPP.

Royal Mail Pension Plan (RMPP)

The triennial valuation of RMPP at 31 March 2015 was agreed on 8 May 2017. Based on this set of assumptions, the RMPP actuarial surplus at 31 March 2017 was estimated to be £1,074 million, comprising of assets of £9,603 million and liabilities of £8,529 million (2015-16: £1,765 million).

Using these assumptions, the projected cost of benefits being accrued each year, based on market conditions at the end of March 2017, would currently be around £1,260 million. This is significantly greater than projected 2017-18 contributions of £320 million by the Company and £110 million by employees. Accordingly, we expect that the actuarial funding surplus would be exhausted during 2018 if the RMPP had remained open in its current form.

Following the Company's decision the RMPP will close to future accrual on 31 March 2018.

In accordance with the new Schedule of Contributions, the service contribution rate for 2017-18 will remain at 17.1 per cent. The March 2015 valuation continues to show the scheme in surplus and therefore no deficit correction payments are expected to be made.

Royal Mail Senior Executives Pension Plan (RMSEPP)

The 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 Trustees in 2013. On this basis, the actuarial surplus was £16 million at 31 March 2015 comprising assets of £410 million and liabilities of £394 million.

The RMSEPP closed in December 2012 to future accrual. Therefore the Company makes no regular future service contributions. As agreed in the February 2013 Funding Agreement with the Trustees, the Company 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).

Dividends

The final dividend of 15.1 pence per ordinary share in respect of the 2015-16 financial year was paid on 29 July 2016, following shareholder approval.

The interim dividend of 7.4 pence per ordinary share in respect of the 2016-17 financial year was paid on 11 January 2017 to shareholders on the register at the close of business on 9 December 2016.

The Board is recommending a final dividend of 15.6 pence per ordinary share, payable on 28 July 2017 to shareholders on the register at the close of business on 30 June 2017, subject to shareholder approval at the AGM on 20 July 2017. This gives a total dividend for the year of 23.0 pence.

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.

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 Annual Report and Financial Statements in 2016-17.

The forecast diesel and jet commodity exposures in UKPIL are set out below together with the sensitivity of 2017-18 operating profit to changes in commodity prices and fuel duty.

2017-18 Exposure	Forecast total cost £m	Fuel duty/ other costs (incl irrecoverable VAT) – not hedged 2017-18 £m	Underlying commodity exposure (incl irrecoverable VAT) 2017-18 £m	Underlying commodity volume hedged %	Residual unhedged underlying commodity exposure (incl irrecoverable VAT) £m	Impact on 2017-18 operating profit of a further 10% increase in commodity price £m	Impact on 2017-18 operating profit of a further 10% increase in fuel duty/other cost £m
Diesel	134	92	42	94	3	–	(9)
Jet	8	3	5	79	1	–	–
Total	142	95	47	92	4	–	(9)

As a result of hedging, it is anticipated that the diesel commodity cost for 2017-18 will reduce by £10 million. Without hedging, the cost reduction would have been £12 million (based upon closing fuel prices at 26 March 2017).

The Group is exposed to foreign currency risk due to interest payments on the €500 million bond, certain obligations under Euro denominated finance leases, trading with overseas postal administrations and various purchase contracts denominated in foreign currency. GLS' functional currency is the Euro which results in translational exposure to the Group's operating profit.

The average exchange rate between Sterling and the Euro was £1/€1.19, representing a 13 per cent weakening in Sterling compared with £1/€1.37 in 2015-16, which resulted in an £18 million increase in GLS' reported operating profit before tax in 2016-17. This weakness of Sterling resulted in lower UKPIL operating profit of £9 million in the international business. The net impact on Group operating profit before tax was therefore £9 million.

The Group manages its interest rate risk through a combination of fixed rate loans and leasing, floating rate loans/facilities and floating rate financial investments. At 26 March 2017, all of the gross debt of £657 million was at fixed rates to maturity.

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

Events after the reporting year

Acquisition of Postal Express

On 6 April 2017, we announced the acquisition of Postal Express for \$13.3 million. Operating in the states of Washington, Oregon and Idaho Postal Express offers overnight parcel delivery services, mainly to B2B customers, across a number of industries.

Closure of Royal Mail Pension Plan (RMPP)

On 8 May 2017, the Company and the RMPP Trustee agreed the March 2015 actuarial valuation and revised Schedule of Contributions following the decision to close the RMPP to future accrual from 31 March 2018.

Presentation of results and Alternative Performance Measures (APMs)

In its financial reporting, the Group uses certain measures that are not defined under International Financial Reporting Standards (IFRS), the Generally Accepted Accounting Principles (GAAP) under which the Group produces its statutory financial information. These APMs are not a substitute, or superior to, any IFRS measures of performance. They are used as Management considers them to be an important means of comparing performance year-on-year and are key measures used within the business for assessing performance.

The Group makes adjustments to results reported under IFRS to exclude specific items and the pension charge to cash difference adjustment (see definitions below). Management believes this is a more meaningful basis upon which to analyse the business performance (in particular given the volatile nature of the IAS 19 charge) and is consistent with the way financial performance is reported to the Board.

IFRS can have the impact of causing high levels of volatility in reported earnings which do not relate to changes in the operations of the Company. Management has reviewed the long term differences between reported and adjusted profit after tax. Cumulative reported profit after taxation for the five years ended March 2017 was £2,632 million. Cumulative adjusted profit after tax was £1,820 million. Annual reported profit after tax showed a range of £222 million to £1,280 million. The principal cause of the difference and volatility is due to pension-related accounting.

APMs should not be considered in isolation from, or as a substitute to, financial information presented in compliance with GAAP. Where appropriate, reconciliations to the nearest GAAP measure have been provided. The APMs used may not be directly comparable with similarly titled APMs used by other companies.

Presentation of results

Re-presentation of 2015-16 results

As a result of the acquisition of the minority shareholding in Romec Limited ('Romec') on 31 March 2016, the external revenues, costs and profits of Romec, previously reported in the Other segment, have been incorporated into UKPIL for 2016-17. As a result, £5 million of Romec revenue in 2015-16 is now reported within letters and other revenue. The £141 million facilities management charge previously included within infrastructure costs has been reallocated between people and non-people costs. UKPIL operating profit in 2015-16 increased by £17 million as a result. There is no impact on Group operating profit. Both the Group and UKPIL operating costs for 2015-16 have been re-presented to reflect these changes as shown below:

	Adjusted 52 weeks ended 27 March 2016 £m	Romec adjustment £m	Re-presented 52 weeks ended 27 March 2016 £m
Group			
Revenue	9,251	–	9,251
Operating costs	(8,509)	–	(8,509)
People	(5,199)	–	(5,199)
Non-people	(3,310)	–	(3,310)
Distribution and conveyance costs	(1,736)	–	(1,736)
Infrastructure costs	(995)	141	(854)
Other operating costs	(579)	(141)	(720)
Operating profit before transformation costs	742	–	742
UKPIL			
Revenue	7,666	5	7,671
Operating cost	(7,058)	12	(7,046)
People	(4,764)	(77)	(4,841)
Non-people	(2,294)	89	(2,205)
Distribution and conveyance costs	(776)	–	(776)
Infrastructure costs	(890)	141	(749)
Other operating costs	(628)	(52)	(680)
Operating profit before transformation costs	608	17	625
Other			
Revenue	5	(5)	–
Operating cost	12	(12)	–
People	(77)	77	–
Non-people	89	(89)	–
Distribution and conveyance costs	–	–	–
Infrastructure costs	–	–	–
Other operating costs	89	(89)	–
Operating profit before transformation costs	17	(17)	–

Adjusted results

The following table reconciles the reported results, prepared in accordance with IFRS, to the adjusted results.

(£m)	52 weeks ended 26 March 2017			52 weeks ended 27 March 2016		
	Reported	Specific items and pension adjustment	Adjusted	Reported ¹	Specific items and pension adjustment	Adjusted ¹
Revenue	9,776	–	9,776	9,251	–	9,251
Operating costs	(9,286)	(222)	(9,064)	(8,766)	(257)	(8,509)
People costs ¹	(5,576)	(222)	(5,354)	(5,456)	(257)	(5,199)
Non-people costs	(3,710)	–	(3,710)	(3,310)	–	(3,310)
Distribution and conveyance costs	(2,106)	–	(2,106)	(1,736)	–	(1,736)
Infrastructure costs ¹	(868)	–	(868)	(854)	–	(854)
Other operating costs ¹	(736)	–	(736)	(720)	–	(720)
Operating profit before transformation costs	490	(222)	712	485	(257)	742
Transformation costs	(137)	–	(137)	(191)	–	(191)
Operating profit after transformation costs	353	(222)	575	294	(257)	551
Operating specific items:						
Employee Free Shares charge	(105)	(105)	–	(158)	(158)	–
Legacy/other (costs)/credit	(18)	(18)	–	2	2	–
Amortisation of intangible assets in acquisitions	(11)	(11)	–	–	–	–
Operating profit	219	(356)	575	138	(413)	551
Non-operating specific items:						
Profit on disposal of property, plant and equipment	14	14	–	29	29	–
Loss on disposal of business	(2)	(2)	–	–	–	–
Earnings before interest and tax	231	(344)	575	167	(384)	551
Finance costs	(18)	–	(18)	(16)	–	(16)
Finance income	2	–	2	3	–	3
Net pension interest (non-operating specific item)	120	120	–	113	113	–
Profit before tax	335	(224)	559	267	(271)	538
Tax charge	(62)	(59)	(121)	(45)	73	(118)
Profit for the period from continuing operations	273	(165)	438	222	(198)	420
Discontinued operations						
Profit from disposal of discontinued operations (non-operating specific item)	–	–	–	31	31	–
Tax on profit from disposal of discontinued operations	–	–	–	(5)	(5)	–
Profit for the period	273	(165)	438	248	(172)	420
Profit for the period attributable to:						
Equity holders of the parent Company	272	(165)	437	241	(172)	413
Non-controlling interests	1	–	1	7	–	7
Earnings per share						
Basic – continuing operations	27.5p	(16.6p)	44.1p	21.5p	(19.8p)	41.3p
Diluted – continuing operations	27.3p	(16.5p)	43.8p	21.4p	(19.7p)	41.1p
Basic – total Group	27.5p	(16.6p)	44.1p	24.1p	(17.2p)	41.3p
Diluted – total Group	27.3p	(16.5p)	43.8p	24.0p	(17.1p)	41.1p

Alternative performance measures

Non-IFRS measures

Adjusted operating profit before transformation costs, adjusted operating profit after transformation costs and adjusted operating profit margin after transformation costs reflect reported operating profit excluding the 'pension charge to cash difference' adjustment.

Adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) before transformation costs

Adjusted EBITDA before transformation costs is reported EBITDA before transformation costs with the pension charge to cash difference added back.

EBITDA is considered to be a useful measure of operating performance because it approximates the underlying operating cash flow by eliminating depreciation, amortisation and the performance of associate companies.

¹ Re-presented to reflect the Group's acquisition of the remaining 49 per cent shareholding in Romec at the beginning of 2016-17, and to consolidate the results of Romec into the UKPIL segment (previously the Group's 51 per cent shareholding was reported within the 'Other' segment). The 2015-16 UKPIL results have been re-presented to reflect this change.

The following table reconciles adjusted EBITDA before transformation costs to reported operating profit before transformation costs.

(£m)	52 weeks ended 26 March 2017	52 weeks ended 27 March 2016
Reported operating profit before transformation costs	490	485
Depreciation and amortisation	301	272
Share of post-tax (loss)/profit from associates	2	(1)
Reported EBITDA before transformation costs	793	756
Pension charge to cash difference adjustment	222	257
Adjusted EBITDA before transformation costs	1,015	1,013

Adjusted earnings per share

Adjusted earnings per share is reported basic earnings per share, excluding operating and non-operating specific items and the pension charge to cash difference adjustment. A reconciliation of this number to reported basic earnings per share is included in the adjusted results table on page 34.

Operating specific items

These are recurring or non-recurring items of income or expense of a particular size and/or nature relating to the operations of the business that in Management's opinion require separate identification.

These include items that have resulted from events that are non-recurring in nature, even though related income/expense can be recognised in subsequent periods.

Non-operating specific items

These are recurring or non-recurring items of income or expense of a particular size and/or nature which do not form part of the Group's trading activity and in Management's opinion require separate identification.

Further details of specific items can be found on page 27.

Pension charge to cash difference adjustment

This adjustment represents the difference between the IFRS income statement pension charge rate of 28.8 per cent and the actual cash payments into the RMPP at 17.1 per cent. This adjustment is made to eliminate the volatility of the IAS 19 accounting charge and to include only the true cash cost of the pension plans in the adjusted operating profit of the Group.

In-year trading cash flow

In-year trading cash flow reflects the cash generated from the trading activities of the Group. It is based on reported net cash inflow from operating activities, adjusted to exclude other working capital movements and the cash cost of operating specific items and to include the cash cost of property, plant and equipment and intangible asset acquisitions and net finance payments. Other working capital movements include movements in GLS client cash held and in deferred revenue from stamps purchased in prior periods. In-year trading cash flow is used primarily by Management as a measure of liquidity, showing cash being generated by operations less cash investment.

The following table reconciles in-year trading cash flow to the nearest IFRS measure 'net cash inflow from operating activities'.

(£m)	Reported 52 weeks ended 26 March 2017	Reported 52 weeks ended 27 March 2016
Net cash inflow from operating activities	754	727
Adjustment for:		
Other working capital movements	6	(6)
Cash cost of operating specific items	61	6
Purchase of property, plant and equipment	(230)	(270)
Purchase of intangible assets (software)	(157)	(191)
Dividend received from associate company	–	1
Net finance costs paid	(14)	(13)
In-year trading cash inflow	420	254

Net debt

Net debt is calculated by netting the value of financial liabilities (excluding derivatives) against cash and other liquid assets.

Net debt is a measure of the Group's net indebtedness that provides an indicator of the overall balance sheet strength. It is also a single measure that can be used to assess the combined impact of the Group's indebtedness and its cash position. The use of the term net debt does not necessarily mean that the cash included in the net debt calculation is available to settle the liabilities included in this measure.

A reconciliation of net debt to reported balance sheet line items is shown below.

(£m)	At 26 March 2017	At 27 March 2016
Loans/bonds	463	392
Finance leases	194	220
Cash and cash equivalents	(299)	(368)
Pension escrow (RMSEPP)	(20)	(20)
Net debt	338	224

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 (2016-17: 305.6; 2015-16: 303.0) and movements in foreign exchange (2016-17: £1/€ 1.19; 2015-16: £1/€ 1.37) by re-presenting the 2015-16 results at 2016-17 working days/rates. In addition, adjustments are made for non-recurring or distorting items, which by their nature may be unpredictable, such as acquisitions and changes in wage legislation such as National Insurance. For volumes, underlying movements are adjusted for working days in UKPIL, the results of acquisitions and exclude political parties' election mailings in letters volumes. For 2017-18, the estimated revenue and profit impact of working days in UKPIL is a reduction of around £15 million (2017-18: 305 days).













(£m)	Adjusted 52 weeks ended 26 March 17	Re-presented 52 weeks ended 27 March 16	Working days	Wage legislation	Foreign exchange	Acquisitions	Underlying 52 weeks ended 27 March 16	Underlying change
Revenue								
UKPIL	7,658	7,671	66	–	28	13	7,778	(2%)
GLS	2,118	1,580	–	–	233	124	1,937	9%
Group	9,776	9,251	66	–	261	137	9,715	1%
Group costs								
People	(5,354)	(5,199)	–	(65)	(53)	(45)	(5,362)	Flat
Distribution and conveyance costs	(2,106)	(1,736)	–	–	(179)	(68)	(1,983)	6%
Infrastructure costs	(868)	(854)	–	–	(15)	(9)	(878)	(1%)
Other operating costs	(736)	(720)	–	–	(5)	(8)	(733)	Flat
Non-people costs	(3,710)	(3,310)	–	–	(199)	(85)	(3,594)	3%
Operating costs before transformation costs	(9,064)	(8,509)	–	(65)	(252)	(130)	(8,956)	1%
UKPIL								
People	(4,865)	(4,841)	–	(65)	–	(3)	(4,909)	(1%)
Distribution and conveyance costs	(828)	(776)	–	–	(37)	(8)	(821)	1%
Infrastructure costs	(740)	(749)	–	–	–	(1)	(750)	(1%)
Other operating costs	(677)	(680)	–	–	–	–	(680)	Flat
Non-people costs	(2,245)	(2,205)	–	–	(37)	(9)	(2,251)	Flat
Operating costs before transformation costs	(7,110)	(7,046)	–	(65)	(37)	(12)	(7,160)	(1%)
GLS								
Operating costs	(1,954)	(1,463)	–	–	(215)	(118)	(1,796)	9%
Profit, margins and EPS								
Group								
Operating profit before transformation costs	712	742	66	(65)	9	7	759	(6%)
Transformation costs	(137)	(191)	–	–	–	–	(191)	(28%)
Operating profit after transformation costs	575	551	66	(65)	9	7	568	2%
Margin	5.9%	6.0%	–	–	–	–	5.8%	10bps
Profit before tax	559	538	66	(65)	9	7	555	1%
Tax	(121)	(118)	–	–	–	–	(118)	–
Profit for the period	438	420	–	–	–	–	420	–
Profit attributable to equity holders of the parent Company	437	413	–	–	–	–	413	–
Earnings per share (pence)	44.1	41.3	–	–	–	–	41.3	–
UKPIL								
Operating profit before transformation costs	548	625	66	(65)	(9)	1	618	(11%)
Transformation costs	(137)	(191)	–	–	–	–	(191)	(28%)
Operating profit after transformation costs	411	434	66	(65)	(9)	1	427	(4%)
Margin	5.4%	5.7%	–	–	–	–	5.5%	(10bps)
GLS								
Operating profit before transformation costs	164	117	–	–	18	6	141	16%
Margin	7.7%	7.4%	–	–	–	–	7.3%	40bps

Principal risks

The 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 48 – 87.

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

Link to strategy	Relative severity	Change during the year	Speed at which the risk could impact
 Winning in parcels	 High	 Increasing risk	 Fast: 6 months
 Defending letters	 Medium	 Decreasing risk	 Medium: 6-12 months
 Growing in new areas	 Low	 Stable	 Slow: >12 months

Principal risk

Status

How we are mitigating the risk

New arrangements and the risk of industrial action

There is extensive trade union recognition in respect of our workforce in the UK with a strong and active trade union. As Royal Mail Group continues to pursue the necessary efficiency programmes in order to remain competitive in the letters and parcels markets and implements the new pension arrangements, there is an even greater risk of industrial action.

Industrial action



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 Communications Workers Union (CWU) represented a fundamental change in our relationship with the CWU, and continues to promote stability in industrial relations.

Industrial relations is an inherent risk within our business. We are negotiating a new pay deal for 2017-18 onwards and have completed a consultation of the future of the Royal Mail Pension Plan (RMPP). This, in combination with the continued pressure on costs and efficiencies in an increasingly competitive market, may put additional strain on the stability of our industrial relations.

- 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.
- 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.

Pension arrangements



We recognise that pension benefits are important to our people.

There is a risk that we are unable to continue to provide sustainable and affordable pension arrangements which are acceptable to our people and unions, leading to industrial action.

The Group is exposed to financial market conditions, changes in life expectancy and regulatory changes for defined benefits already accrued. Benefits accrued in the Royal Mail Pension Plan before April 2012 have been transferred to Government.

In 2013, we committed to keeping the RMPP open until at least March 2018, subject to certain conditions. The RMPP Trustee put in place a hedging strategy for that period of accrual which means we will be able to meet this commitment despite significant reductions in real interest rates.

While the RMPP is currently in surplus, we expect this surplus will run out in 2018. On 8 May 2017, the Company and the Trustee agreed the March 2015 actuarial valuation and revised Schedule of Contributions following the decision to close the RMPP to future accrual from 31 March 2018. Closing the RMPP now avoids an unaffordable increase in pension costs for the Group.

As noted, the RMPP is hedged against future interest rate and inflation rate exposures, arising on commitments made until March 2018, so we are confident that this will enable us to meet our commitment to keep the RMPP open to accrual up to 31 March 2018.

We remain in discussions with our unions regarding the provision of future pension benefits from April 2018.

- We are exploring a range of options with our people, unions and advisers regarding future pension benefits. We have a clear set of affordability and capital allocation criteria for assessing any future pension arrangements.
- The March 2015 Royal Mail Pension Plan valuation was agreed on 8 May 2017 with the RMPP Trustee. This is based on a prudent set of assumptions, appropriate to the Company's circumstances.
- After the RMPP closes to accrual, we will continue to work closely with the Trustee to limit the risk of any deficit recovery payments being required from the Company in future.

Principal risk	Status	How we are mitigating the risk
<p>Efficiency</p>  <p>Royal Mail must continuously become more efficient and flexible in order to compete effectively in the letter and parcel markets.</p> <p>The success of our strategy relies on the effective control of costs across all areas and the delivery of efficiency benefits.</p> <p>In the current industrial relations environment, there is a risk we cannot make the required short term business as usual and/or programme level cost reductions in a timely way; nor can we trial, with a view to broader roll out, more fundamental changes in methods required to meet customer requirements and to underpin future cost reductions.</p>	 <p>We are continuing to see the positive impact of our cost reduction activities across the UK business. This has involved continuous focus on our efficiency performance in all areas, while providing a high quality service to our customers through our engaged workforce.</p> <p>Our productivity improvement is towards the upper range of our 2-3 per cent target, and we are confident that we will deliver the £600 million cumulative annualised cost avoided target, previously announced.</p> <p>As we negotiate fundamental changes to our pension and other terms and conditions, there is a risk that our workforce will delay the change we need.</p>	<ul style="list-style-type: none"> • We have ongoing collaborative meetings with our unions to involve them in the efficiency improvements and growth opportunities. • We are delivering efficiencies both in and outside of the core operations and have over 200 projects and initiatives which underpin the £600 million cumulative annualised cost avoided target. • We continue to scope additional cost saving opportunities beyond 2017-18. However, the present trend of cost savings may not be sustainable and the need to deliver operational efficiencies will become greater.
<p>Changes in market conditions and customer behaviour</p> <p>The industry sectors in which we operate remain highly competitive, with customers demanding more and our competitors responding quickly to these changing demands.</p> <p>Customer expectations and Royal Mail's responsiveness to market changes</p> 	 <p>We expect the letters sector to remain in structural decline, in the medium term, driven by e-substitution and further economic uncertainty.</p> <p>The parcels sector is undergoing rapid 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.</p> <p>The UK has one of the most developed e-commerce markets in the world. Growth available in the addressable UK parcels market continues to be impacted by Amazon's activities. Capacity expansion in the sector continues to exert downward pressure on prices.</p> <p>In the parcels business, disintermediation in online marketplaces may divert traffic to other carriers.</p> <p>There is a continuing requirement to invest in targeted growth and innovation to meet these challenges in the marketplace as well as reducing cost to ensure better price competitiveness.</p> <p>There are also potential behavioural changes by customers relating to the upcoming regulatory developments at the European level around data, including marketing mail.</p>	<ul style="list-style-type: none"> • We use continuous in depth market monitoring and research to track how well we match our customers' expectations, including relative to our competitors, and to predict volume trends. • We continue to invest and introduce, 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 continue to work with Amazon to provide enhanced propositions and high quality of service. • We promote the value of letters to customers through targeting advertisers and ad agencies, using our Mailmen campaign. We are also giving customers incentives to test new ways of using mail at a discounted rate. • We are investing in our Mail Centre equipment to ensure we get the best out of our machinery. To help add value to the mail and keep customers using it, we invested in Mailmark® last year. It gives customers visibility of their items in our pipeline and data on the effectiveness of their mailings. Around 80 per cent of suitable letters are sent using Mailmark®. Further, we are planning investment to rollout barcodes to unsorted letters next year. • We continue to monitor developments and actively promote the value of marketing mail.

Principal risk

Economic environment



Historically, there has been a correlation between economic conditions and the level of letter and parcel volumes. Flat or adverse economic conditions could impact our ability to maintain and grow revenue, either by reducing volumes or encouraging customers to adopt cheaper service options for sending letters and parcels.

Status



While economic conditions in the UK have proved resilient, business uncertainty before and after the EU referendum has resulted in a slowdown in marketing activity. We continue to monitor the broader long term economic impact on the UK economy.

Economic growth in the Eurozone 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 challenging cost avoidance programme in place to respond to revenue headwinds.
- Net cash investment is expected to be around £450 million in 2017-18 and less than £500 million per annum going forward.
- In the event of an economic shock, we are able to reduce investment over the short term to protect the cash and indebtedness position of the business.

Growing in new areas



Our success in growing in new areas of business is dependent on such factors as our continued ability to identify new profitable and sustainable areas of business, implementing appropriate investments, and having in place suitable structures to support continued transformation of the business.



Royal Mail Group is well positioned to grow in new markets through its subsidiary, GLS. It has a replicable and scalable business model founded on the development of strong regional businesses.

Through increasing its footprint and focusing on growth opportunities in the deferred parcels space, with selective growth in the B2C parcels market, GLS is well positioned to support Royal Mail Group's overall strategy.

- Our acquisitions are primarily delivered through a targeted and focused expansion of GLS' geographic footprint, investing behind a proven operating model with a track record of identification, integration and optimisation of acquisitions over many years.
- We are also developing partnerships with retailers and network partners to stimulate cross-border volumes between the UK and Asia, as well as working with China Post to provide Chinese and UK customers with faster delivery and tracking services.
- We also have a number of small scale initiatives to seek new revenues which leverage our existing assets.

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.

Absence of a sustainability framework to sustain the USO



USO finances are fragile. The regulatory system applies constraints to Royal Mail's ability to compete for traffic to support the costs of the Universal Service network. It imposes operational requirements not applied generally to the industry. These may impact our revenues and our ability to compete in the highly competitive sectors in which we operate. This could ultimately impact our ability to deliver the Universal Service on a sustainable basis.









Ofcom concluded its Fundamental Review of the Regulation of Royal Mail (FRR) in March 2017. It did not re-introduce price controls or add binding efficiency targets. However, it has not taken forward our proposal for a proactive sustainability framework. It has also not taken forward the opportunity to raise consumer protection standards across the industry.

In terms of follow-up consultations, Ofcom is consulting on a new regulatory reporting framework to reflect the outcome of its FRR. It is also planning on conducting a cost allocation review. This will review the allocation of Royal Mail's delivery costs between parcels and letters.

We are continuing to lobby BEIS and Ofcom to tackle emerging issues of USO sustainability. We are arguing for fundamental changes in the regulatory environment including:

- greater focus on sustainability, rather than on competition issues, including through the prompt introduction of a proactive sustainability framework;
- procedural fairness issues and enforcement;
- a material decrease in the significant regulatory burden; and
- a level playing field across the whole industry, including higher consumer protection standards in parcels.

We will engage fully with Ofcom's regulatory reporting review, to ensure a more targeted regime that reduces the regulatory burden.

Principal risk	Status	How we are mitigating the risk
<p>Competition Act investigation</p>  <p>In January 2014, Royal Mail issued Contract Change Notices (CCNs) under the terms of the access contract regime.</p> <p>In February 2014, Ofcom announced that they would investigate some of these CCNs. The opening of the investigation automatically suspended the CCNs that were the subject of the investigation. These CCNs were therefore never implemented.</p> <p>Ofcom issued a statement of objections in July 2015. This statement sets out Ofcom's provisional view that Royal Mail breached competition law by engaging in conduct that amounted to unlawful discrimination against postal operators competing with Royal Mail in delivery.</p> <p>Depending on the outcome of the Ofcom investigation and any appeal, Royal Mail may be fined.</p>	 <p>Royal Mail is refuting all of the allegations.</p> <p>Ofcom has stated that their final decision is likely to be made in 2017-18.</p>	<ul style="list-style-type: none"> • We have robustly defended our conduct in both written and oral representations to Ofcom. • This reflects our belief that the 2014 CCNs under investigation, which were never implemented and have now been withdrawn, were fully compliant with competition law. Please refer to our contingent liabilities disclosure on page 130. • We will continue to defend our case.
<p>Employment legislation and regulation</p>  <p>Changes to laws and regulations relating to employment (including the interpretation and enforcement of those laws and regulations) could, directly or indirectly, increase the Group's labour costs. Given the size of the Group's workforce, this could have an adverse effect on the Group.</p>	 <p>Recent case law has suggested that, in some circumstances, 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. We have commenced discussions with the trade union about the application of holiday pay for part timers but anticipate that this still will take some time to implement.</p> <p>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 2016. These are:</p> <ul style="list-style-type: none"> • The Apprenticeship Levy came into effect in April 2017, with an estimated cost to Royal Mail of around £20 million. • Proposed changes to National Insurance (NI) on termination of employment have been announced, which will increase employers' NI costs from April 2018. • Changes to tax/NI on salary sacrifice benefits came into effect from 1 April 2017, although pensions have specifically been excluded from these regulations. 	<ul style="list-style-type: none"> • 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.
<p>Other</p> <p>Cyber security</p>  <p>We are subject to a range of regulations, contractual compliance obligations, and customer expectations around the governance and protection of various classes of data. In common with all major organisations, we are the potential target of cyber attacks that could threaten the confidentiality, integrity and availability of data in our systems.</p> <p>A cyber security incident could also trigger material service interruption.</p> <p>Either of these outcomes could result in financial and reputation damage, including loss of customer confidence.</p>	 <p>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 consider cyber security a principal risk.</p>	<ul style="list-style-type: none"> • As external threats become more sophisticated, and the potential impact of service disruption increases, we continue to invest in cyber security. Recognising that this risk cannot be eliminated, we have implemented significant protective measures which will need to be continuously enhanced in light of the changes and threats we face.

Principal risk**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.

Status

Turnover in senior and key personnel has been at normal levels for the business during the year, but this remains an inherent business risk.

How we are mitigating the 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.

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 2020 to be an appropriate planning time horizon to assess Royal Mail's viability and to determine the probability and impact of our principal risks. This is the same time frame of our existing medium term planning cycle and therefore a period over which planning assumptions and the impact of strategic initiatives are scrutinised. This period also aligns with the performance criteria in our long-term incentive plans (LTIP).

Business divisions prepare detailed annual forecasts for a 12 month period and project performance over three years with reference to economic assumptions and strategic initiatives.

The key assumptions within the projections were stress-tested with reference to risks set out in the Principal Risks section on pages 37-41 but focused on those that could have a plausible and severe financial impact over the plan horizon.

This year, the Directors considered (i) the potential impact of industrial action; (ii) deteriorating economic and market conditions which could result in letters volume decline greater than our projected four to six per cent range and (iii) increased competition in the UK parcels sector. In addition we have not assumed any material impact from our initiatives to grow in new areas.

These risks were quantified to create a downside scenario that took into account the levels of committed capital 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 Company has decided that the Royal Mail Pension Plan will close to future accrual on 31 March 2018. On 8 May 2017, the Company and the RMPP Trustee agreed the March 2015 actuarial valuation and revised Schedule of Contributions following this decision. We continue to work closely with our unions on a sustainable and affordable solution for the provision of future pension benefits. In making their assessment of viability, the Directors have assumed that future cash pension contributions are consistent with those made in 2016-17.

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 2020.

Responsibility leader



Ranked second globally in the Transportation and Transportation Infrastructure industry in the Dow Jones Sustainability Indices

FTSE4Good

Royal Mail is a constituent of the FTSE4Good Index, ranking in the top 15 per cent of companies

Our performance



85 per cent of people in the UK think Royal Mail is an important part of local communities¹

12.3%

12.3 per cent reduction in road traffic collisions

Winner

Two awards won for our partnership with the charity Missing People



Times Top 50 Employer for Women, for the fourth consecutive year²

¹ Ipsos MORI Corporate Image Survey Winter 2016.

² During the year, we were listed as a *Times* Top 50 Employer for Women for the third time. Shortly after the financial year end, we were included in the list for the fourth time.

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.

Our CR strategy comprises six key objectives:

- Deliver economic and social benefit to the communities we serve
- Drive colleague advocacy for the Group and its community role
- Manage the environmental impacts of our business and operations
- Deliver our transformation responsibly
- Operate with integrity
- Communicate our management of corporate responsibilities openly and transparently

Our CR objectives support the delivery of our business strategy. We report progress against them under the areas of Customer, People, Community, Environment and Suppliers. Further information will be available in the 2016-17 Corporate Responsibility Report.

Measuring our progress

We are independently rated as a leading responsible business. We have been named a global leader in the Dow Jones Sustainability Indices for a third year. We were ranked second among around 100 companies in the Transportation and Transportation Infrastructure Industry. We were previously ranked number one globally, two years in a row. Royal Mail is included in both the Dow Jones Sustainability World Index and the Dow Jones Sustainability Europe Index. We have been included every year we have been eligible, since our flotation.

We were again included in the FTSE4Good Global Index in 2016. We were ranked in the top 15 per cent of companies included, on account of our environmental, social and governance performance.

Our customers

Royal Mail is the UK's most trusted delivery company¹. We are proud of the role we play in connecting customers, businesses, organisations and communities, including those in remote and rural areas.

We are continuously adapting our business to respond to customers' changing expectations. This includes improving customer convenience and flexibility to support consumers, small and medium enterprises and marketplace sellers. We are building our capability to handle increased numbers of larger parcels, where appropriate, and investing in tracking and automation.

We have three customer service indicators on our Corporate Balanced Scorecard. All of them are equally weighted. They are: Retail First Class Quality of Service; business customer satisfaction; and customer complaints. (See page 18 for more information). We exceeded our First Class target. Our mean business satisfaction score improved by two points to 78. The consumer satisfaction score remained stable at 72. There was, however, an overall increase in complaints in 2016-17, driven principally by the growth in tracked parcels. As a result of a range of initiatives, we reduced the number of complaints in key categories like misdeliveries and redirections. On the other hand, Denial of Receipt complaints – these relate to parcels – increased. This is an area of real focus for us. We are concentrating on improving the scanning of items and ensuring that if an item is left with a neighbour, the appropriate details are written on the 'Something for You' card.

After our customers, our employees are best placed to evaluate how customer-focused our products and services really are. We use our annual Employee Survey to gauge what they think about key aspects of the customer

experience. This year we achieved a customer focus score of 69², an increase of two points compared to the previous year.

Tackling the scourge of scam mail

Royal Mail never knowingly delivers scam mail – it is a scourge. We understand the upset and distress that it can cause. This year, we worked with our employees, industry partners and law enforcement agencies to tackle this issue even more vigorously. A range of new measures were implemented to strengthen our ability to stem the flow of scam mail in the postal system. We launched an industry-wide Code of Practice on scam mail, and have secured all major UK mail operators' commitment to it. We also introduced anti-scam clauses into bulk mail contracts with our customers. We can now check items we suspect to be scam mail, refuse to process or deliver it, and terminate a customer's contract in certain circumstances. Since launching this new scheme, we have stopped over 700,000 scam items from reaching customers.

Following year end, we launched another major new initiative to protect consumers from scam mail. We are contacting households that we believe are receiving high volumes of scam mail. This latest anti-scam initiative will initially focus on the most impacted customers. It will be extended in due course.

Our people

Achievement of our strategic priorities depends on our people. They represent our Company among customers and communities. We rely on them to fulfil the Universal Service and deliver high-quality customer service. Engaging our people within a fair, rewarding and customer-focused culture is essential for our future success.

Pay and terms & conditions

We believe good employment conditions drive quality of service. All of our permanent employees earn above the Living Wage. They also receive the additional benefits associated with permanent employment, such as paid holiday and a good pension. We are committed to continuing to provide the best pay and terms and conditions in our industry. In return, however, we continually work with our unions to agree changes to our working practices and labour model. This process of change is about sustaining our business now and in the future, particularly given the decline in letter volumes.

Our Agenda for Growth agreement with the Communications Workers Union, put in place in 2013, includes legally binding terms covering employee pay, protections and industrial stability as well as a programme

¹ Research by the Business Brand Tracker 2016-17 Survey.

² Out of 100.

of work to help deliver change. We are now working with our unions to agree and implement our vision for the future. We are seeking more change at pace and in a way that is fair to all of our people across the UK. We recognise that change is difficult. But, it is essential that we keep transforming the business given the challenges we face.

Engagement and culture

Employee engagement is one of the two people-related key performance indicators on our Corporate Balanced Scorecard (see page 18 for more information). Employee engagement is measured through our annual Employee Survey. In 2016-17, we maintained our employee engagement score of 57. Against a backdrop of significant change for our business, we have achieved an above average³ employee engagement score for the last two years.

An extensive internal communications programme is in place across our business. We held 39 'town hall' meetings in the UK this year, where senior managers addressed thousands of frontline colleagues and middle managers. Senior managers also held many on-site engagement sessions.

Share ownership

During 2016-17, the Royal Mail Share Incentive Plan Trust distributed the final one per cent of shares that had been gifted to it for eligible employees, following the disposal of HM Government's holding in 2015-16. All of our eligible full-time employees have now received a maximum of 913 Free Shares, regardless of grade. This means that 12 per cent of the Company has been awarded to colleagues. This is one of the largest free stakes made available to employees as part of any major UK privatisation.

Health and safety

The safety and wellbeing of our workforce is a key priority for us. There was a slight increase in sick absence this year, from 4.51 per cent in 2015-16, to 4.63 per cent in 2016-17. We maintained our Lost Time Accident Frequency Rate at 0.49 in 2016-17. We use on-going communications to reinforce safety messages with the aim of making safe behaviours part of our business as usual activities. Road traffic collisions are one of the main causes of accidents. In 2016-17, the Road Traffic Collision Frequency Rate (RTCFR) was added to our Corporate Balanced Scorecard to increase focus on this area. This year, we reduced our RTCFR by 12.3 per cent.

³ Our engagement score compares favourably with the Ipsos MORI norm for large organisations. Our score is one point higher than the norm, which is 56. Currently the trend is downwards for employee engagement in large organisations.

Unfortunately, however, accidents still sometimes happen. It is with great regret that we report that one person lost their life in connection with our activities in the UK in the past year. We liaise closely with the relevant authorities and complete our own detailed investigations to determine the root cause of each accident and, where possible, to determine what lessons can be learned. Investigations are discussed at Board level and outcomes are communicated across the Group.

Musculoskeletal issues are one of the leading causes of illness among our people. This year, we launched a new programme to investigate the causes of musculoskeletal problems and identify any job-specific trends. We held workshops at sites with higher than average rates of musculoskeletal issues and surveyed colleagues about their roles. We also established a working group to look specifically at health issues faced by older colleagues and created an action plan to improve job design and the support services available.

Mental health is another leading form of ill health in the UK and our workforce. It is a focal point of our health and wellbeing strategy. This is about reaffirming our commitment to helping end the stigma of mental ill-health in the workplace. We created a dedicated 'First Class Mental Health' self-help toolkit for managers, and produced five short films on mental health, in partnership with the Mental Health Foundation, to support colleagues. We have begun delivering Mental Health First Aid training to managers. So far, 431 managers have been trained on the course, delivered by Mental Health First Aid England. There is much more, however, that we need to do as a major employer. In 2017-18, we will significantly expand our support for mental health by launching a major, strategic charity partnership with Action for Children focused on mental health. It will be an integrated programme covering training, awareness-raising, communications, pro-bono support, work placements and fundraising (see page 45).

Promoting diversity

Royal Mail employs a diverse mix of people who reflect 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.

Gender diversity

In 2016-17, Royal Mail was named as one of *The Times* Top 50 Employers for Women for the fourth consecutive year. We were also listed as a top 20 company for senior leader gender diversity in the Hampton-Alexander Review; an independent, Government supported review of diversity in FTSE 100 companies. At Board level, 50 per cent of members are women, which compares well to the FTSE 100 average of 27 per cent. At senior management level, 30 per cent of our colleagues are women, compared with 16 per cent in operational grades.

We address the gender balance across our organisation through initiatives such as balanced shortlisting. This has helped to increase the number of women hired in frontline roles. During the year, we launched a new drive to increase the number of women appointed to Delivery Office Manager positions, offering candidates support through a 12-week development programme before being placed into a role. As a result, we have appointed 46 women in Delivery Office Manager roles in 2016-17, making up 26 per cent of Delivery Office hires this year.

Each year, we conduct a gender pay review across our UK business, comparing the salaries we pay men and women. We are currently carrying out the required analysis in accordance with the new gender pay gap reporting regulations. We will publish the outcomes in 2017-18, in line with the statutory timescales.

Ethnic diversity

Royal Mail's ethnic profile is broadly representative of the UK population. Around 11 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.

KPIs ⁵	2016-17	2015-16	2014-15	2013-14
Lost Time Accident Frequency Rate ⁶	0.49	0.49	0.70	0.81
Sick absence (%)	4.63	4.51	4.74	4.34

⁴ We disclose fatalities that have been confirmed during the reporting year.

⁵ Data represents UKPIL safety performance.

⁶ Lost Time Accident Frequency Rate is calculated by dividing the number of Lost Time Accidents for last 12 months by the number of hours worked for last 12 months, and multiplying this by 100,000.

Gender distribution (number of people)	UKPIL		GLS	
	Female	Male	Female	Male
Royal Mail plc Board	4	4	n/a	n/a
Senior Management ¹	731	1,704	39	246
Management	1,420	5,280	3,183	2,528
Administration	1,428	980		
Operational	20,011	107,131	1,993	9,147

¹ Includes direct reports of Chief Executive's Committee members

Supporting people with disabilities

We are committed to employing people with disabilities and supporting disabled employees during employment. This year, we have achieved Employer Level 2 of the new Disability Confident programme, which replaces the Disability Two Ticks scheme. Approximately seven per cent of our employees identify themselves as having a disability. We make reasonable adjustments to the workplace to support employees who are disabled, or become disabled. We provide training as required, for example, in assistive technology and software.

Since 2006, we have been a national partner of the disability charity Remploy, working together to provide jobs and placements for people with disabilities. In 2016-17, we offered 142 placements to disabled and disadvantaged candidates. To date, we have employed over 2,200 people through Remploy.

Inclusive workplaces

We are a member of Stonewall's Diversity Champions programme, which campaigns for equality for lesbian, gay, bisexual and transgender (LGBT) people. We moved up 25 places in the 2017 Workplace Equality Index by Stonewall. We are now ranked number 266 out of 439 organisations, up from 291 in 2016. In June 2016, more than 100 of our people took part in the Pride in London parade celebrating the LGBT community.

Training and career development

We are committed to investing in our people to equip them with the skills they need to deliver our business strategy. In 2016-17, we invested £13.8 million in training, delivering the equivalent of almost 25,000 training days for our UK colleagues. We also established a Continuous Improvement Leadership Academy to support the development of Mail Centre leaders. The eight-week programme aims to improve leaders' ability to streamline

processes and reduce waste. So far, 44 colleagues have taken part. At senior levels, we enrol our people in leadership programmes at Oxford Said Business School. Since the programme began in 2014, 280 colleagues attended, of which 35 per cent were women.

In GLS, employees in Poland have access to books and audio-books covering professional and personal development. GLS Denmark has rolled out customer focus training, which involves colleagues learning from best practice across the organisation. So far, more than 110 colleagues have taken part.

Our communities

Royal Mail seeks to be an integral, valued and trusted part of every community that our service reaches. Our main contribution to communities is our social and economic impact. We make the fifth biggest contribution of any UK company to the UK economy⁷. The Universal Service is a key driver of UK economic growth and an integral part of the digital economy, which is strategically important to the UK's economic future. One in every 185 jobs in the UK is provided by Royal Mail. Our employment is disproportionately weighted towards areas where there are fewer job opportunities available, enabling us to make a significant contribution to social inclusion. We seek to build on the core economic and social contribution of our business operations by making strategic community investments

⁷ Cebr adapted the original gross value added (GVA) scoreboard developed by the Department for Business, Energy & Industrial Strategy (BEIS, BIS at the time) to take account of companies' UK operations only. The original GVA scoreboard included companies' overseas impacts. In this adapted scoreboard, for 2016-17, UKPIL ranks in fifth place. Cebr inputted financial, supply chain and employee data for the financial year 2016-17 into the national accounting framework provided by the Office for National Statistics' supply-use and input-output tables to establish UKPIL's direct and indirect contribution to the UK and enable UKPIL to be ranked in this way. The full study methodology is published online at www.royalmailgroup.com/responsibility/cr-reports.

and by using our business assets to benefit society.

In 2016-17, Royal Mail contributed £7.9 million directly to good causes and schemes for disadvantaged groups. That includes £700,000 in matched giving and grant schemes to support employees' fundraising for charities and good causes. In addition, our people donated £3.1 million to hundreds of charities and good causes across the UK, including £2.4 million through our award-winning payroll giving scheme.

Our partnership with the Stroke Association ended during the reporting period. We raised £2 million for the charity, including matched giving. This will fund up to 10,000 grants for stroke survivors, to support their recovery. We also took over 15,000 blood pressure readings, to highlight the link between high blood pressure and stroke risk.

We decided to focus on the theme of mental health for our subsequent charity partnership. This is an important issue for our business and in society in general. We will deliver an integrated programme with our new charity partner, Action for Children, covering mental health training, awareness-raising, communications, pro-bono support, work placements and fundraising. Around 36,000 colleagues voted for Action for Children as their preferred charity partner in our 2017 Employee Survey.

The partnership has four key objectives:

- to support our own colleagues' mental health;
- drive awareness amongst customers and communities;
- fundraise £2 million, including matched giving from Royal Mail, to enable the charity to support more young people; and
- engage our suppliers to raise awareness and support for the cause.

Action for Children will use the funds we raise to employ specialist youth workers to deliver face-to-face support sessions for 8,000 young people aged 15-18, to help prevent them from developing depression and other mental health problems.

Royal Mail partners with the charity Missing People to distribute missing people alerts through our network of handheld scanners, which are usually used to track and sign for deliveries. We sent our 100th alert during the year. We also funded the charity's Child Rescue Alert system, which allows members of the public to sign up for alerts to their mobile phones. At Christmas, we sponsored a campaign to enable missing people to send

a Message Home for free. We distributed 10,000 freepost cards to help them take the first step in reconnecting with loved ones. Our partnership was recognised by two prestigious awards: the CorpComms Best Partnership award and PostEurop's Coup de Coeur for Society award. CorpComms Awards judges said "This is a truly stand out partnership. It is extremely clever, relevant and built out of insight."

GLS is active in supporting community causes across Europe. In 2017, GLS Netherlands launched a partnership with Heppie, a charity that provides support to disadvantaged children. Through the partnership, GLS will fund around 50 excursions a year for the children. GLS Belgium provided assistance to the Belgian deaf football team to transport their equipment to Italy for the European Deaf Football Championships. In Germany, GLS colleagues spread some festive cheer by donating 750 advent calendars to local children's hospitals.

Our environment

We aim to minimise the environmental impact of our business operations. Management of natural resources is a commercial imperative too for us. Reducing our impact will help us save costs and compete more effectively.

Our Environment Policy, which outlines our commitment to managing environmental issues, was revised during 2016-17.

The new policy can be accessed online at www.royalmailgroup.com/responsibility/policies. We also developed a new suite of environmental standards in 2016-17, aligned to ISO14001. This is about enabling business units in our UK operations to identify environmental efficiencies and ensure we continue to meet legal obligations.

The table below sets out our Group carbon dioxide equivalent (CO₂e) emissions for 2016-17. In 2016-17, our total UK carbon footprint decreased by 4.7 per cent compared with the previous year. On a normalised basis, emissions decreased by 4.6 per cent per £1 million revenue. Our target has been to reduce UKPIL carbon emissions (including Scopes 1, 2 and 3) by 20 per cent, by 2020-21, compared with a 2004-05 baseline. We have achieved our target at a time of significant change for our business. We are transforming from a letters company that delivers parcels, to a parcels company that delivers letters. We are having to accommodate more and bigger parcels than ever before. This places increasing demand on our fleet and fuel consumption. We have achieved our target by pursuing energy-saving opportunities across our fleet and property portfolio, exploring more efficient ways of balancing the air, rail and road transport that we use to deliver mail items, and training our employees in more energy-efficient behaviours. The target will remain in place until 2020-21. This means that we will aim to keep our carbon emissions at 20 per cent below the levels in 2004-05 until 2020-21. This will be challenging. Parcel

volumes are increasing, and demands on our vehicles and fuel consumption will continue to grow.

Fleet emissions

We have replaced air transport with road on several routes across the UK. This has helped us to reduce costs as well as associated carbon emissions. We trained over 13,500 drivers in fuel efficient driving, and fitted telemetry technology in approximately 2,900 vehicles. In total, 40 per cent of our fleet is now fitted with this technology. It promotes safer, more efficient driving styles. We also continue to trial vehicles that use low or zero-emission technology. In 2017-18, we will trial nine electric heavy goods vehicles at a central London Mail Centre.

GLS is introducing more gas powered vehicles into its fleet, bringing the total number to 180. Almost 10 per cent of its fleet in Italy is gas-powered.

Buildings emissions

The size of our property portfolio makes reducing its energy use another key priority. During the year, we replaced inefficient fluorescent lights with new LED lights at 15 of our UK sites, and lighting controls at a further 17 Mail Processing Units and Delivery Office sites. This will generate an expected electricity saving of 11 GWh per year. In addition, in 2016-17 we focused on reducing our use of gas across our UK estate. Our improved use of Building Energy

	2016-17			2015-16 ¹			2014-15 ¹		
CO ₂ e Emissions ('000 tonnes) ^{2,3,4,5}	Total	UKPIL	GLS	Total	UKPIL	GLS	Total	UKPIL	GLS
Scope 1	458.2	444.9	13.3	473.7	458.4	15.3	483.7	470.7	13.0
Scope 2	134.4	116.3	18.1	152.2	134.1	18.2	166.4	145.4	21.0
Scope 3	87.7	87.7		88.7	88.7		100.1	100.1	
Total	680.3	648.9	31.4	714.6	681.2	33.4	750.1	716.1	34.0
Tonnes CO ₂ e per £1m revenue		84.7			88.8			92.2	
Scope 2 (market-based)	40.3	14.3	26.0	40.7	14.1	26.6			

¹ Last year, we reported that we had achieved a 16.8 per cent reduction in carbon emissions against the baseline. However, we actually achieved a 22 per cent reduction. Carbon emissions figures have been restated here to ensure transparency. During 2016-17, we identified two issues that resulted in an overestimation of our carbon emissions for 2015-16, and for 2014-15. Firstly, Parcelforce Worldwide road fleet emissions had been double counted in 2015-16 and 2014-15. Secondly, issues with gas meter billing resulted in some double counting during 2015-16. This means that we overestimated our total carbon emissions by 5.9 per cent in 2015-16 and 3.9 per cent in 2014-15. These issues have been rectified. Appropriate additional control steps have been included as part of the data collection and validation process to reduce the risk of misreporting in the future. Ernst & Young (EY) – who we engage to provide limited assurance of our annual Corporate Responsibility reports, including our carbon emissions data – checked the rectifications and the additional controls that were implemented. EY's full assurance statement will be available in the 2016-17 Corporate Responsibility Report.

² We quantify and report our organisational greenhouse gas emissions according to the Defra Environmental Reporting Guidelines 2013 and have utilised the UK Government 2014 Conversion Factors for Company Reporting in order to calculate carbon dioxide equivalent emissions from corresponding activity data. We have reported all material Scope 1 and Scope 2 emissions for which we consider ourselves responsible and exclude immaterial sources such as fugitive emissions from air conditioning in owned vehicles. Scope 3 emissions are included in UKPIL reporting only.

³ We report our Scope 2 market-based carbon emissions in line with the Greenhouse Gas Protocol, which takes into account the use of lower carbon forms of energy such as renewables. Based on the total Scope 2 market-based figures in table above, our total carbon emissions in 2016-17 are 586.1 kilotonnes CO₂e.

⁴ Totals may differ due to rounding.

⁵ CO₂e emissions have been assured by EY, with the exception of 2015-16 Scope 2 (market-based) emissions.

Management Systems helped to reduce gas consumption by seven per cent in total, in sites where we have those systems.

GLS' sites in Barcelona, Vitoria and Zaragoza source 100 per cent of their electricity through a green tariff. These locations represent approximately 52 per cent of our parcel volumes in Spain. GLS plans to move all of its Spanish operations to this tariff by the end of 2017-2018.

Waste and water management

In 2016-17, 91 per cent of UK waste was diverted from landfill, four per cent more than our target of 87 per cent, using a combination of recycling and waste to energy initiatives. 45 per cent of UK sites that reported waste this year, now do not send any waste to landfill. In addition, we recorded a reduction of four per cent in our use of water, exceeding our water reduction target of three per cent. During the year, we also set new waste-to-landfill and water reduction targets for the next three years. These are detailed in our 2016-17 Corporate Responsibility Report.

Our suppliers

In the UK, we contribute around £2.4 billion annually procuring goods and services from around 5,000 suppliers. Where commercially viable, we break contracts down into smaller lots to increase their attractiveness to small and medium sized enterprises. By making our tendering process accessible to businesses of all sizes, we significantly expand our options. We also widen the economic opportunities that our business creates. During 2016-17, we awarded over 30 per cent of new contracts to SMEs.

We are committed to ensuring suppliers to Royal Mail maintain high standards of social, ethical and environmental conduct. We expect UK suppliers to adhere to our Responsible Procurement Code. The Code requires suppliers to maintain high standards of social, ethical and environmental conduct, including complying with the Ten Principles of the United Nations Global Compact. Suppliers must also comply with our mail security procedures and our approach to anti-bribery and corruption. The Code is embedded into our tendering process for UK procurement and it is referenced in our contracts. We may terminate a contract if we identify that a supplier fails to comply with our Code. We delivered several training sessions for colleagues in our UK procurement team last year, covering various corporate responsibility issues.

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

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 act in accordance with the UN Guiding Principles on Business and Human Rights. We support the United Nations Universal Declaration of Human Rights and the International Labour Organization Fundamental Conventions, covering freedom of association, the elimination of all forms of forced and compulsory labour, the abolition of child labour and the elimination of discrimination in the workplace.

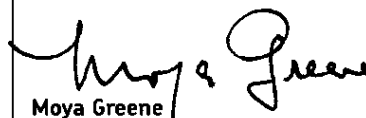
Royal Mail welcomes the introduction of the UK Government's Modern Slavery Act. This requires businesses to publicly report any steps they are taking to guard against the occurrence of slavery and trafficking in their business operations. We will publish our formal Modern Slavery Act statement within the recommended timeframes. It will cover both UKPIL and GLS.

Our commitment to human rights is embedded in our company-wide Corporate Responsibility Policy, our Responsible Procurement Code and our Business Standards, which set out the standards and behaviours we expect of our colleagues. Further information about our approach to human rights protection will be available in our 2016-17 Corporate Responsibility Report.

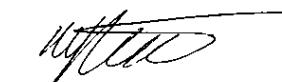
Our taxation principles

Our taxation strategy is published on our website, at the following address: www.royalmailgroup.com/responsibility/policies. We have published our taxation principles for a number of years. Our strategy provides further detail and transparency. Our approach remains the same. Royal Mail has a low risk appetite in relation to tax matters. We are committed to complying with all applicable tax laws and will make decisions in relation to tax with due regard to our reputation, integrity and status as a Group whose shares are listed on the London Stock Exchange.

The Strategic Report was approved by the Board on 17 May 2017 and signed on its behalf by:



Moya Greene
Chief Executive Officer
17 May 2017



Matthew Lester
Chief Finance Officer
17 May 2017

Corporate governance

Chairman's introduction

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Dear Shareholder

On behalf of the Board, I am pleased to present Royal Mail's corporate governance report, following my first full year as Chairman of your Company. Although it has been a year of considerable change and challenge, we continue to ensure we maintain the highest standards of governance and confirm that the Company has, once again, fully complied with the UK Governance Code 2014 throughout the year. We were delighted that Royal Mail was recognised in the Institute of Directors' 2016 Good Governance Report by being ranked in the top 10 of all FTSE 100 companies for corporate governance. The following pages in this report explain, in detail, the structure and processes in place to ensure excellent governance and sets out the operations of the Board's primary committees.

Our Board is committed to ensuring that it provides effective leadership and promotes a culture of uncompromising ethical standards based on honesty, integrity, openness and effective debate. As individuals, we believe that the highest standard of corporate governance is vitally important to the success of the business and will contribute to improve company performance as well as help the Board discharge its duties in the best interests of shareholders and for the long term success of the Company. The Board achieves this by requiring that good governance principles and practices are adhered to and are embedded throughout the Company.

The Board reviews Royal Mail's long-term strategy and monitors, supports and, where required, challenges the executive team, whose role it is to manage the Company successfully day-to-day, driving performance and creating value for our shareholders and other stakeholders. I lead the Board and for it to be effective in discharging its responsibilities, a level of independence and objectivity is maintained to ensure we have the correct balance of experience and skills and have sufficient knowledge of the operations of the business.

This year, the Board has devoted much of its attention to strategy, market changes and succession planning. Key discussions have been held around operational delivery, our business transformation and the associated business risks and their management.

During the year, our Board saw changes to its composition with the retirement of Non-Executive Director Nick Horler in February 2017, having served on the Board for almost seven years. We also welcomed Rita Griffin to the Board in December 2016 as a Non-Executive Director. Rita brings considerable knowledge developing and implementing strategies and leading substantial transformation programmes. As we have announced, further changes will take place with the stepping down of our Chief Finance Officer Matthew Lester at the conclusion of this year's AGM.

On 15 May 2017, we announced that Stuart Simpson, Director of Group Finance, will be appointed CFO and join the Royal Mail Board at the conclusion of the AGM on 20 July 2017. Stuart's appointment follows a comprehensive search that included both internal and external candidates.

We continue to support and promote diversity within our business and Royal Mail employs a diverse mix of people that reflects the communities we serve. The Board is proud that we were listed as a top 20 company for senior leader gender diversity in the Hampton-Alexander Review; an independent, Government supported review of diversity in FTSE 100 companies. Royal Mail has also been recognised as a Times Top 50 Employers for Women for the fourth consecutive year. We strongly believe that the business benefits from a diverse Board and Senior Management team in all aspects – not just gender – and this facilitates better collective decision-making capacity. We will continue to promote diversity in its broadest sense.

The Board carries out an evaluation of our own performance on an annual basis. Following an external evaluation facilitated by Independent Board Evaluation in 2015-16, this year it was agreed that the annual evaluation would be carried out internally. The results found that our Board and each of the Board committees function very well and make an effective contribution and a strong commitment to the leadership and progression of the Group. The findings of the evaluation are discussed in more detail on page 57.

Peter Long
Chairman
17 May 2017

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:

Strategy, finance, transformation and consumer experience.

Current external appointments:

- Member of TUI AG Supervisory Board.
- Non-Executive Chairman of Countrywide plc.
- Non-Executive Chairman of Parques Reunidos Servicios Centrales S.A.U.

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 of Sunworld.
- Chief Executive of International Leisure Group Travel Division.

Moya Greene C*

Chief Executive Officer

Appointed to the Board:

6 September 2013¹

Key areas of prior experience:

Postal sector, finance, retail, transport.

Current external appointments:

- Trustee of Tate.

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 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 AN R*

Senior Independent Non-Executive Director

Appointed to the Board:

20 September 2013²

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.
- Trustee of Sir John Soane's Museum.

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's Committee

* – Chair of the Committee

Matthew Lester P C
 Chief Finance Officer

Appointed to the Board:
 6 September 2013³
Key areas of prior experience:

Finance, accounting, consumer goods, financial services.

Current external appointments:

- Non-Executive Director of Capita plc and Chair of the Audit and Risk Committee.
- Non-Executive Director of Man Group plc and Chair of the Audit and Risk Committee.

Previous relevant experience:

- Group Finance Director at ICAP plc.
- Group Financial Controller and Group Treasurer, Diageo plc.
- Main committee member of the 100 Group of Finance Directors and Chairman of its Investor Relations and Markets Committee.

³ Appointed on 6 September 2013 to the Board of Royal Mail Limited, which changed its name to Royal Mail plc on 19 September 2013. Matthew Lester has informed the Board that it is his intention to leave the Company following the AGM on 20 July 2017. He will not stand for re-election. On 15 May 2017, we announced that Stuart Simpson, Director of Group Finance, will be appointed CFO and join the Royal Mail Board at the conclusion of the AGM on 20 July 2017.

Rita Griffin A
 Non-Executive Director

Appointed to the Board:
 1 December 2016

Key areas of prior experience:

Marketing, finance, logistics, strategy, transformation.

Current external appointments:

- Chief Operating Officer, Global Petrochemicals at BP plc.
- Non-Executive Director of Shanghai SECCO Petrochemicals Limited.

Previous relevant experience:

- Chief Marketing Officer, BP plc.
- Chief Operating Officer roles for several BP businesses including automotive fuels, aviation fuels, LPG, lubricants and retail.

Cath Keers A N
 Non-Executive Director

Appointed to the Board:
 20 September 2013

Key areas of prior experience:

Retail, consumer focus, digital.

Current external appointments⁴:

- Non-Executive Director of Talk Talk Group plc.
- Non-Executive Director of the Insurance Group Liverpool Victoria Friendly Society Limited (LV=).
- Chairman of USTWO Fampay Limited.

Previous relevant experience:

- Non-Executive Director of Home Retail Group plc and Chair of the Remuneration Committee.
- Customer Director and Marketing Director of O2 UK.
- Non-Executive Director of Telefonica Europe.
- Various marketing, strategy and business development roles at Next plc, Sky plc, Avon Products and Thorn EMI.

⁴ Appointed to Sage Group plc as Non-Executive Director with effect from 1 July 2017.

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
Peter Long	N/A	N/A
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
Rita Griffin	N/A	N/A
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* NRP
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 Naked Energy Ltd.
- Non-Executive Director of Qinetiq Group plc and Chair of the Audit Committee.
- Non-Executive Director of Ventive Ltd.

Previous relevant experience:

- Non-Executive Director of Independent Oil and Gas plc.
- 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 ARP*
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 Director of Post Office Limited.
- Non-Executive Director of Just Retirement Group plc.
- Non-Executive Director of CPP Group plc.
- Non-Executive Chairman of Jelf Group plc.

Changes to the Board during the year

- Rita Griffin was appointed to the Royal Mail plc Board with effect from 1 December 2016.
- Nick Horler retired from the Royal Mail plc Board on 28 February 2017.
- Matthew Lester has informed the Board that it is his intention to leave the Company following the AGM on 20 July 2017. He will not stand for re-election.
- On 15 May 2017, we announced that Stuart Simpson, Director of Group Finance, will be appointed CFO and join the Royal Mail Board at the conclusion of the AGM on 20 July 2017.

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

Board and Committee attendance

During the year, the Directors attended the following meetings of the Board and Committees.

	Board	Audit & Risk Committee	Nomination Committee	Pensions Committee	Remuneration Committee
Total number of meetings	8	6	3	3	7
Chairman					
Peter Long	8/8		3/3		7/7
Executive Directors					
Moya Greene	8/8				
Matthew Lester	8/8			3/3	
Non-Executive Directors					
Rita Griffin ¹	3/3	2/2			
Nick Horler ²	7/7	3/5	2/3		
Cath Keers ³	8/8	5/6	3/3		
Paul Murray ⁴	8/8	6/6	1/1	3/3	7/7
Orna Ni-Chionna	8/8	6/6	3/3		7/7
Les Owen	8/8	6/6		3/3	7/7

¹ Rita Griffin was appointed to the Board as a Non-Executive Director on 1 December 2016.

² Nick Horler resigned as a Director of the Board on 28 February 2017. He was unable to attend the Audit and Risk Committee on 24 August 2016 which was an ad hoc meeting, the Audit and Risk Committee and the Nomination Committee on 10 November 2016 due to prior business commitments.

³ Cath Keers was unable to attend the Audit and Risk Committee on 22 March 2017 due to prior business commitments.

⁴ Paul Murray was appointed to the Nomination Committee on 16 November 2016.

Chief Executive's Committee

In addition to the Royal Mail plc Board, the Chief Executive's Committee (CEC) 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

● Member of TopCo
see page 65.

● See 'Board of Directors' on
pages 49-51.

Matthew Lester
Chief Finance Officer

● Member of TopCo
see page 65.

● See 'Board of Directors' on
pages 49-51.

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), Philatelic and Postcodes.

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

● Member of TopCo
see page 65.

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
UK Operations Director

Current role

- Appointed UK Operations Director in March 2016.
- Previously appointed in August 2015 as Deputy Chief Operations Officer 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.

Maaïke 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.

Phil Morris

Group Chief Technology Officer

Current role

- Appointed Group Chief Technology Officer in April 2017, following his interim appointment as Group Chief Information Officer in May 2016.
- Appointed IT Director for Strategy, Architecture, Security and Service in January 2012.

Previous work history

- Partnership at the PA Consulting Group.
- Managing Director for EquaTerra Europe and Asia.
- Executive Director for Morgan Chambers.

Mike Newnham

Managing Director, New Markets and Digital

Current role

- Appointed Managing Director, New Markets and Digital in January 2017.
- 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, Corporate Affairs, Regulation and Customer Experience

Current role

- Appointed Managing Director, Corporate Affairs, Regulation and Customer Experience in December 2016.

Previous work history

- Appointed Managing Director, Communications, in November 2010. Subsequently assumed responsibility for Strategy, Regulation and Pricing in 2014.
- Held a number of Group Corporate Affairs 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.

* On 15 May 2017, we announced that Stuart Simpson, Director of Group Finance, will be appointed CFO and join the Royal Mail Board at the conclusion of the AGM on 20 July 2017.

Sue Whalley

Chief Operations Officer

● Member of TopCo
see page 65.

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 the UK core business, 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 in the London office.

Statement of corporate governance

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

The UK Corporate Governance Code 2014 (Code) applied to the 2016-17 financial year. 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 the 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.

Board leadership

The Board

The Board is responsible for the stewardship of the Company and overseeing its conduct and affairs to create sustainable value for the benefit of its stakeholders.

The Board is committed to ensuring that it provides effective leadership and promotes uncompromising ethical standards, setting the tone for the Company. All its members have the knowledge, talent and experience to perform the functions required of a Director of the business.

At the end of the year, the Board of Royal Mail plc comprised the 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 and Rita Griffin, 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 49-51.

The Board holds regular scheduled meetings throughout the year. The Board met eight times during the year.

The division of responsibilities between the Chairman and the Chief Executive Officer is

fully documented. A summary is set out on page 55.

During the financial year, the Non-Executive Directors and the Chairman met on a number of occasions 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 senior management. In addition, the Senior Independent Director met with the Non-Executive Directors to assess the Chairman's performance without the Chairman being present.

Executive Directors have rolling 12-month contracts and Non-Executive Directors are generally appointed for three year terms.

In accordance with the requirements of the Code, copies of the Directors' service contracts and letters of appointment for the Non-Executive Directors are available for inspection at the Company's registered office during normal office hours and by the shareholders at each AGM for a period of 15 minutes prior to the commencement of the meeting and also during the meeting.

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 matters reserved for the Board 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):

- Group's strategy, structure and viability;
- compliance and regulation;
- revenue growth in the core businesses as well as new areas;

- productivity and efficiency of the operations;
- future technology;
- the Board's composition;
- key stakeholder relations;
- Group's financial performance, including the management of share plans;
- human resources updates;
- Group's property portfolio; and
- health and safety.

Key areas of focus for the next year:

- Group's strategy;
- revenue growth opportunities;
- technological developments;
- digitisation of Royal Mail;
- composition of the Board;
- succession planning and talent pipeline;
- security, including cyber risk and data protection; and
- health and safety.

Independence of Directors

The Board reviews the independence of its Non-Executive Directors as part of its Annual Board Effectiveness review.

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 impact their judgement.

Shareholder relations

Communication with shareholders is given high priority. The 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.

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

There is regular dialogue with our institutional shareholders. The Chairman and the Senior Independent Director (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.

Board information

The Board receives business and financial performance reports at each Board meeting

as well as standing reports on Health and Safety, Regulation, Market Dynamics and from the Company Secretary. In addition, the Directors have access to an online reference manual to support them in the 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 59-63.

Board roles

Chairman

Peter Long

Key responsibilities

- Leads the Board
- Promotes the highest standard of corporate governance
- Sets its agenda and ensures that Directors receive accurate, timely and clear information with adequate time available for discussion of all agenda items
- Builds an effective and complementary Board, including effective contribution and sufficient challenge from the Directors
- Ensures effective communications with shareholders and makes the Directors aware of their views
- Ensures the Board determines the nature and extent of the significant risks that the Company is willing to embrace in implementing its strategy

Senior Independent Director

Orna Ni-Chionna

Key responsibilities

- Provides a sounding board for the Chairman and Chief Executive Officer
- Leads the annual appraisal of the Chairman's performance
- Acts as a trusted intermediary through which Non-Executive Directors can express their views or concerns
- Available to meet with shareholders should they have issues or concerns

Non-Executive Directors

Rita Griffin

Cath Keers

Paul Murray

Les Owen

Key responsibilities

- Constructively challenge Management
- Help develop strategy
- Scrutinise Management's performance
- Satisfy themselves on the integrity of financial information and on the effectiveness of financial controls and risk management systems
- Determine the appropriate level of remuneration for Executive Directors

Chief Executive Officer

Moya Greene

Key responsibilities

- Has day-to-day responsibility for managing the Group's operations
- Makes decisions on matters affecting the operations, performance and strategy
- Provides leadership and direction to senior management
- Coordinates all activities to implement strategy for managing the business in accordance with the Group's risk appetite and business plan set by the Board
- Promotes the Company's culture and standards

Chief Finance Officer

Matthew Lester*

Key responsibilities

- Supports the Chief Executive Officer and leads on the financial and risk management of the Group
- Develops the financial and operational strategy and the metrics tied to that strategy
- Develops and monitors control systems designed to preserve company assets and report accurate financial results

* On 15 May 2017, we announced that Stuart Simpson, Director of Group Finance, will be appointed CFO and join the Royal Mail Board at the conclusion of the AGM on 20 July 2017.

Company Secretary

Kulbinder Dosanjh

Key responsibilities

- Provides advice on corporate governance issues and ensures all statutory and regulatory requirements are met
- Acts as a secretary to the Board and its Committees
- Maintains and ensures efficiency of the Company's and Board's governance framework
- Organises Directors' induction and training
- Ensures good information flows and comprehensive practical support is provided to the Board
- Communicates with shareholders ensuring due regard is paid to their interests

Board diversity

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 so they can 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 characteristics¹ and 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 26 March 2017, three of the six (50 per cent) Non-Executive Directors, including the SID, were also female. The Committee does not feel that it is appropriate to set a quota regarding the number of women on the Board. But, we will look to maintain a strong representation of women on the Board.

● See pages 44 and 45 for further information on diversity.

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. In practice, they tend to devote more time than the stated minimum requirement.

The Non-Executive Directors were required to declare any of their other significant commitments prior to their appointment. The Board is informed of any subsequent changes as and when they arise. The Company announces to the London Stock Exchange any changes to their directorships on the boards of other publicly quoted companies. The Board is also informed of any non-publicly quoted appointments and assesses external appointment levels to ensure the Board members are not too thinly spread.

The Board believes that there are significant benefits to both the Group and the individual when Executive Directors accept Non-Executive directorships from 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.

External appointments

Peter Long's Directorships (listed in his biography on page 49) qualify as his other significant commitments for the purposes of the Companies Act 2006. These were discussed on his appointment to the Board and during this financial year. The Board has considered the time commitment required of the Chairman's role and believes that Peter Long continues to lead and support the Board and demonstrates the appropriate time commitment required. The Board considers that there is no impact on his role or performance as Chairman as a result of his external directorships.

Matthew Lester was appointed as a Non-Executive Director of Capita plc on 1 March 2017, bringing his external appointments to two. This is not the Company's usual Policy but, as Matthew announced his intention to leave after the AGM in July 2017, the Board approved Matthew's appointment to Capita plc.

Board diversity at 26 March 2017

Board composition	Gender balance	Experience
● Non-Executive Directors 62%	● Male 50%	● Retail and marketing 32%
● Executive Directors 25%	● Female 50%	● Finance 26%
● Chairman 13%		● Public utilities 10%
		● Accounting 16%
		● Logistics 16%

¹ 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.

Conflicts of interest

The Companies Act 2006 and the Articles require the Board to consider any potential conflicts of interest. The Board considers the conflicts during the financial year and, if appropriate, authorises each Director's reported actual and potential conflicts of interest regularly. The conflicts of interest register was reviewed several times during the year by the Board. It concluded that Directors' conflicts had been appropriately authorised and that the process for authorisation was operating effectively. Each Director abstains from approving their own reported potential conflicts. The Board operates a policy to identify and, where appropriate, manage potential conflicts of interest for Directors. The Board will continue to monitor the status of each conflict and will review potential conflicts of interest and take action to mitigate them as necessary.

Related parties

Internal controls are in place to ensure Directors advise the Board of any related party transactions involving themselves or their connected persons and that these are conducted at an arm's length basis. Directors have an ongoing obligation to advise any changes which would be reviewed and monitored by the Board. As at 26 March 2017, no Director had advised the Board of any related party transactions. Note 26 on page 131 sets out the Group's related party transactions.

Director induction and training

The Chairman and Company Secretary are responsible for the induction of new Directors. They participate in a comprehensive induction programme following appointment to the Board. This is tailored to each Director. It includes face-to-face meetings with management and operational site visits to understand the key strategies and risks of the business.

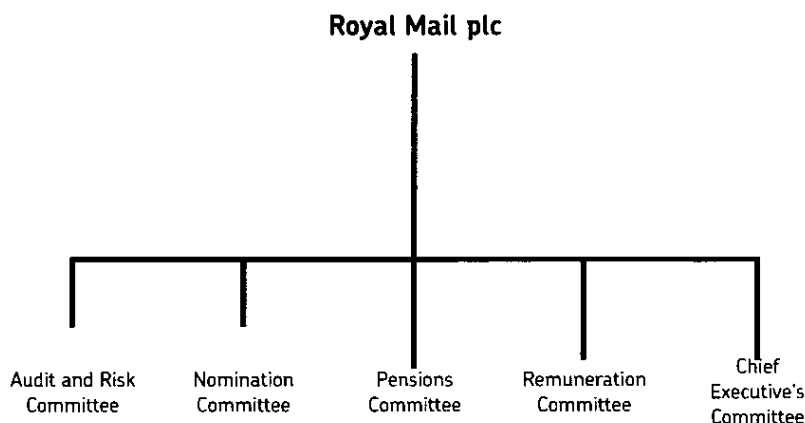
Ongoing training is also provided to the Board and additional training is available on request and where appropriate.

The Board is also kept up to date with legal, regulatory and governance matters by the Company Secretary at each Board meeting.

Board Committees and governance structure

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

Board Committees



The minutes of each Committee meeting are made available to 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 and Committee evaluations

In accordance with the Code and recognising the significant benefits, the effectiveness of the Board, its Committees, Chairman and Directors are reviewed annually. This is facilitated by an independent third party at least once every three years. Last year, we engaged Independent Board Evaluation to conduct an external evaluation of the Board and the Remuneration Committee. The other Committees, the Chairman and the Directors reviews were conducted internally.

For 2015-16, the effectiveness reviews for the Board and the Remuneration Committee were conducted by Independent Board Evaluation, who also conducted individual interviews with each Board member and other relevant stakeholders. The evaluation for the Audit and Risk Committee was undertaken by way of an online questionnaire facilitated by Thinking Board® and internal evaluations were carried out for the Nomination and Pensions Committees. Following these reviews, it was concluded that the Board and its Committees were effective and an action list, focusing on strategy, succession and Director induction and training was developed and completed during 2016-17.

For 2016-17, the effectiveness reviews were conducted internally in February 2017 via online questionnaires and, for the Board, through individual discussions with each Director. The Senior Independent Director, Orna Ni-Chionna, conducted the evaluation of the Chairman's performance through both a questionnaire and individual discussions with Directors. The results of the evaluation exercises were reviewed by the Board and Committees in March and April 2017. Having completed the effectiveness reviews, the Directors are satisfied that the Board and each of its Committees operated effectively during 2016-17.

For the Board and each of its Committees, the Directors agreed areas of focus for the forthcoming year which would strengthen the performance of the Board overall, as set out below. Opportunities to review these topics in depth have been built into the 2017-18 Board and Committee programme.

Key areas of focus for 2017-18

Board

- to continue to progress the Board Succession Plan for both Executive and Non-Executive directors and ensure smooth succession plan for the executive directors;
- to ensure adequate time is spent on labour issues as part of the business transformation agenda of the core network and ensure sufficient time is given to growth opportunities in the UK;
- with regards the expansion of GLS' geographic footprint, to ensure full Board support is provided to Management on the execution of this strategic priority; and
- to explore more deeply what 'digital' means for the Royal Mail Group and its relevance for its customers.

Audit and Risk Committee

- provide full support to ensure the successful transition to the new Director of Internal Audit and Risk Management;
- continue to focus on the Group's risk appetite and the risk framework with in-depth reviews into specific areas that might materially impact the delivery of the Group's strategy; and
- introduce an enhanced training programme to complement the induction programme for new directors to widen their knowledge both from a corporate governance/regulatory perspective and to give depth to their knowledge of the Group.

Remuneration Committee

- ensure greater transparency by the Committee of the senior management team and review the remuneration strategy for the broader Royal Mail management; and
- introduce regular formal training sessions into the annual meeting cycle to understand emerging governance themes, legislation changes and other trends in remuneration matters.

Nomination Committee

- support the Board in delivering the Board Succession Plan for both the Executive and Non-Executive Directors; and
- talent and succession planning across the senior leadership group as well as for the Board, ensuring sufficient time can be afforded to the succession planning programme across the Group.

Pensions Committee

- continue to fully understand the broader pension developments and ensure full awareness at Board level;
- provide relevant pensions training to both the Board and the Committee;
- complete the 2018 Pension Review; and
- determine appropriate future investment strategy for the pensions within the Group.

Audit and Risk Committee report

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 for approval by 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 receives independent assurance from the Group's Internal Audit (IA) and Risk Management (RM) function. It 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. During the year, the Committee considered the selection criteria and approved the appointment of the new Director of Internal Audit and Risk Management.

Alongside myself, the members of the Committee are all independent Non-Executive Directors – Orna Ni Chionna, Rita Griffin, Cath Keers and Les Owen. Nick Horler was a member of the Committee until he retired from the Board at the end of February 2017. The number of Committee meetings held during 2016-17 and Committee members' attendance is set out on page 51.

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 Internal Audit and Risk Management, the Company Secretary, 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 myself, Rita Griffin and Les Owen.

During the year, the Committee continued to challenge the assumptions and judgements made by the management team in determining the half year and full year financial results of the Company and to assess the appropriateness of their disclosure in the financial statements.

The Committee has continued to consider the assessment and supporting papers provided by management in relation to the Group's longer term viability statement and the increased focus on risk management and internal controls. We have reviewed the Group Risk Profile at each of our meetings, with particular focus on risks where likelihood or impact had changed, along with their supporting action plans to manage those risks. We paid particular attention to changes in employment tax; parcels competition; regulatory stance; GLS expansion; digitisation of Royal Mail and data loss, (see Principal Risks pages 37-41).

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
17 May 2017

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. A paper considering the Financial

Reporting Council's current areas of focus has been considered;

- risk reviews, 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;
- continued compliance with the Code, including the longer term viability statement;
- compliance framework, including receiving quarterly updates from the Group Compliance team on areas within their oversight;
- technology, including progress of the ongoing major transformation programme, the cyber risks facing the business and the risks associated with data protection;
- the annual evaluation of the Committee's effectiveness;
- Group taxation, governance, policy and risk;
- the consideration of the selection criteria for the new Director of Internal Audit and Risk Management and the approval of their appointment; and
- external auditor and audit process review.

Key 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 has a meeting planner, approved once a year, which provides a framework for each meeting agenda.

During 2016-17, the Committee met six times.

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

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. Aon Limited provides 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 the advice and information provided by the General Counsel with respect to specific provisions and other contingent liabilities

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 130) An Ofcom investigation was launched in February 2014, following a complaint brought by TNT Post UK (now Whistl), relating to certain Contract Change Notices issued by the Group in January 2014. As part of that investigation, on 28 July 2015, the Group received a Statement of Objections setting out Ofcom's provisional, preliminary findings of anti-competitive conduct.	<p>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.</p> <p>We reviewed and challenged Management's assessment of the issue with reference to the accounting standards.</p> <p>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.</p>

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

Advance customer payments (£289 million, see Note 19 on page 122) <p>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 2017, this estimate totalled £240 million (March 2016 £252 million).</p> <p>Although the relevant survey and extrapolation is conducted by an independent company, the level at which a stamp holding is considered to be abnormal, and therefore excluded from the estimate, is a judgement made by Management. This judgement impacts revenue, profit and net assets.</p>	<p>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.</p>
Royal Mail Defined Benefit Pension Surplus (£3,839 million, see balance sheet and Note 9 on page 108) <p>The valuation of the pension liabilities relies on the estimation of long term assumptions such as RPI/CPI and mortality. Small movements in these assumptions can lead to material impacts on the balance sheet.</p> <p>In view of the complexity of accounting for pension schemes, significant focus is required on the associated disclosure to ensure that it is fair, balanced and understandable.</p>	<p>Key long term assumptions were prepared by the Group's actuary, 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 64). All of these assumptions are disclosed in Note 9 to the financial statements. Changes in the assumptions were summarised for the Committee and explanations provided for the returns on scheme assets, particularly as a result of the liability hedging strategy.</p> <p>The auditor used their own independent actuarial experts to confirm that the assumptions used were reasonable and appropriate.</p>
Industrial diseases claims provision (£84 million, see Note 22 on page 128) <p>The Group is liable for claims brought by employees (past and current) and by individuals who were employed in the General Post Office Telecommunications division and whose employment ceased prior to October 1981. The provision covers the estimate of claims that could be received over the next 25-35 years. Changes to the provision will impact the income statement and net assets.</p>	<p>To determine whether the level of provisioning in the balance sheet was reasonable, the Committee examined reports from Management and estimates of the gross provision (including the number of claims incurred but not received and the associated expected cash outflow, undiscounted) calculated by 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.</p> <p>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.</p>
Impact of changing employment legislation (see Principal Risks on page 40) <p>The Group has a large workforce and changes to laws and regulations relating to employment can have a significant effect on the Group's results.</p>	<p>Throughout the year, the Committee received regular updates on relevant employment law cases from the General Counsel along with impact assessments of judgements on the Group.</p> <p>In light of the legal updates, we examined reports prepared by Management to determine whether their interpretation of the potential liabilities for the Group was appropriate.</p> <p>We concluded that these potential liabilities were accounted for appropriately based on the legal assessments provided by the General Counsel.</p>
Accounting for acquisitions (See Note 10 on page 114) <p>The Group made a number of acquisitions during the year including ASM in June and GSO in October. IFRS 3 requires the purchase price to be allocated between Tangible assets, Intangible assets and Goodwill.</p>	<p>The Committee examined reports from Management and the calculations of the fair values of assets acquired prepared by BDO.</p> <p>We received KPMG's comments on the assumptions and the calculation used to calculate the fair value of assets acquired and concluded that the approach taken was appropriate.</p>

Audit Committee effectiveness

An internal evaluation was carried out in 2016-17 and is discussed in greater detail on page 57.

Effectiveness of the external audit process

Following their appointment as external auditor in July 2015, KPMG and Management have worked closely and the transition has been successful. 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 2016 Audit Quality Inspection Report has also been discussed.

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 using an online questionnaire. The first part was completed shortly before our full 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 Directors and audit partners.

The results of the online questionnaire will be supplemented with a further survey following the conclusion of the year end audit and will focus on the execution of the audit; the preparedness of the business; sufficiency of resources; communication and interaction; and overall satisfaction.

While the outcome of the second survey will not be available until after the signing of the financial statements, the feedback from the first survey and the review of reports presented by Management and KPMG to their May 2017 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.

During the year, KPMG have been engaged to provide financial due diligence and review the conversion of UK subsidiary accounts to FRS 101. Total fees earned for non audit services during 2016-17 were £508,000 which represented around 23 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 2016-17.

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.

External auditor

KPMG was appointed as external auditor in July 2015, following a competitive tender process during the 2014-15 financial year. Under the current regulations, the Company will be required to tender no later than the 2025-26 financial year and the current audit partner will be required to rotate after the 2020-21 audit.

The Committee has recommended the reappointment of KPMG as the Group's external auditor to the Board for approval by shareholders at the AGM in July 2017.

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.

In addition, the Directors carry out a robust risk assessment of the Principal Risks facing the Group as set out on pages 37 to 41. These include those principal risks that threaten the business model, future performance, solvency and liquidity of the Group. These reviews have been informed by the financial evaluation of severe but plausible scenarios of our principal risks which has also been used to support our Viability Statement on page 41.

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 organisational 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 Code requirements, reviewed its Risk Management Policy and continued to strengthen 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.

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 cases received and an analysis of the outcomes through the Employee Confidential Disclosure (EDC) Committee.

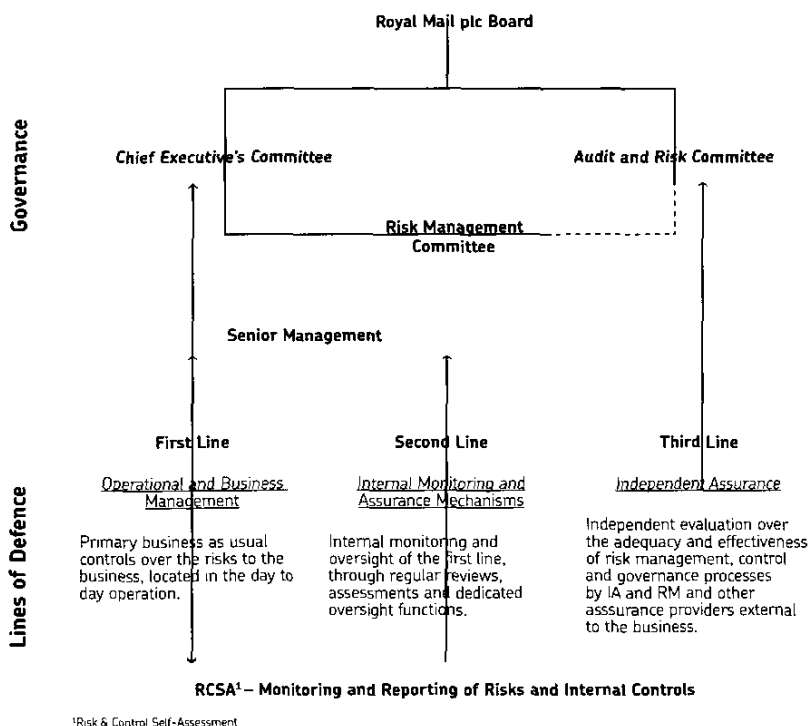
Assessing the effectiveness of the system of risk management and internal control

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 conclusions 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. It also seeks to ensure that risks that are significant at Group level are being effectively managed. The RMC oversees and evaluates a 'bottom up' assessment of risks on a quarterly basis. It receives presentations from Business Units

Royal Mail Governance and Three Lines of Defence



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 37-41). Committee discussions on risk also covered new and emerging risks and the interrelationships between the significant risks to the business.

In particular, the Committee reviewed changes to the Group Risk Profile on a quarterly basis and held 'deep dive' discussions of principal risk areas with risk owners.

The Committee holds the business to account for the management of risk and operation of control across the Group.

Deep dive discussions

During the year, deep dive risk discussions included:

- Cyber risks
- Competition
- Delivery of efficiency benefits versus maintenance of Quality of Service levels
- Employment legislation and regulation
- Growing in new areas
- Pensions

on the operation of risk management and control processes on a cyclical basis.

2. Assurance from Internal Audit

IA and RM provide independent assurance to the Committee, Executive Management and the Board on the effectiveness of the internal control system and elements of the risk management process. This includes 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. This also takes into account known issues in the business, areas of importance to the delivery of the business plan, areas subject to strong or emerging regulation or legislation or specific issues in the industry. During the year, the Committee evaluated the performance of IA and RM. It concluded that the function continued to be effective.

The IA work programme during 2016-17 included more than 30 risk based reviews in the UK and over 140 reviews in GLS covering both depots and head office. The programme was focused towards the key business priorities and included:

- business transformation and key programme reviews, including PDA service transformation, parcels programme activity and identity based products;
- major business process reviews including data loss prevention, payroll, aviation security, operational compliance and IT disaster recovery;
- 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 Ofcom 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 37-41.

Nomination Committee report

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 and approving changes to senior management.

● See page 56 for further information on diversity.

There were a number of changes to our Board composition during the year. We were pleased to appoint Rita Griffin in December 2016 as a Non-Executive Director and a member of the Audit and Risk Committee. The Board employed the executive search firm, Egon Zehnder, to assist with Rita's appointment. The Nomination Committee considered candidates against objective criteria, having due regard for the benefits of Board diversity, and, following interviews with other Directors, recommended to the Board that they appoint Rita as a Director of the Company. The Company also employs Egon Zehnder for both senior executive appointments and some executive development. Our Non-Executive Director Nick Horler retired in February 2017, having served on the Board for nearly seven years. We have also announced further changes with the stepping down of our Chief Finance Officer Matthew Lester at the conclusion of this year's AGM.

The Chief Executive led the search and proposed candidates to the Nomination Committee based on the skill, knowledge and experience required for the role. On 15 May 2017, we announced that Stuart Simpson, Director of Group Finance, will be appointed CFO and join the Royal Mail Board at the

conclusion of the AGM on 20 July 2017. Stuart's appointment follows a comprehensive search that included both internal and external candidates.

Alongside myself, the Committee members are Cath Keers, Orna Ni-Chionna and Paul Murray, who was appointed to the Committee on 16 November 2016. Meetings of the Committee were also attended by the Company Secretary and, where relevant, the Group HR Director. The Chief Executive Officer and other Non-Executive Directors may also be requested to attend when required. The number of Committee meetings held during 2016-17 and Committee members' attendance is set out on page 51.

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

Nomination Committee Terms of Reference

The full Terms of Reference for the Committee can be found on our website www.royalmailgroup.com/aboutus/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;
- 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 to the benefits of diversity for 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. Any changes to the Chairman's commitments should be reported to the Board as they arise;
- to review annually the time required from Non-Executive Directors to fulfil their duties;
- to make recommendations to the Board concerning:
 - succession planning for 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 and the need for progressive refreshing of the Board;
 - 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 in view of the appointment of Rita Griffin as a Non-Executive Director, the retirement of Nick Horler as a Non-Executive Director, the forthcoming departure of Matthew Lester as Chief Finance Officer and the appointment of Paul Murray, a Non-Executive Director to this Committee;
- succession planning and executive talent review and management;
- the annual evaluation of the Committee's performance; and
- the annual review of the Committee's Terms of Reference.

Key areas of focus for next year

During 2017-18, the Committee will continue to focus on the succession plans for both the Board and senior management with a keen focus on the diversity framework and ensuring the skills and experience within the Group help it deliver its strategic framework.

Nomination Committee effectiveness

An internal evaluation of the Committee was carried out in 2016-17 and is discussed in greater detail on page 57.

Directors' re-election

The Committee has considered the performance of each individual Director: whether he or she continues to be effective and can continue to demonstrate commitment to the role. Biographical details of each of the Directors, together with details of their skills and experience, may be found on pages 49-51. Following a performance evaluation of each Director and the Board as a whole, all Directors are considered by the Board to be fully effective. This supports the proposal for their re-election at the AGM.

Peter Long

Chairman
17 May 2017

Pensions Committee report

Dear Shareholder,

Recognising the significance of the Group's pension schemes to its financial management and affairs, and to its employees, the Board has appointed a standing committee to provide additional oversight and review of pension matters.

Role of the Committee

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

- pension matters which 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 schemes' Trust Deeds; and
- the actuarial assumptions to be used in calculating the accounting charge and pension disclosures in the Company's Financial Results.

In particular, the Committee:

- reviews advice and information provided by the Group's external pension advisers;
- reviews and provides input on the assumptions to be used by the Trustees relating to funding valuations, and provides the Group's opinion and feedback on the Trustees' Statement of Investment Principles;
- reviews major policy, regulatory, legislative, accounting, reporting, industrial relations and Governmental

issues impacting the pension schemes and makes decisions, recommendations and reports to the Board accordingly;

- reviews reports from the Trustee Executive on the schemes' financial position, investment performance, administration levels and other activities; and
- approves the appointment, re-appointment, period of appointment, removal, and remuneration of the Chair of Trustees.

The full Terms of Reference for the Committee can be found at www.royalmailgroup.com/about-us/management-and-committees/pensions-committee

Membership

In addition to myself, the members of the Committee are Paul Murray and Matthew Lester. The meetings of the Committee have also been attended by the Group HR Director, the Chief of Staff, the Company Secretary, Legal Director, Pensions and Employee Benefits, the Director of Corporate Finance, the Head of Pensions Strategy, and representatives from the Company's pensions' advisers, Willis Towers Watson Limited. The number of Committee meetings held during 2016-17 and Committee members' attendance is set out on page 51.

Key areas of focus during the year

For some time, Royal Mail has been reviewing the future of its pension plans as part of the 2018 Pension Review. Recognising the affordability challenge of the Group's current arrangements, Royal Mail consulted during 2016-17 with approximately 90,000 members of the Royal Mail Pension Plan (RMPP). Royal Mail confirmed that it is committed to continue to provide sustainable, good quality pension benefits. The Committee engaged with Management throughout the year regarding the 2018 Pension Review, and provided input on Management's thinking and proposals in advance of discussions with stakeholders. Further information on the 2018 Pension Review can be found on page 110.

In addition, the Committee reviewed:

- the likely results of the April 2015 Valuation and Scheme funding review and the implications for future affordability and benefit design;
- investment strategy and risk management, investment performance, fees and costs and scheme administration;

- the impact of pension legislation changes, pensions accounting and treatment of scheme surplus and current developments in corporate pensions;
- the actuarial assumptions used in calculating the accounting charge and pension disclosures in the Company's interim and full year Financial Results; and
- the annual evaluation of the Committee's effectiveness and its Terms of Reference.

Key areas of focus for next year

In addition to the ongoing matters under its Terms of Reference, the Committee expects to be giving particular consideration during the year ahead to:

- the conclusion of 2018 Pension Review and the proposals for future pension benefits prior to these being recommended to the Board for approval;
- the implementation of the outcomes of the Review and communication to members; and
- the results and implications of the RMPP's 2015 valuation.

Pension Committee effectiveness

An internal evaluation of the Committee was carried out in 2016-17. The Committee was judged to be fully effective in carrying out its responsibilities. The results are set out in greater detail on page 57.

Les Owen

Chair of the Pensions Committee
17 May 2017

Other Committees

TopCo Committee

TopCo Committee provides overall support for the Chief Executive in discharging the responsibility for managing the business and accountability to the Board. The Committee also oversees performance management and outlook for the business, achievement of KPIs and the Corporate Balanced Scorecard, the Company's compliance with the Market Abuse Regulations and any other significant business issues. The Committee meets monthly and is chaired by the Chief Executive Officer.

● See pages 52-53 for Committee members' biographies.

Chief Executive's Committee

The Chief Executive's Committee supports the Chief Executive Officer on matters concerning the Group's overall framework, including risk management, financial and operating performance, annual and strategic plans, external stakeholders, industrial relations and health and safety policy. The Committee also develops and monitors deployment of the Group's strategy, annual operating plans and budgets for plc Board approval. The Committee meets monthly and is chaired by the Chief Executive Officer.

● See pages 52-53 for Committee members' biographies.

Risk Management Committee

The Risk Management Committee is a Management Committee of the Chief Executive's Committee with a reporting line to – and which supports – the Audit and Risk Committee. It 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

On behalf of the Board, I am pleased to present our Remuneration Report for 2016-17. I was delighted to receive your support for our new Directors' Remuneration Policy at the AGM in July last year, endorsing our proposals to align our executive reward principles and practice more closely to the successful transformation of our business, and this report covers our first year of implementation of this policy.

Performance in 2016-17

As discussed elsewhere in this Annual Report, during 2016-17 the Company continued to make progress on our transformation programme. We delivered a great service at Christmas, even better than last year, with 138 million parcels handled in December alone.

We have continued to transform the organisation in order to manage the decline in letter volumes whilst becoming increasingly competitive in the parcels business.

We are seeing the impact of overall business uncertainty in the UK on letter volumes, in particular advertising and business letters. Against this backdrop, we managed our cost base efficiently. Highlights included:

- An adjusted operating profit, before transformation costs, of £701 million, at the budgeted foreign exchange rate;
- The third consecutive year of achieving our UKPIL cost reduction target;
- A productivity improvement in collections, processing and delivery of 2.7 per cent, towards the higher end of our 2.0 – 3.0 per cent target range; and
- A significant reduction in the number of road traffic collisions, improving the safety of our colleagues and our communities.

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. This is explained in more detail below.

Board changes

As mentioned elsewhere, our Chief Finance Officer (CFO), Matthew Lester has decided to leave the business this July, after nearly seven years of service with the Company. Other than for the 2014 award vesting this year, his outstanding LTIP awards will lapse in accordance with the plan rules, and he will not be eligible for the award of deferred shares that is determined from the 2016-17 bonus outturn. He will also not receive any payment for loss of office. The Committee determined that he would be eligible for the cash element of the 2016-17 Annual Bonus given that he was employed for the full financial year; and the Committee also agreed that his 2014 LTIP award, subject to the achievement of performance conditions, would be capable of vesting given that he was employed by the Company for the whole of the performance period. The Committee took the view that this was justifiable on account of his dedicated service to the Company throughout his notice period. It has been to the Company's advantage that he gave us more than his contractual notice in order for us to plan succession.

I am delighted that Stuart Simpson will be joining the Board as our new Chief Finance Officer. On appointment, Stuart's remuneration package will be in accordance with the Remuneration Policy, including a reduced level of pension allowance as shown below:

Base Salary	£450,000
Maximum Annual Cash Bonus	100% of salary
Maximum Deferred Share Bonus	100% of salary
Maximum LTIP	100% of salary
Pension Allowance	17.5% of salary

Remuneration outcomes in 2016-17

Annual bonus

Our performance in 2016-17 resulted in the achievement of a good outturn against our Corporate Balanced Scorecard. This scorecard accounts for 80 per cent of the potential Annual Bonus for Executive Directors. A series of strategic objectives, which were set by the Committee, represented the remaining 20 per cent of the potential bonus, against which there was also strong performance.

This resulted in a cash bonus of 80 per cent of salary for both our Chief Executive Officer (CEO), Moya Greene, and for Matthew Lester. In accordance with the new Policy, this same amount will be awarded in shares to our CEO under the Deferred Share Bonus Plan (DSBP), to be granted in June and deferred for three years. More detail about the annual bonus and our performance is given on pages 77-79.

Long Term Incentive Plan (LTIP)

The 2014 LTIP is due to vest in July 2017, once the outcome under the Total Shareholder Return (TSR) metric (which has a performance period that runs from the July 2014 grant date for three calendar years) is known. Using the latest available data for the TSR metric, the plan is likely to vest in July 2017 between 46 per cent and 53.5 per cent of maximum. More details of the LTIP performance can be found on pages 79 to 80.

Pension provision

Following the shareholder consultation we undertook last year, the Committee decided to reduce the pension allowance paid to any newly appointed Executive Director

to 17.5 per cent of salary. The existing arrangements for current Executive Directors will remain the same.

The impact of the new Remuneration Policy on delivering our strategic aims

This year was the first in which shares were granted in accordance with the new LTIP rules and will be granted in respect of our DSBP, following the approval of the new Policy at last year's AGM.

As outlined in last year's report, the new LTIP is now more focused, based solely on TSR which the Committee determined as the most effective way of measuring the successful implementation of our business strategy. 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.

The CEO will receive the first grant of shares under the new DSBP in June following a successful year. Under our shareholding guidelines, Executive Directors are expected to keep any shares already owned and any shares released under the LTIP and the DSBP (except for those sold to cover any tax and social security obligations) until the shareholding guideline of 200 per cent of base salary has been met.

We continue to aim to maintain an open dialogue with our shareholders on director pay arrangements. We believe that our policies and their implementation are true to the spirit as well as the letter of what the various regulations and Codes seek to achieve. And we continue to pay close attention to the discussion of this subject so that we can reflect the best thinking in our own context. Together with the rest of the Board, I look forward to hearing your views on our remuneration arrangements and will be available to answer any questions you may have at the AGM.

Orna Ni-Chionna
Chair, Remuneration Committee
17 May 2017

Our current Remuneration Policy

What is our current Remuneration Policy for Executive Directors?

Our current Remuneration Policy was approved by shareholders at our AGM on 21 July 2016.

The improvements we made are intended to reward delivery at pace of the objectives required to achieve sustainable success, while maintaining appropriate flexibility in target setting from year to year. In summary, the objectives for our new policy are to:

- be more aligned with our fast-changing market place and with what our executives need to focus on year on year
- incentivise sustained year on year improvements with the aim of delivering long-term value for shareholders
- increase the 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 encourage long term shareholding supported by an increase in the shareholding requirement for our Executive Directors.

Under our new policy, a larger proportion of the overall package is linked to performance, more is delivered in shares and the potential payout is over a longer timeline.

Remuneration Principles

Remuneration Principles

Overall package	The overall remuneration package should take account of the dynamics of the market in which we operate. Our incentive targets need to be flexible enough to ensure that we can reward performance appropriately.
Incentive levels and 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.
Alignment with shareholders	Management interests should be aligned to the interests of shareholders, including through building a significant Royal Mail shareholding.

Policy table

The following tables summarise the key elements of our remuneration, its purpose and link to strategy and the maximum opportunity. The policy is not subject to a shareholder vote this year. The full policy can be found at <http://www.royalmailgroup.com/about-us/management-and-committees/remuneration-committee>.

Fixed remuneration

At a Glance	Operation
Base Salary	
Purpose & Link To Strategy Reflects the scope and responsibility of the role, whilst taking account of the skills and experience of the individual. Used to attract and retain talented executives to deliver the business strategy.	
CEO: £547,800 (effective 1 January 2015) CFO: £475,000 (effective 1 April 2016)	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.
Benefits	
Purpose & Link To Strategy To support the attraction and retention of talented executives by providing a competitive offering.	
The value of the benefits stated is the maximum cost to the Company of providing them	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 contractually 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.
Pension Allowance	
Purpose & Link To Strategy To provide a competitive post-retirement income.	
CEO: £200,000 per annum cash allowance CFO: 40 per cent of salary cash allowance For newly appointed Executive Directors, the pension allowance is 17.5 per cent of salary	Company contribution to a defined contribution pension scheme and/or a cash supplement (in lieu of pension). The Committee maintains historical rates of pension allowance for existing Executive Directors, in line with their contracts; however it has adopted a lower per cent pension allowance for newly appointed Executive Directors.

Variable remuneration

At a Glance – maximum opportunity

Operation

Performance measures

Annual bonus

Purpose & Link To Strategy

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. Part of the total annual incentive opportunity is a deferred share award encouraging a long-term view, providing alignment with shareholders' interests.

Maximum total annual incentive opportunity of 200 per cent of salary, split equally between two plans, an annual cash bonus award and a deferred share bonus award. Two thirds earned for target performance.

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. The Committee will normally award dividend equivalents on deferred shares to plan participants to the extent that they vest.

Malus provisions will apply to the deferred share award over the three year vesting period. A clawback mechanism will apply to the cash bonus for a period of three years following the bonus determination.

Aligned to the Corporate Balanced Scorecard for the Executive Directors each year.

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 financial and operational priorities of the business change.

For 2017, 80 per cent of the Annual Bonus will be based on the scorecard targets, and 20 per cent will be based on the achievement against strategic objectives.

A minimum of 50 per cent of the scorecard targets shall be financial, with the remainder including 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 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 that the original measures, weightings and targets are no longer appropriate;
- to make downward or upward movements to the amount of bonus earned resulting from the application of the performance measures, if the Committee believe that the bonus outcomes are not a fair and accurate reflection of business performance.

Long Term Incentive Plan

Purpose & Link To Strategy

Supports executive recruitment and retention, with an appropriate balance between short-term performance and the creation of long-term, sustainable shareholder value.

Maximum award level of 100 per cent of salary.

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
- the satisfaction of the performance conditions.

The Committee will normally award dividend equivalents on those shares to the extent that they vest.

Following the vesting, there is a holding period of two years when Executive Directors cannot sell the vested shares other than to pay tax.

Malus provisions apply over the performance period. Clawback will apply over the holding period.

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 2017 award, 100 per cent 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 per cent of the award will vest, increasing to full vesting if performance is in the top quartile of the group. The underlying performance of the business will also be taken into account when determining the vesting.

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 the new performance conditions are deemed reasonable and are not materially more or less difficult to satisfy than the original conditions.

Shareholding guideline

At a Glance

Operation

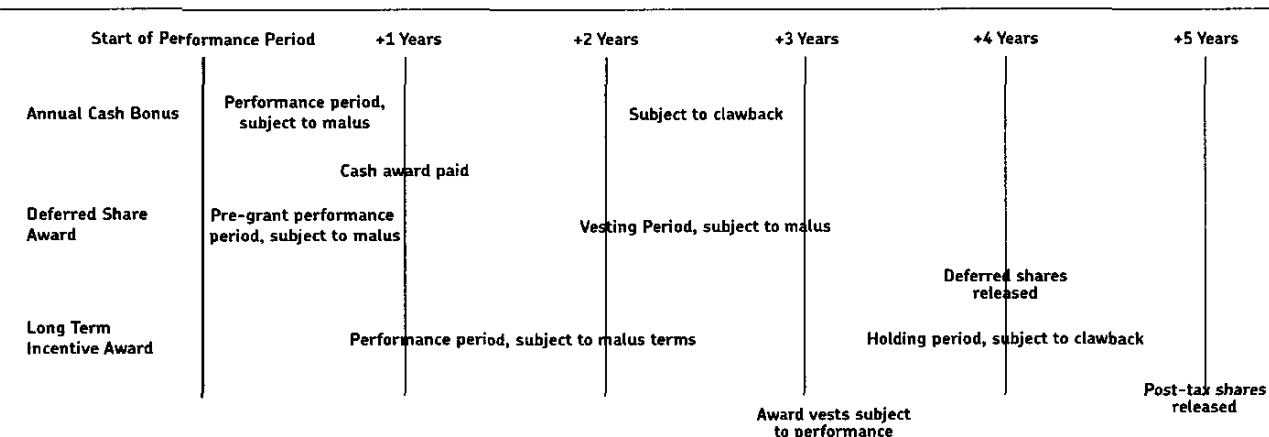
Purpose & Link To Strategy

To ensure alignment between remuneration and long-term shareholder value creation.

Shareholding guideline of 200 per cent of salary

Directors are expected to keep any shares they already own and any shares released under the LTIP and the DSBP (except for those sold to cover any tax and social security obligations) until this is achieved.

The periods over which malus and clawback operate under our Policy



What is the remuneration policy for the Chairman and Non-Executive Directors?

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.

Operation

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.

The fees for Non-Executive Directors and the Chairman are set at broadly the median of the comparator group. Fees are reviewed annually based on equivalent roles in the comparator group used to review salaries paid to the Executive Directors. 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.

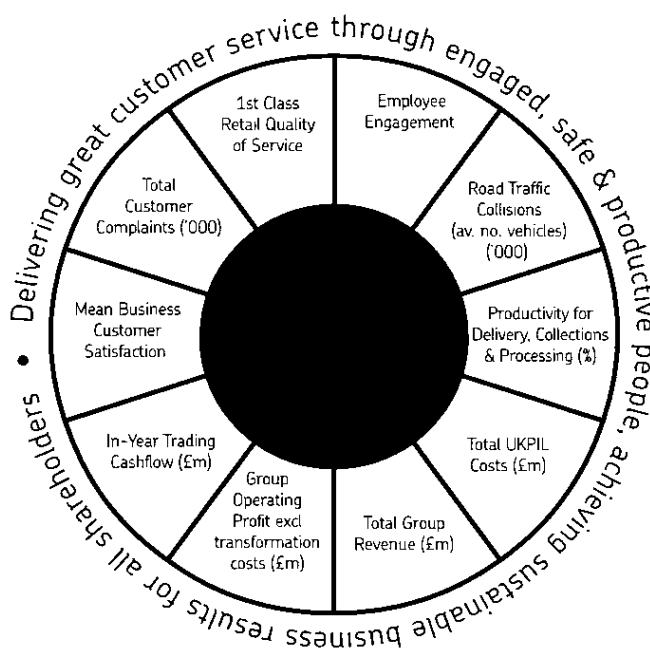
The Company will pay reasonable expenses incurred by the Non-Executive Directors and Chairman and may settle any tax incurred in relation to these.

Non-Executive Directors and the Chairman do not participate in any variable remuneration or benefits arrangements.

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

Annual bonus

80 per cent 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. There are no changes to the metrics for 2017-18, which continue to focus on our people, customer, efficiency and financial performance. The scorecard is shown below:



20 per cent of performance in the plan will be assessed against a series of strategic objectives. The following objectives have been agreed between the Chairman and the CEO. They will be used in conjunction with the Corporate Scorecard to measure the performance of the Executive Directors at the end of the financial year:

1. Apply sufficient resource focused on global parcels to enable acceleration of our rate of expansion (primarily via acquisition).
2. Continue to drive profitable growth in GLS, our parcels business in Europe.
3. Deliver the next stage of the parcels strategy in the UK, including enhancement of the customer proposition at acceptable cost through technology deployment.
4. Implement the steps necessary to defend the sustainability of the core UK business in the face of continuing and substantial declines in letter volumes and revenues.

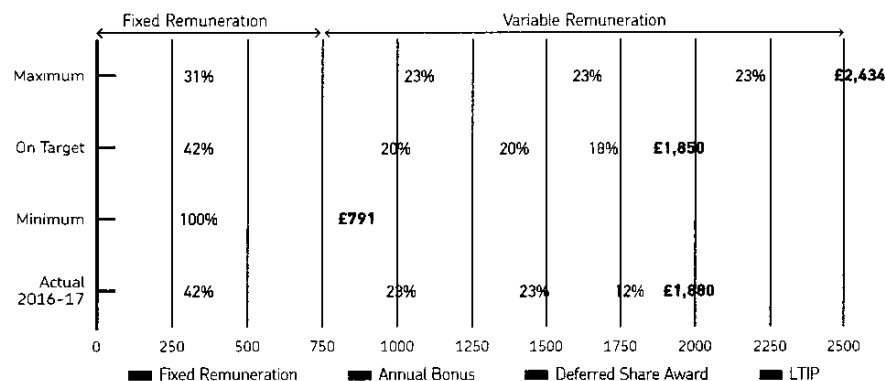
LTIP

Our LTIP has 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 a three year period. 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.

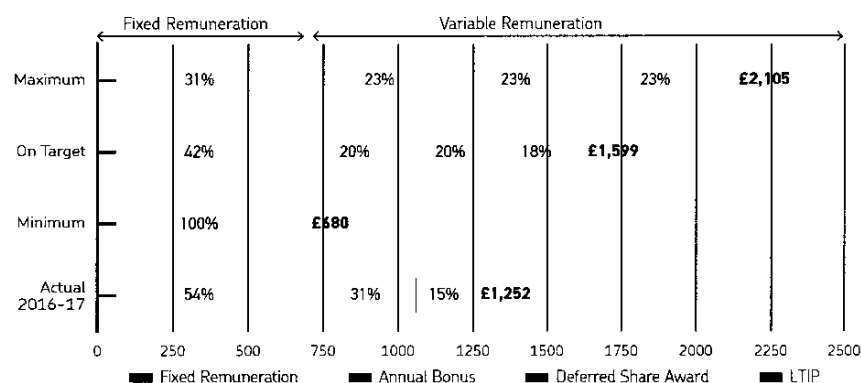
What is the remuneration opportunity under the policy?

The following charts set out the remuneration scenarios under the policy for the Executive Directors and the actual level of the single figure for the year being reported on. We have included the single figure so that you can see where against our policy scenarios the actual remuneration for the year sits.

CEO (£000s)



CFO (£000s)



Assumptions

Minimum/fixed remuneration: This includes salary (CEO: £547,800, CFO: £475,000), pension allowance (CEO: £200,000, CFO: 40 per cent of salary) and benefits (CEO: £43,000, CFO: £15,000).

On target:

Bonus: For the cash bonus, on target is two-thirds of maximum and the same value is used for the deferred share award.

LTIP: The expected value is taken as 60 per cent of maximum.

Maximum:

Bonus: For the cash bonus, this is 100 per cent of salary and the same value is used for the deferred share award.

LTIP: For the LTIP this is 100 per cent of salary.

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

How will the Policy be implemented in 2017-18?

The following table sets out how the Committee proposes to operate the Policy next year.

Element	Implementation of policy in 2017-18
Base salary	We annually review the salary of the CEO and CFO and will do the same in 2017-18. Any increases in salary will be no greater than the general increase provided to employees.
Benefits	No change to benefit provision for 2017-18
Pension Allowance	No change to pension allowance provision for 2017-18
Annual Bonus	<p>The maximum total annual incentive opportunity for the Executive Directors will remain at 200 per cent of salary, as per agreed policy, half delivered in cash and half in deferred shares.</p> <p>For the 2017-18 annual bonus, 80 per cent of the award will be based on achievement against the scorecard, in which at least 50 per cent of the measures will be financial, with the remainder focused on operational, customer and people-related targets. 20 per cent of the award will be based on achievement against strategic objectives.</p> <p>The Committee is of the opinion that given the commercial sensitivity arising in relation to the detailed financial targets used for the Annual Bonus, the disclosure of precise targets for the Annual Bonus in advance would not be in shareholders' 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 payouts under the Plan.</p>
LTIP	<p>The Executive Directors will be eligible for an award equivalent to 100 per cent of salary.</p> <p>100 per cent of the award will be based on the Group's relative TSR performance against the FTSE 100 (excluding mining and financial companies).</p> <p>The vesting schedule will measure the Group's performance over three years as follows:</p> <ul style="list-style-type: none"> • 50 per cent 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 <p>The award is subject to straight line vesting between these two points.</p> <p>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.</p>
Shareholding guidelines	200 per cent of salary for Executive Directors.

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. Following the shareholder consultation we undertook last year, the pension allowance paid to any newly appointed Executive Director will be 17.5 per cent of salary. All existing arrangements will remain the same.

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, split equally between cash and deferred shares, 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).

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 (for example, cash or shares); time horizons; and levels of conditionality of the remuneration foregone. 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 the Committee 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	Notice Period from RMG (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 twelve months' notice. Copies of the Executive Directors' service contracts are available for inspection at the Company's AGM.

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 at 26 March 2017 (months)
Peter Long	18 June 2015	14
Rita Griffin	1 December 2016	32
Nick Horler	20 September 2016	Resigned 28 February 2017
Cath Keers	20 September 2016	30
Paul Murray	20 September 2016	30
Orna Ni-Chionna	20 September 2016	30
Les Owen	20 September 2016	30

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

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. Matthew Lester will be leaving the Company at the end of July and will not receive a payment for loss of office.

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.	<ul style="list-style-type: none"> 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 <p>provided that where any discretion is exercised there is an appropriate business case which will be explained to shareholders.</p>
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.	<ul style="list-style-type: none"> 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 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.	<ul style="list-style-type: none"> 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 <p>provided that where any discretion is exercised there is an appropriate business case which will be explained in full to shareholders.</p>

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 permits.

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

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 nor have employees been consulted directly on the Policy.

A range of different incentive and commission schemes operate across the Company, designed to support the delivery of the Company-wide annual bonus scorecard, through which the Executive Directors are incentivised.

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

The table below shows the percentage change in the Chief Executive's salary, benefits and annual bonus between 2016-17 and 2015-16, compared with the average for all employees across the Group.

	Chief Executive Officer Moya Greene			Average of All Employees		
	2016-17	2015-16	% Change	2016-17	2015-16	% Change ³
Salary ¹	£547,800	£547,800	0.0%	£28,919	£28,988	(0.2)%
Benefits ²	£43,000	£31,000	38.7%	£48	£49	(1.7)%
Cash Bonus	£439,883	£448,379	(1.9)%	£853	£920	(7.3)%

¹ Full time equivalent salary including overtime and shift allowances.

² All taxable benefits. There has been no change to the contractual benefit entitlement for the CEO but she has made use of her financial advice during 2016-17, and the Company has paid benefit in kind tax on her flights.

³ The small reduction in the averages shown for 'All Employees' is not due to a reduction in the terms and conditions we offer our employees overall. However, the data is impacted by employee turnover and a change in the mix of employees across our grades.

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 below.

Did the Executive Directors receive fees from external positions?

The Executive Directors are entitled to receive fees from external appointments. Moya Greene has held no paid external appointments for the last reported financial year. Matthew Lester is a Non-Executive Director at Man Group plc and received fees of £95,000 for the last reported financial year, and of Capita plc, effective 1 March 2017, for which he received fees of £5,375 for the last reported financial year. Exceptionally, a second Non-Executive Director appointment was approved for Matthew Lester because the appointment became effective during his notice period.

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 2016-17. 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 (audited)

£'000	Salary/ Fees		Benefits ¹		Annual Bonus Plan ²		Deferred Share Bonus Plan ³	Long Term Incentive Plan ⁴		Pension Allowance ⁵		Other		Total	
	2017	2016	2017	2016	2017	2016	2017	2017	2016	2017	2016	2017	2016	2017	2016
Chairman															
Peter Long	300	185	–	–	–	–	–	–	–	–	–	–	–	300	185
Executive Directors															
Moya Greene	548	548	43	31	440	448	440	209	302	200	200	0	0	1,880	1,529
Matthew Lester	475	454	15	15	381	367	0	191	259	190	182	0	0	1,252	1,277
Non-Executive Directors															
Rita Griffin ⁶	17	–	–	–	–	–	–	–	–	–	–	–	–	17	–
Nick Horler ⁷	46	50	–	–	–	–	–	–	–	–	–	–	–	46	50
Cath Keers	50	50	–	–	–	–	–	–	–	–	–	–	–	50	50
Paul Murray	65	65	–	–	–	–	–	–	–	–	–	–	–	65	65
Orna Ni-Chionna	75	75	–	–	–	–	–	–	–	–	–	–	–	75	75
Les Owen	60	60	–	–	–	–	–	–	–	–	–	–	–	60	60
TOTAL	1,636	1,487	58	46	821	815	440	400	561	390	382	0	0	3,745	3,291

¹ There has been no change to the contractual benefits entitlement which includes medical insurance and car allowance. The figure for Moya Greene also includes return flights to Canada. The increase in value for Moya Greene is due to the contractual benefit in kind tax paid on the flights and the use of financial advice.

² Bonuses are determined based on the salary as at 1 January 2017 in line with the Company's policy for all staff. Bonus payments are made in cash.

³ The DSBP is a deferred share award, granted at the end of the annual performance period, the grant being of equal value to the Annual Bonus, and subject to continued employment over a three year vesting period.

⁴ The current year figure relates to an estimated vesting of the 2014 LTIP award as shown in the 2014 LTIP Outturn section below. The 2014 LTIP is due to vest in July 2017, once the outcome under the TSR metric (which has a performance period that runs from the July 2014 grant date for three calendar years) is known. The prior year figure relates to the 2013 LTIP award, which was based on performance to 27 March 2016.

⁵ For Moya Greene, £10,000 is paid into the Royal Mail Defined Contribution Plan and the remaining £190,000 is paid as an allowance. The full amount for Matthew Lester is paid as an allowance.

⁶ Rita Griffin was appointed to the Board as a Non-Executive Director on 1 December 2016.

⁷ Nick Horler retired from the Board on 28 February 2017.

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?

The Committee has considered the relative competitiveness of the current packages for our Executive Directors and decided not to make any increases to salary in 2016-17. Moya Greene's salary has been left unchanged since January 2015. Matthew Lester's salary was last increased on 1 April 2016. This compares to salary increases for frontline staff over the last five 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	1.6%	2.8%	3%	3%	3.5%

Over the last five years, Moya Greene has received total salary increases of 10 per cent and Matthew Lester 10.6 per cent. Our frontline employees have received an increase of 13.9 per cent up to 2016-17, with a further salary increase for the coming year still under negotiation.

What was the outcome of the Annual Cash Bonus?

The performance period for the Annual Cash 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 strategic objectives. The maximum cash 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. Performance against the Corporate Balanced Scorecard makes up 80 per cent of the bonus for Executive Directors. A further 20 per cent is based on strategic objectives set by the Board.

Corporate Balanced Scorecard 2016-17

Measure	Weighting	Threshold	Target	Max	Actual	Outcome
Road Traffic Collisions per 1,000 vehicles reduction (%)	10%	0	7	12	12.3	15.0%
Employee Engagement	10%	56	57	58	57	10.0%
First Class Retail Quality of Service (%)	10%	—	93	93.2	93.2	15.0%
Mean Business Customer Satisfaction	10%	76	76.5	77	77.8	15.0%
Total Customer Complaints ('000)	10%	520	499	476	516.8	5.7%
Productivity for Delivery, Collections & Processing (%)	10%	2.0	2.5	3.0	2.7	12.0%
Total UKPIL Costs (£m)	10%	(7,281)	(7,138)	(6,995)	(7,082)	12.0%
Total Group Revenue (£m)	10%	9,322	9,512	9,702	9,455	8.5%
Group Operating Profit Before Transformation Costs (£m)	10%	622	732	842	701	8.6%
In-year Trading Cashflow (£m)	10%	258	323	388	420	15.0%
% of the Scorecard	100%					116.8%
Scorecard Outcome as % of salary	80%		53.3%			62.3%
Strategic Objectives Outcome as % of salary	20%		13.3%		18.0%	18.0%
Annual Bonus as % of salary	100%					80.3%

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

Strategic objectives: Achievement against the Strategic Objectives was assessed by the Chairman and ratified by the Remuneration Committee. Performance was determined to be strong due to the finalisation of a very clear strategy being implemented successfully, as follows:

1. Articulate the ambition for the Company for the next five years and define the route to achieving that vision

A five year strategic plan was agreed with the Board and communicated effectively to key stakeholders (including investors, employees, unions and the regulator). Following this agreement, the strategy has been progressed by reshaping the UKPIL business to create more focused business units, progress has been made on a more efficient labour model and we have established a programme of work to acquire and build a global network parcels business: this has included the completion of two successful acquisitions in the USA. In addition we have continued to build our know how in Consumer and Data Services while evaluating the potential for Royal Mail to operate as an 'E-commerce Enabler'.

2. 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

A strategic cost programme was successfully implemented across the Group, as shown by the third consecutive year of achieving our cost saving targets. Actions included a 1.9 per cent reduction in core hours, £225 million of cost avoided and significantly improved revenue recovery totalling £218 million. This allowed us to keep prices low without impacting our excellent quality of service. A series of collaborative projects with the advertising industry helped to slow letter decline.

3. 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

In the UK the sales mix improved with full-year UKPIL parcels revenue growth of three per cent compared to one per cent for last year. GLS revenue grew by nine per cent in an increasingly competitive market. Cost containment translated this into an increase in profitability of 17 per cent. Further deployment of 'medium' parcels processing has progressed with the first Parcels Sortation Automation machine now live and a further two are undergoing installation. Parcels technology has improved on multiple fronts to support customer convenience.

4. Growing in new areas through acquisitions as well as leveraging our existing assets

The diversification strategy is proving effective with the three substantial acquisitions completed of ASM, GSO and Postal Express (the latter completed just after the year-end). ASM is expected to be economic profit accretive in 2018-19, while GSO should be economic profit accretive in 2019-20. We continue to build out the pipeline of potential acquisition candidates for 2017-18 and onwards. Amongst other initiatives, we established a 'Fleet' business unit, offering vehicle maintenance services to third parties, and a new consumer ID service that will be ready to launch in 2017-18.

5. Continue to refresh our approach to technology, defining a digital strategy which identifies and embraces technology relevant for our business' future

The Board's approval of the digital strategy allowed the development of products for customers; market trials for "Tamoco" for doorstep delivery instructions and "Glympse" for predicted time of delivery have been implemented. Operational performance was enhanced through the deployment of PDAs. The PDA platform can now manage 4.5 million scans an hour, up from 730,000, which supports an increasing proportion of parcels (68 per cent) now carrying a barcode.

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

Moya Greene: £439,883, 80 per cent of salary.
Matthew Lester: £381,425, 80 per cent of salary.

Additionally, in line with the Remuneration Policy and subject to Committee approval, this performance outcome determines the value of the deferred share award to be granted to the CEO, equal to the value of her bonus. This award will vest in three years.

What was the outcome of the 2014 LTIP?

The 2014 award was based on achievement against two performance conditions to be achieved by 26 March 2017 and a third condition, TSR, to be achieved by July 2017. The tables below show the performance conditions and the vesting of this plan. However, overall performance of the plan will be finalised ahead of the vesting in July 2017. Performance targets for the 2014 LTIP were not previously published due to commercial sensitivity.

Performance conditions:

Performance conditions	Weighting	Definition	Target measurement period	Threshold		Maximum	
				Target	Vesting (% of award)	Target	Vesting (% of award)
Earnings per share ("EPS")	50%	Growth in 'Basic EPS excluding specific items' as reported in the Annual Report and Accounts of the Company from a base of 26.3 pence	Financial year 2016-17	34.1 pence per share (9% Compound Annual Growth Rate)	12.50%	46.6 pence per share (21% Compound Annual Growth Rate)	50%
Operating profit margin before transformation costs	35%	Operating profit margin before transformation costs as reported in the Annual Report and Accounts of the Company	Financial year 2016-17	6%	8.75%	7.50%	35%
Total Shareholder Return ("TSR") versus FTSE 100 comparator group	15%	The change in the Net Return Index (as calculated by an independent financial information provider) for Royal Mail compared with the ranked Net Return Indices of the comparator group.	3 calendar years from the date of grant of the award ¹	Median	7.50%	Top Quartile	15%

¹ TSR calculation: $\frac{TSR2 - TSR1}{TSR1}$

TSR1 is its average Net Return Index over each weekday (excluding Saturdays) during the three months period ending on the first day of the TSR Performance Period.
TSR2 is its average Net Return Index over each weekday (excluding Saturdays) during the three months period ending on the last day of the TSR Performance Period.

Actual achievement:

Performance conditions	Threshold	Maximum	Outcome	Vesting (as % of Max)	Estimated 2014 LTIP Vesting (as % of Max)
Earnings per share ("EPS")	34.1pps (9% CAGR)	46.6pps (21% CAGR)	38.0pps (13.1% CAGR)	24%	
Operating profit margin before transformation costs	6%	7.5%	6.8%	22%	
Total Shareholder Return ("TSR") versus FTSE 100 comparator group	Median	Top Quartile	Estimated Below Threshold		46%

The 2014 LTIP is due to vest in July 2017, once the outcome under the TSR metric (which has a performance period that runs from the July 2014 grant date for three calendar years) is known. Using the latest available data for the TSR metric, the plan is likely to vest in July 2017 between 46 per cent and 53.5 per cent of maximum.

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

The grants made for the 2015 LTIP and the 2016 LTIP remain outstanding. The performance conditions for the 2015 LTIP are:

Measure	Weighting	Threshold		Maximum	
		Performance	Vesting (% of award)	Performance	Vesting (% of award)
EPS	50%	40.8 pence achieved in respect of 2017-18 financial year	12.5%	44.7 pence achieved in respect of 2017-18 financial year	50%
Operating profit margin before transformation costs*	35%	–	8.75%	–	35%
TSR versus FTSE 100 (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 performance conditions for the 2016 LTIP are:

Measure	Weighting	Threshold		Maximum	
		Performance	Vesting (% of award)	Performance	Vesting (% of award)
TSR versus FTSE 100 (excluding mining & financial companies)	100%	Median	50%	Top Quartile	100%

The amount of the LTIP awards outstanding, for each of the Executive Directors, is shown in the following table, as at 26 March 2017:

Executive Director	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	2015	LTIP shares	98%	537	28%	2017-18	105,057
	2016	LTIP shares	100%	548	50%	2018-19	107,800
Matthew Lester	2015	LTIP shares	98%	445	28%	2017-18	87,080
	2016	LTIP shares	100%	475	50%	2018-19	93,474

It should be noted that, on Matthew Lester's cessation of employment, his 2015 and 2016 LTIP awards will lapse. See page 81 for additional details.

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

The table below sets out details of the shareholdings of the Executive and Non-Executive Directors as at 26 March 2017. There has been no change in the Directors' interests in the ordinary share capital of the Company between 26 March 2017 and 25 May 2017 except as noted in (2) and (3) below.

	Shareholding Requirement	Number of shares owned outright on 26/03/17	Number of shares owned outright on 27/03/16	Value of shares owned outright on 26/03/17 ¹	Number of options granted under SAYE plan	Value of conditional share awards not subject to performance conditions (DSBP) ²	Conditional share awards subject to performance conditions (LTIP 2014, 2015, 2016) ³
Chairman							
Peter Long	–	100,000	50,000	–	–	–	–
Executive Directors							
Moya Greene	200%	40,173	3,862	£168,767	590	£439,883	321,214
Matthew Lester	200%	30,591	3,862	£128,513	590	–	279,351
Non-Executive Directors							
Rita Griffin	–	–	–	–	–	–	–
Nick Horler	–	3,466	3,313	–	–	–	–
Cath Keers	–	3,030	3,030	–	–	–	–
Paul Murray	–	15,770	15,617	–	–	–	–
Orna Ni-Chionna	–	13,217	3,313	–	–	–	–
Les Owen	–	3,030	3,030	–	–	–	–

¹ Value based on closing share price on 26/03/17.

² Includes the DSBP to be granted in respect of the 2016–17 Annual Bonus.

³ Shares include those which are subsequently due to vest following the end of performance period in July 2017.

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

The impact of pre-IPO LTIP awards 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?

As mentioned elsewhere, our CFO, Matthew Lester has decided to leave the business this July, after nearly seven years of service with the Company. Other than for the award vesting this year, his outstanding LTIP awards will lapse in accordance with the plan rules, and he will not be eligible for the award of deferred shares that forms part of the 2016–17 bonus. He will also not receive any payment for loss of office. The Committee determined that he would be eligible for the cash element of the 2016–17 Annual Bonus given that he was employed for the full financial year; and the Committee also agreed that his 2014 LTIP award, subject to the achievement of performance conditions, would be capable of vesting given that he was employed by the Company for the whole of the performance period. The Committee took the view that this was justifiable on account of his dedicated service to the Company throughout his notice period. It has been to the Company's advantage that he gave us more than his contractual notice in order for us to plan succession.

Were any payments made to past Directors during the year?

No payments were made to past Directors during the year.

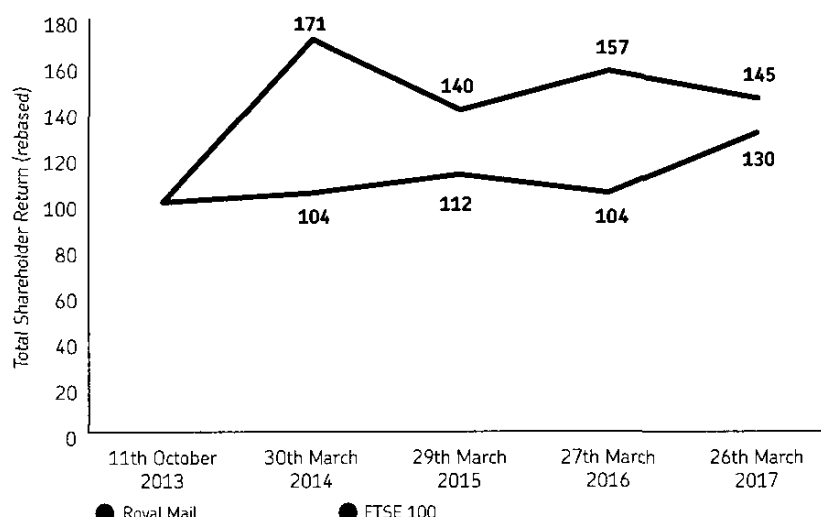
What has the pay for the CEO been over the last eight years?

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

	2009-10	2010-11	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Chief Executive Officer	Adam Crozier	Adam Crozier	Moya Greene	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	1,880
Annual Bonus awarded as % maximum	–	–	41%	74%	80%	77%	85%	82%	80%
LTIP vesting as % maximum	–	100%	–	–	100%	100%	69%	59%	46%

How does TSR compare to that of other similar companies?

Total Shareholder Return (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 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.

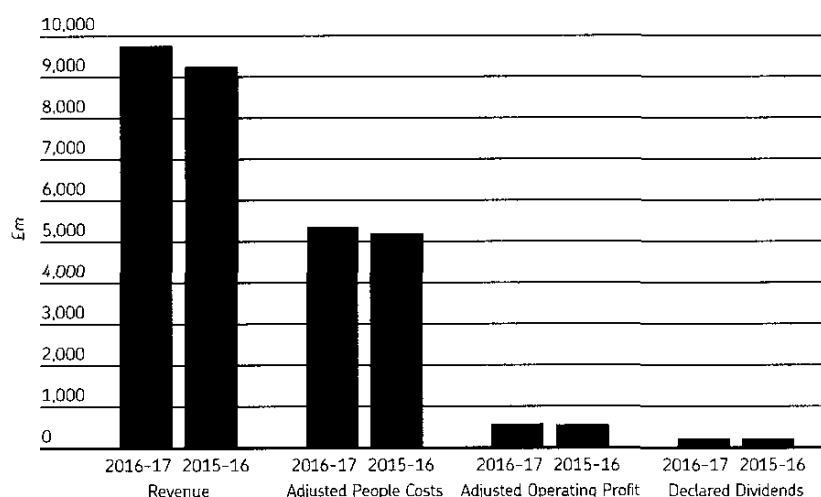


TSR over the Financial Year	FY 2013-14*	FY 2014-15	FY 2015-16	FY 2016-17
Royal Mail plc	71%	(18)%	12%	(8)%
FTSE 100	4%	7%	(7)%	25%

* 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 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.

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

The members of the Committee are shown in the table below.

	Number of meetings eligible to attend	Number of meetings attended
Total number of meetings		
Chair		
Orna Ni-Chionna	7	7
Members		
Peter Long	7	7
Paul Murray	7	7
Les Owen	7	7

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, the Company Secretary and the members of the Chief Executive's Committee; 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>.

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

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 and senior leadership 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 advisors as appropriate. The appointed advisors, 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 £112,640.

PwC has provided tax, technology, finance, operations, and other HR, commercial and strategic consulting services to the Group during the financial year.

PwC are signatories to the Remuneration Consultants Group 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.

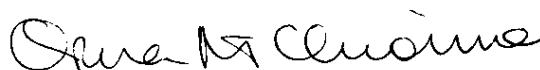
2016 Voting By Shareholders

The table below shows the advisory vote on the 2015-16 Remuneration Report at the AGM on 21 July 2016 and the vote on the new Remuneration Policy, effective immediately from the date of the AGM, and for up to three years.

	Votes For	% For	Votes Against	% Against	Total Votes Cast	Votes withheld (abstentions)
Approval of Remuneration Report	586,759,324	96.58%	20,795,146	3.42%	607,554,470	27,633,259
Approval of Remuneration Policy	523,665,626	83.46%	103,807,987	16.54%	627,473,613	7,731,040

The Remuneration Committee feels that the strong level of support for the new Policy does not require the Committee to make any changes to its implementation for the next financial year. The reasons for the votes against the Policy in 2016 primarily related to a minority of shareholders who did not support the increase in potential compensation related to short term performance or the sole use of TSR as a performance condition for the LTIP.

Approved by the Board on 17 May 2017 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 26 March 2017.

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 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.

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Disclosure and Transparency Rules

The Strategic Report and the Directors' Report together include the management report required by DTR 4.1 of the Disclosure Guidance and Transparency Rules of the UK Financial Conduct Authority (Disclosure Guidance and Transparency Rules), the Directors having consulted with the Management on such matters.

Corporate governance statement

The Disclosure Guidance 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 54-58 and is incorporated into this Directors' Report by reference.

Shares

Final dividend

The Board recommends a final dividend of 15.6 pence per ordinary share, giving a total dividend for the year of 23.0 pence per ordinary share. The final dividend will be payable on 28 July 2017, subject to shareholder approval, to shareholders whose names appear on the register of members on 30 June 2017.

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 Directors, 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 37-41 of the Strategic Report.

Share capital

As at 27 March 2017, 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 129.

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. Every proxy present who has been duly appointed by appointing 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.
- On a poll, every member has one vote per share held by them and they may vote in person or by appointing one or more proxies. Where they appoint more than one proxy, the proxies appointed, 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, or her, if any call or other sum then payable by him or her 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 20 July 2017, will be set out in the Notice of AGM.

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 21 July 2016, 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 2017 AGM or close of business 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 21 July 2016, 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 26 March 2017.

The Directors require express authorisation from shareholders to purchase our own shares. Accordingly, at the 2017 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 (EBT)

As at 26 March 2017, a total of 9,582,175 (2015-16 27,042) shares were held by the EBT on behalf of the Company.

Substantial shareholdings

As at 26 March 2017, the Company had been notified, in accordance with the Disclosure Guidance 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 2017, 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.

Directors

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 Companies 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.

Directors may 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 2006, 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 49–51. 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 66–83.

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 or 2016 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. 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

The events after the reporting period are disclosed in Note 27 of the financial statements.

Financial risk management

The Group's financial risk management objectives and policies and the main risks arising from the Group's financial assets and liabilities are summarised in Note 21 to the accounts on page 123. See the financial risks and related hedging contained on page 31 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 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 46, 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 page 43 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 21–36. 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 41 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.

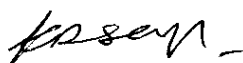
The Directors confirm full compliance with the Competition and Markets Authority's Statutory Audit Services Order. Further information about the audit transition can be found on page 61 of the Audit and Risk Committee Report.

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

Disclaimer

The Disclaimer can be found on page 152 of the Report.

By Order of the Board.



Kulbinder Dosanjh
Company Secretary
17 May 2017

Royal Mail plc
100 Victoria Embankment
London
EC4Y 0HQ

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 IFRS 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.

The Directors consider that the Annual Report and Financial Statements 2016-17, when 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.

Each of the Directors, whose names and function are set out on pages 49-51 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.

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Independent auditor's report

to the members of Royal Mail plc only.

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 26 March 2017 set out on pages 94 to 148. 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 26 March 2017 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.

Overview

Materiality: £20 million (2015-16: £18 million)
Group financial statements as a whole 5% (2015-16: 5%) of Group profit before tax excluding certain items*

Coverage 100% (2015-16: 100%) of Group profit before tax

Risks of material misstatement vs 2015-16

Recurring risks	Deferred revenue	
		◀▶
	Valuation of pension scheme liabilities	
		◀▶
	Industrial disease claims provision	
		◀▶
Event driven	Ofcom investigation contingent liability (recurring risk)	
		◀▶
	Acquisition accounting (new risk)	
		▲

*Items added back to Group profit before tax are the IFRS 2 charge for employee free shares issued (2016-17: £105 million, 2015-16: £158 million), loss on disposal of business (2016-17: £2 million, 2015-16: £nil) and net of profit on disposal of property, plant and equipment (2016-17: £14 million, 2015-16: £29 million).

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 audit significance, were as follows:

Deferred revenue associated with advance customer payments arising from stamps sold

£184 million (2015-16: £195 million)

Refer to page 60 (Audit Committee Report), page 136 (accounting policy) and page 122 (financial disclosures).

The risk

Subjective estimate

Deferred revenue is estimated for advance payments made by households who purchase stamps 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 the fact that the service will need to be provided by the Group during future accounting periods for pre-purchased stamps.

As no unique identification of the stamps 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 and Group sales data. The methodology adjusts for stamp holdings which are considered to be abnormal.

Our response

Our procedures included:

- **Our statistical expertise:** with the assistance of our own statistical specialists, assessing and evaluating the methodology used by the Group's independent third party specialist to determine the number of stamps held at the balance sheet date and its consistent application year on year.
- **Benchmarking assumptions:** challenging key assumptions and inputs to the calculation, including survey size, household data and caps in place to address the impact of abnormal holdings.
- **Survey specialist's credentials:** assessing the competence, independence and integrity of the Group's third party survey specialist which provides the survey data.
- **Independent performance:** testing the revenue data used in the calculation, agreeing inputs to the survey specialist's results, reperforming the calculation of deferred revenue and comparing this to the Group's result.
- **Assessing transparency:** Considering the adequacy of the Group's disclosures in respect of the deferred revenue adjustment.

Valuation of pension scheme liabilities

(£3,839 million surplus, net of £5,992 million liability; 2015-16: £3,430 million surplus, net of £3,815 million liabilities)

Refer to page 60 (Audit Committee Report), page 136 (accounting policy) and page 108 (financial disclosures).

Subjective valuation

Significant estimates are made in valuing the Group's post retirement defined benefit plan obligations, including in particular the discount rate, the inflation assumptions and the mortality assumptions. Small changes in the assumptions and estimates used to value the Group's pension obligations (before deducting scheme assets) would have a significant effect on the financial position of the Group.

Our procedures included:

- **Benchmarking assumptions:** challenging key assumptions applied, being the discount rate, inflation rate, mortality and salary growth with the support of our own actuarial specialists, including a comparison of key assumptions against market data.
- **Actuary's credentials:** assessing the competence, independence and integrity of the Group's actuarial expert.
- **Assessing transparency:** considering the adequacy of the Group's disclosures in respect of the sensitivity of the surplus to key assumptions.

2. Our assessment of risks of material misstatement

	The risk	Our response
Industrial disease claims provision (£84 million, 2015-16: £78 million) <i>Refer to page 60 (Audit Committee Report), page 137 (accounting policy) and page 128 (financial disclosures).</i>	Subjective estimate A number of judgments are made in the assessment of the Group's liability for industrial disease claims including the future number of claims, average cost of claims, future claims inflation and discount rate.	Our procedures included: <ul style="list-style-type: none"> • Our valuation expertise: with the assistance of our own valuation specialists, assessing the method used by the Group's independent adviser to calculate the provision based on our experience of models used in the market for comparative types of provisions. • Benchmarking assumptions: challenging the assumptions used, including the discount rate and the historical incidence of claims, in the calculation of the provision, including a comparison against the UK Asbestos Working Party Update 2009. • Third party provider credentials: assessing the competence, independence and integrity of the Group's third party adviser used in estimating the industrial disease provision. • Assessing transparency: considering the adequacy of the Group's disclosures in respect of this provision.
Ofcom investigation contingent liability <i>Refer to page 60 (Audit Committee Report), page 143 (accounting policy) and page 130 (financial disclosures).</i>	Dispute outcome An investigation by Ofcom is ongoing. Ofcom's provisional view is that Royal Mail breached competition law by engaging in conduct that amounted to unlawful discrimination against postal operators competing with Royal Mail delivery. Depending on the outcome of the Ofcom investigation and any appeal, Royal Mail may be fined. Whether a liability to the Group will result from this investigation is inherently uncertain.	<ul style="list-style-type: none"> • Our procedures included: • Enquiry with lawyers: inspecting correspondence with Ofcom and holding discussions with the Group's in house team. • Accounting analysis: challenging the assessment performed by the Directors to determine if the criteria for recognising a provision have been met. • Assessing transparency: Considering the adequacy of the Group's disclosures in respect of the contingent liability.
Acquisition accounting Valuation of intangible assets in the acquisition of GSO and ASM £90 million goodwill and £56 million intangible assets arising on acquisition <i>Refer to page 60 (Audit Committee Report), page 137 (accounting policy) and page 114 (financial disclosures).</i>	Subjective estimate The Group made two acquisitions during the year, ASM in June and GSO in September. The exercise to recognise the intangible assets acquired at fair value involves a significant degree of judgement in relation to the inputs used to value the intangibles, including estimated useful economic life and discount rate giving rise to a material estimate.	Our procedures included: <ul style="list-style-type: none"> • Our valuation expertise: with the assistance of our own valuation specialists, assessing and evaluating the methodology used by the Group's independent third party experts to value the intangible assets acquired. • Benchmarking assumptions: using our sector experience and knowledge, challenging the key assumptions used in the valuation including estimated useful economic life and discount rate. • Valuer's credentials: Assessing the competence, independence and integrity of the Group's valuation expert. • Assessing transparency: considering the adequacy of the Group's disclosures in respect of determining the fair value of the intangible assets acquired.

3. Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £20 million (2015-16: £18 million), determined with reference to a benchmark of Group profit before tax, adjusted to add back the IFRS 2 charge for employee free shares issued and to add back the loss on disposal of business net of profit on disposal of property, plant and equipment, of £428 million of which it represents 5 per cent (2015-16: 5 per cent). The items not included in the benchmark were all subject to audit procedures by the Group audit team.

We reported to the Audit Committee any corrected or uncorrected identified misstatements exceeding a profit before tax impact of £1.0 million or a balance sheet reclassification impact of £5.0 million, in addition to other identified misstatements that warranted reporting on qualitative grounds.

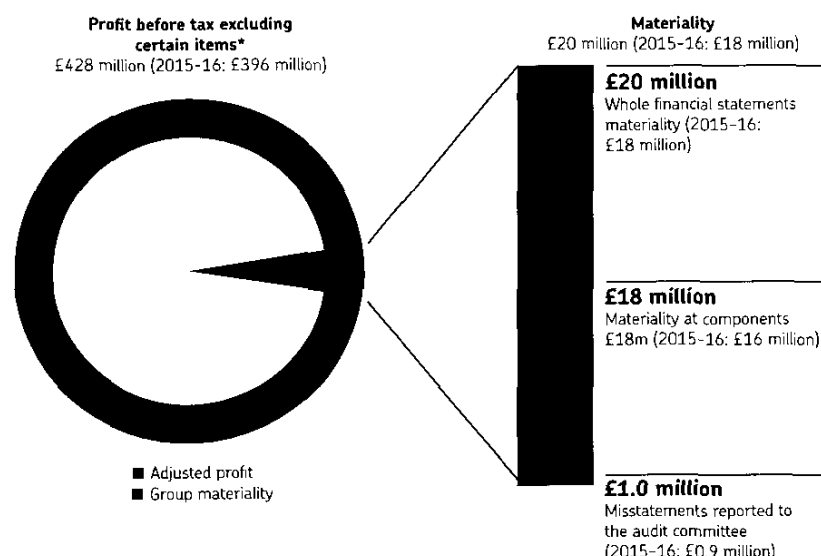
Of the Group's three (2015-16: three) reporting components, we subjected two (2015-16: two) to full scope audits for Group purposes. The components within the scope of our work accounted for the percentages of the Group's results illustrated opposite.

The work on one of the two components (2015-16: one of the two components) was performed by component auditors and the rest by the Group audit team.

For the residual component, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement.

The Group audit 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 audit team also approved the component materialities having regard to the mix of size and risk profile of the Group across the components.

The Group audit team visited the GLS component (2015-16: GLS component) at the planning, execution and finalisation stages of the audit including to assess the audit risk and strategy. Video and telephone conference meetings were also held regularly with the component auditor, including specific calls held in relation to the acquisition accounting for the two acquisitions made by GLS in the year. Part of these visits and meetings included discussion of the findings reported to the Group audit team in more detail, and any further work required by the Group audit team was then performed by the component auditor.



*Items added back to Group profit before tax are the IFRS 2 charge for employee free shares issued (2016-17: £105 million, 2015-16: £158 million), loss on disposal of business (2016-17: £2 million, 2015-16: £nil) and net of profit on disposal of property, plant and equipment (2016-17: £14 million, 2015-16: £29 million).

Group revenue

100%
(2015-16 100%)

100

100

Group profit before tax

100%
(2015-16 100%)

100

100

Group total assets

98%
(2015-16 98%)

98

98

■ Full scope for Group audit purposes 2016-17
■ Full scope for Group audit purposes 2015-16
■ Residual components

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 year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic Report and the Directors' Report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

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 41, 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 2020; 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.

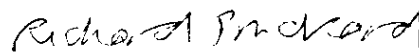
Under the Listing Rules we are required to review:

- the Directors' statements, set out on page 41, in relation to going concern and longer-term viability; and
- the part of the Corporate Governance Statement on page 54 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 87, 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

17 May 2017

Consolidated income statement

For the 52 weeks ended 26 March 2017 and 52 weeks ended 27 March 2016

	Notes	Reported ¹ 52 weeks 2017 £m	Reported ^{1,2} 52 weeks 2016 £m
Continuing operations			
Revenue	2	9,776	9,251
Operating costs ³	3/4	(9,286)	(8,766)
People costs		(5,576)	(5,456)
Distribution and conveyance costs		(2,106)	(1,736)
Infrastructure costs		(868)	(854)
Other operating costs		(736)	(720)
Operating profit before transformation costs		490	485
Transformation costs		(137)	(191)
Operating profit after transformation costs		353	294
Operating specific items:			
Employee Free Shares charge		(105)	(158)
Legacy/other (costs)/credit		(18)	2
Amortisation of intangible assets in acquisitions		(11)	-
Operating profit		219	138
Profit on disposal of property, plant and equipment (non-operating specific item)		14	29
Loss on disposal of business		(2)	-
Earnings before interest and tax		231	167
Finance costs	5	(18)	(16)
Finance income	5	2	3
Net pension interest (non-operating specific item)	9(c)	120	113
Profit before tax		335	267
Tax charge	6	(62)	(45)
Profit for the year from continuing operations		273	222
Discontinued operations			
Profit from disposal of discontinued operations (non-operating specific item)		-	31
Tax on profit from disposal of discontinued operations	6	-	(5)
Profit for the year		273	248
Profit for the year attributable to:			
Equity holders of the parent Company		272	241
Non-controlling interests		1	7
Earnings per share			
Basic – continuing operations	7	27.5p	21.5p
Diluted – continuing operations	7	27.3p	21.4p
Basic – total Group	7	27.5p	24.1p
Diluted – total Group	7	27.3p	24.0p

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

² The sub-analysis of operating costs has been re-presented as stated in Note 2. Total operating costs remain unchanged

³ Operating costs are stated before transformation costs, Employee Free Shares charge, Legacy/other (costs)/credit and amortisation of intangible assets in acquisitions.

Consolidated statement of comprehensive income

For the 52 weeks ended 26 March 2017 and 52 weeks ended 27 March 2016

	Notes	Reported 52 weeks 2017 £m	Reported 52 weeks 2016 £m
Profit for the year		273	248
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		405	255
IFRIC 14 adjustment relating to defined benefit surplus	9	113	(114)
Remeasurement gains of the defined benefit surplus	9(c)	399	320
Tax on above items	6	(107)	49
Items that may be subsequently reclassified to profit or loss:			
Foreign exchange translation differences		18	8
Exchange differences on translation of foreign operations (GLS) ¹		59	36
Net loss on hedge of a net investment (£500 million bond)		(38)	(26)
Net loss on hedge of a net investment (Euro-denominated finance lease payable)		(3)	(2)
Designated cash flow hedges		32	5
Gains/(losses) on cash flow hedges deferred into equity		22	(34)
Losses on cash flow hedges released from equity to income		16	42
Gains on cash flow hedges released from equity to the carrying amount of non-financial assets		(1)	-
Tax on above items	6	(5)	(3)
Total other comprehensive income for the year		455	268
Total comprehensive income for the year		728	516
Total comprehensive income for the year attributable to:			
Equity holders of the parent Company		727	509
Non-controlling interests		1	7

¹ Includes net £4 million charge (2015-16: £2 million) in relation to tax liabilities (see Note 6).

Consolidated balance sheet

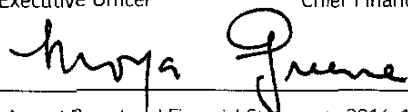
At 26 March 2017 and 27 March 2016

	Notes	Reported at 26 March 2017 £m	Reported at 27 March 2016 £m
Non-current assets			
Property, plant and equipment	11	2,062	2,002
Goodwill	12	316	206
Intangible assets	13	567	451
Investments in associates and joint venture	14	7	9
Financial assets			
Pension escrow investments	21	20	20
Derivatives	21	4	2
Retirement benefit surplus – net of IFRIC 14 adjustment	9	3,839	3,430
Other receivables		13	12
Deferred tax assets	6	15	9
		6,843	6,141
Assets held for sale	16	37	39
Current assets			
Inventories		23	21
Trade and other receivables	17	1,117	1,020
Income tax receivable		7	6
Financial assets			
Derivatives	21	8	5
Cash and cash equivalents	18/21	299	368
		1,454	1,420
Total assets		8,334	7,600
Current liabilities			
Trade and other payables	19	(1,810)	(1,700)
Financial liabilities			
Interest-bearing loans and borrowings		(33)	-
Obligations under finance leases	21/24	(64)	(84)
Derivatives	21	(9)	(33)
Income tax payable		(12)	(23)
Provisions	22	(88)	(151)
		(2,016)	(1,991)
Non-current liabilities			
Financial liabilities			
Interest-bearing loans and borrowings	20/21	(430)	(392)
Obligations under finance leases	21/24	(130)	(136)
Derivatives	21	(2)	(8)
Provisions	22	(108)	(96)
Other payables		(47)	(41)
Deferred tax liabilities	6	(603)	(469)
		(1,320)	(1,142)
Total liabilities		(3,336)	(3,133)
Net assets		4,998	4,467
Equity			
Share capital	23	10	10
Retained earnings		4,940	4,451
Other reserves		47	(3)
Equity attributable to parent Company		4,997	4,458
Non-controlling interests		1	9
Total equity		4,998	4,467

The financial statements were approved and authorised for issue by the Board of Directors on 17 May 2017 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 26 March 2017 and 52 weeks ended 27 March 2016

	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 29 March 2015	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 ¹	-	152	-	-	152	-	152
Save As You Earn (SAYE) scheme	-	3	-	-	3	-	3
Long Term Incentive Plan (LTIP) ²	-	15	-	-	15	-	15
Reported at 27 March 2016	10	4,451	22	(25)	4,458	9	4,467
Profit for the year	-	272	-	-	272	1	273
Other comprehensive income for the year	-	405	18	32	455	-	455
Total comprehensive income for the year	-	677	18	32	727	1	728
Transactions with owners of the Company, recognised directly in equity							
Release of Post Office Limited separation provision (see Note 22)	-	1	-	-	1	-	1
Dividend paid to equity holders of the parent Company	-	(222)	-	-	(222)	-	(222)
Dividend paid to non-controlling interests	-	-	-	-	-	(8)	(8)
Acquisition of non-controlling interests	-	(15)	-	-	(15)	(6)	(21)
Recognition of put options for non-controlling interests	-	(6)	-	-	(6)	-	(6)
Disposal of subsidiary	-	-	-	-	-	(1)	(1)
Acquisition of subsidiary	-	-	-	-	-	6	6
Share-based payments (see Note 15)							
Employee Free Shares issue ¹	-	100	-	-	100	-	100
Save As You Earn (SAYE) scheme	-	2	-	-	2	-	2
Long Term Incentive Plan (LTIP) ²	-	9	-	-	9	-	9
Purchase of own shares ³	-	(53)	-	-	(53)	-	(53)
Settlement of LTIP 2013	-	(4)	-	-	(4)	-	(4)
Reported at 26 March 2017	10	4,940	40	7	4,997	1	4,998

¹ Excludes £5 million (2015-16: £6 million) National Insurance, charged to the income statement, included in provisions on the balance sheet

² Excludes £1 million (2015-16: £1 million) National Insurance, charged to the income statement, included in provisions on the balance sheet.

³ Purchases in respect of LTIP and Employee Free Shares schemes

A description of the reserves in the above table is included in Note 23.

Consolidated statement of cash flows

For the 52 weeks ended 26 March 2017 and 52 weeks ended 27 March 2016

	Notes	Reported 52 weeks 2017 £m	Reported 52 weeks 2016 £m
Cash flow from operating activities			
Profit before tax		335	267
Adjustment for:			
Net pension interest		(120)	(113)
Net finance costs		16	13
Profit on disposal of property, plant and equipment		(14)	(29)
Loss on disposal of business		2	-
Legacy/other costs/(credit)		29	(2)
Employee Free Shares charge		105	158
Transformation costs		137	191
Operating profit before transformation costs		490	485
Adjustment for:			
Depreciation and amortisation	11/13	301	272
Share of post-tax loss/(profit) from associates and joint venture	14	2	(1)
EBITDA before transformation costs		793	756
Working capital movements		(9)	(20)
Increase in inventories		(2)	(1)
Increase in receivables		(40)	(62)
Increase in payables		56	22
Net decrease in derivative assets		2	1
(Decrease)/increase in provisions (non-specific items)		(25)	20
Pension charge to cash difference adjustment		222	257
Share-based awards (SAYE and LTIP) charge		11	13
Cash cost of transformation operating expenditure ¹		(142)	(233)
Cash cost of operating specific items		(61)	(6)
Cash inflow from operations		814	767
Income tax paid		(60)	(40)
Net cash inflow from operating activities		754	727
Cash flow from investing activities			
Dividend received from associate company	14	-	1
Finance income received		3	3
Proceeds from disposal of property (excluding London property portfolio), plant and equipment (non-operating specific item)		37	38
London property portfolio costs (non-operating specific item)		(34)	(23)
Proceeds from disposal of discontinued operations (non-operating specific item)		-	41
Disposal of subsidiary (non-operating specific item)		(3)	-
Purchase of property, plant and equipment ¹		(230)	(270)
Acquisition of business interests, net of cash acquired		(122)	(14)
Purchase of intangible assets (software) ¹		(157)	(191)
Payment of deferred consideration in respect of prior years' acquisitions		(4)	(4)
Net sale of financial asset investments (current)		-	56
Net cash outflow from investing activities		(510)	(363)
Net cash inflow before financing activities		244	364
Cash flow from financing activities			
Finance costs paid		(17)	(16)
Acquisition of non-controlling interests		(18)	-
Purchase of own shares		(53)	-
Payment of capital element of obligations under finance lease contracts		(74)	(90)
Cash received on sale and leasebacks		41	36
Drawdown of loan facility		31	-
Repayment of loans and borrowings		(7)	-
Dividends paid to equity holders of the parent Company	8	(222)	(213)
Dividend paid to non-controlling interests		(8)	(7)
Net cash outflow from financing activities		(327)	(290)
Net (decrease)/increase in cash and cash equivalents		(83)	74
Effect of foreign currency exchange rates on cash and cash equivalents		14	7
Cash and cash equivalents at the beginning of the year	18	368	287
Cash and cash equivalents at the end of the year	18	299	368

¹ Items comprise total investment within 'In-year trading 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: the basis of preparation on an IFRS basis; use of non-IFRS 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 26 March 2017 (2015-16: 52 weeks ended 27 March 2016) comprise the Company and its subsidiaries (together referred to as 'the Group') and the Group's interest in its associate undertakings and joint venture.

The consolidated financial statements for the 52 weeks ended 26 March 2017 were authorised for issue by the Board on 17 May 2017.

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 26 March 2017 (2015-16: 52 weeks ended 27 March 2016).

Presentation of results and accounting policies

The Group's significant accounting policies, including details of new and amended accounting standards adopted in the reporting year, can be found after the Notes to the consolidated financial statements.

The consolidated financial statements and associated Notes 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). In some instances, Alternative Performance Measures (APMs) are used by the Group. This is because Management are of the view that these APMs provide a more meaningful basis on which to analyse business performance, and are consistent with the way that financial performance is measured by Management and reported to the Board. Details of the APMs used by the Group are provided on page 33.

Going concern

In assessing the going concern status of the Group, the Directors are required to look forward 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 (£1,018 million at 26 March 2017) and other liquid resources available to the Group (cash at bank £144 million and cash equivalent investments £133 million at 26 March 2017). 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.

The Group's Viability Statement can be seen on page 41.

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 Royal Mail plc Board.

The Group's operating segments are based on geographic business units whose primary services and products relate to the delivery of parcels and letters. These segments are evaluated regularly by the Chief Executive's Committee and the Royal Mail plc Board – the Chief Operating Decision Maker (CODM) as defined by IFRS 8 'Operating Segments' – in deciding how to allocate resources and assess performance.

In the year, following the acquisition of the minority shareholding (49 per cent) on 31 March 2016, Romec Limited, previously reported in a third operating segment in 2015-16, has been incorporated into the UKPIL segment. This is to better reflect how the segment's resources are managed and reported to the CODM. The 2015-16 comparative information has been restated accordingly. There has also been a re-presentation of £141 million costs between infrastructure costs and other operating costs in the Group income statement.

Of the residual businesses previously included in the 'Other' segment in 2015-16, the Group disposed of its 51 per cent shareholding in NDC 2000 Limited (NDC) on 24 April 2016 and the results of the Quadrant Catering Limited associate company do not materially impact Group results. A loss of £2 million has been recognised in the income statement for the disposal of NDC.

A key measure of segment performance is operating profit before transformation costs (used internally for the Corporate Balanced Scorecard). This measure of performance is disclosed on an 'adjusted' basis, a non-IFRS measure, excluding specific items and the pension charge to cash difference adjustment (see APMs section on page 33). This is consistent with how financial performance is measured internally and reported to the CODM.

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 the basis of charges reached through negotiation between the relevant business units that form part of the segments. Trading between UKPIL and GLS is not material.

	UK operations	Non-UK operations	Group	Specific items and pension adjustment ¹	Reported Group
52 weeks 2017		Adjusted			
	UKPIL £m	GLS £m	Total £m	£m	Total £m
Continuing operations					
Revenue	7,658	2,118	9,776	-	9,776
People costs	(4,865)	(489)	(5,354)	(222)	(5,576)
Non-people costs	(2,245)	(1,465)	(3,710)	-	(3,710)
Operating profit before transformation costs	548	164	712	(222)	490
Transformation costs	(137)	-	(137)	-	(137)
Operating profit after transformation costs	411	164	575	(222)	353
Operating specific items					
Employee Free Shares charge	-	-	-	(105)	(105)
Legacy/other costs	-	-	-	(18)	(18)
Amortisation of intangible assets in acquisitions	-	-	-	(11)	(11)
Operating profit	411	164	575	(356)	219
Non-operating specific items					
Profit on disposal of property, plant and equipment	-	-	-	14	14
Loss on disposal of business	-	-	-	(2)	(2)
Earnings before interest and tax	411	164	575	(344)	231
Net finance costs	(13)	(3)	(16)	-	(16)
Net pension interest (non-operating specific item)	-	-	-	120	120
Profit before tax	398	161	559	(224)	335

¹ A £7 million credit for specific items and a £222 million charge for the pension charge to cash difference adjustment relate to UKPIL. A £9 million charge for specific items relates to GLS, comprising £10 million amortisation offset by £1 million profit on disposal of property, plant and equipment.

Notes to the consolidated financial statements (continued)

2. Segment information (continued)

	UK operations	Non-UK operations	Group	Specific items and pension adjustment ¹	Reported Group
52 weeks 2016	UKPIL £m	Adjusted GLS £m	Total £m	£m	Total £m
Continuing operations					
Revenue	7,671	1,580	9,251	-	9,251
People costs	(4,841)	(358)	(5,199)	(257)	(5,456)
Non-people costs	(2,205)	(1,105)	(3,310)	-	(3,310)
Operating profit before transformation costs	625	117	742	(257)	485
Transformation costs	(191)	-	(191)	-	(191)
Operating profit after transformation costs	434	117	551	(257)	294
Operating specific items					
Employee Free Shares charge	-	-	-	(158)	(158)
Legacy/other credit	-	-	-	2	2
Operating profit	434	117	551	(413)	138
Non-operating specific items					
Profit on disposal of property, plant and equipment	-	-	-	29	29
Earnings before interest and tax	434	117	551	(384)	167
Net finance costs	(13)	-	(13)	-	(13)
Net pension interest (non-operating specific item)	-	-	-	113	113
Profit before tax	421	117	538	(271)	267

¹ Specific items and pension charge to cash difference adjustment all relate to UKPIL.

The expenses and share of loss from associates and joint venture below are included within operating profit before transformation costs in the income statement.

The non-current assets below are included within non-current assets on the balance sheet but exclude financial assets, retirement benefit surplus and deferred tax.

	UK operations	Non-UK operations	
52 weeks 2017	UKPIL £m	GLS £m	Total £m
Depreciation	(198)	(37)	(235)
Amortisation of intangible assets (mainly software) ²	(56)	(21)	(77)
Share of post-tax loss from associates and joint venture	(1)	(1)	(2)
Non-current assets	2,199	766	2,965

	UK operations	Non-UK operations	
52 weeks 2016	UKPIL £m	GLS £m	Total £m
Depreciation	(194)	(30)	(224)
Amortisation of intangible assets (mainly software) ²	(39)	(9)	(48)
Share of post-tax profit from associates and joint venture	1	-	1
Non-current assets	2,125	555	2,680

² Includes £11 million (2015-16: £nil) presented as an operating specific item in the income statement.

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 2017 £m	52 weeks 2016 £m
People costs (see Note 4)	(5,576)	(5,456)
Distribution and conveyance costs		
Charges from overseas postal administrations	(356)	(294)
Fuel costs	(159)	(172)
Operating lease costs – vehicles	(17)	(11)
Infrastructure costs		
Depreciation and amortisation	(301)	(272)
Depreciation of property, plant and equipment (see Note 11)	(235)	(224)
Amortisation of intangible assets (see Note 13) ¹	(66)	(48)
Other operating costs		
Post Office Limited charges	(343)	(342)
Inventory expensed	(49)	(46)
Operating lease costs – property, plant and equipment	(143)	(134)

¹ Excludes £11 million (2015-16: £nil) amortisation of intangible assets in acquisitions, presented as an operating specific item in the income statement

Research and development

During the year the Group continued to develop products and services within the business. An indication of the nature of the activities performed are provided in the Strategic Report.

Regulatory body costs

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

	52 weeks 2017 £m	52 weeks 2016 £m
Ofcom	(4)	(5)
Citizens Advice/Consumer Council for Northern Ireland	(3)	(3)
Total	(7)	(8)

Statutory audit costs

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

	52 weeks 2017 £000	52 weeks 2016 £000
Auditor's fees		
Audit of Group statutory financial statements	(2,178)	(1,887)
Other fees to Auditor		
Regulatory audit	(122)	(122)
Other assurance	(44)	(6)
Taxation services	-	(29)
Other non-audit services	(342)	(216)
Total	(2,686)	(2,260)

The 2016-17 fees relate to the services of the Group's appointed auditor KPMG LLP who, in addition to the above amounts, were paid by the respective Trustees, £88,000 for the audit of the Royal Mail Pension Plan (2015-16: £85,000) and £28,000 for the audit of the Royal Mail Defined Contribution Plan (2015-16: £31,000).

Notes to the consolidated financial statements (continued)

4. People information

People costs account for 60 per cent (2015-16: 62 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 2017 £m	52 weeks 2016 £m
Wages and salaries	(4,371)	(4,323)
UK-based	(3,949)	(4,020)
GLS	(422)	(303)
Pensions (see Note 9)	(776)	(768)
Defined benefit UK	(568)	(619)
Defined contribution UK	(51)	(45)
UK defined benefit and defined contribution Pension Salary Exchange (PSE)	(151)	(99)
GLS	(6)	(5)
Social security	(429)	(365)
UK-based	(368)	(315)
GLS	(61)	(50)
Total people costs	(5,576)	(5,456)

Defined benefit pension plan rates:

Income statement	28.8%	29.8%
Cash flow	17.1%	17.1%

Defined contribution pension plan average rate:

Income statement and cash flow ¹	6.0%	5.7%
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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 2017	52 weeks 2016	52 weeks 2017	52 weeks 2016	52 weeks 2017	52 weeks 2016	52 weeks 2017	52 weeks 2016
UKPIL	148,170	151,713	151,601	154,572	141,819	142,544	142,579	143,835
GLS - continuing operations	12,966	9,683	12,617	9,471	17,136	13,991	16,912	13,829
Total	161,136	161,396	164,218	164,043	158,955	156,535	159,491	157,664

Directors' remuneration

	52 weeks 2017 £000	52 weeks 2016 £000
Directors' remuneration ³	(3,345)	(2,830)
Amounts earned under Long Term Incentive Plans (LTIP)	(400)	(676)
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 year.

³ 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. 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 'Employee Benefits'.

	52 weeks 2017 £m	52 weeks 2016 £m
Unwinding of discount relating to industrial diseases claims provision	(2)	(2)
Interest payable on financial liabilities	(16)	(14)
Syndicated bank loan facility		
Loans and borrowings	(1)	-
Unused facility fees	(2)	(2)
Arrangement fees	(1)	(2)
€500 million bond – 2.375% Senior Fixed Rate Notes due July 2024	(11)	(9)
Finance leases	(4)	(5)
Capitalisation of borrowing costs on specific qualifying assets	4	4
Other finance costs	(1)	-
Finance costs	(18)	(16)
Finance income – interest receivable on financial assets	2	3
Net finance costs	(16)	(13)

6. Taxation

This Note provides details about current tax (charges)/credits on profit and deferred tax (charges)/credits relating to the impact of past events on expected future tax. The Note also provides details about the tax impact of specific items.

	52 weeks 2017 £m	52 weeks 2016 £m
Tax (charged)/credited in the income statement		
Current income tax:		
Current UK income tax charge	(16)	(16)
Foreign tax	(45)	(35)
Current income tax charge	(61)	(51)
Amounts overprovided in previous years	1	1
Total current income tax charge	(60)	(50)
Deferred income tax:		
Effect of change in tax rates	9	6
Relating to origination and reversal of temporary differences	(20)	(17)
Amounts overprovided in previous years	9	11
Total deferred income tax charge	(2)	-
Tax charge in the consolidated income statement	(62)	(50)
Tax credited/(charged) to other comprehensive income		
Current tax:		
Tax credit on foreign currency translation	1	-
Deferred tax:		
Tax (charge)/credit in relation to actuarial gains on defined benefit pension plans	(107)	49
Tax charge on revaluation of cash flow hedges	(5)	(3)
Tax charge on foreign currency translation	(5)	(2)
Total deferred income tax (charge)/credit	(117)	44
Total (charge)/credit in the consolidated statement of other comprehensive income	(116)	44

Notes to the consolidated financial statements (continued)

6. Taxation (continued)

Reconciliation of the total tax charge

A reconciliation of the tax charge in the income statement and the UK rate of corporation tax applied to accounting profit for the 52 weeks ended 26 March 2017 and 52 weeks ended 27 March 2016 is shown below.

	52 weeks 2017 £m	52 weeks 2016 £m
Profit before tax ¹	335	298
At UK standard rate of corporation tax of 20% (2015-16: 20%)	(67)	(60)
Effect of higher taxes on overseas earnings	(9)	(10)
Tax overprovided in previous years	10	12
Non-deductible expenses	(5)	(6)
Associates' profit after tax charge (included in Group pre-tax profit)	-	1
Tax effect of property disposals	5	7
Net increase in tax charge resulting from non-recognition of deferred tax assets and liabilities	(5)	-
Effect of change in tax rates	9	6
Tax charge in the income statement²	(62)	(50)

Tax on specific items

	52 weeks 2017 £m	52 weeks 2016 £m
Continuing operations	59	72
Discontinued operations	-	(5)
Tax specific items – adjustments in respect of previous years	-	1
Total tax credit on specific items	59	68

The tax credit on specific items of £59 million (2015-16: £68 million) includes the tax impact of property transactions and certain tax-only adjustments, such as the impact of changes in tax law.

Current tax

The current tax charge for the Group is mainly in respect of GLS. UK taxable profits in 2016-17 are partially covered by a combination of brought forward losses and capital allowance claims. Accordingly, the current tax rate for the Group is 18 per cent (2015-16: 17 per cent).

Effective tax rate

The effective tax rate on reported profit is 19 per cent (2015-16: 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 due to changes to tax law detailed below, tax overprovided in previous years and no tax charge recognised in relation to property disposals³. The majority of the prior year overprovision is in relation to tax incentives in earlier years.

GLS pays tax in a number of territories, with the majority of its profits in the reporting year to 26 March 2017 earned in territories where the tax rate is above the UK statutory tax rate. Certain subsidiaries, notably GLS France, continue to not recognise deferred tax credits on losses made during the reporting year as it is not sufficiently certain of its capacity to utilise them in the future. These factors contribute to GLS having a higher effective tax rate for the year than the UK statutory rate.

¹ The 2015-16 profit includes £31 million in respect of discontinued operations

² The 2015-16 charge includes £5 million in respect of discontinued operations

³ 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 over) to be sold at their residual values, no capital gain would arise.

Notes to the consolidated financial statements (continued)

6. Taxation (continued)

Deferred tax

Deferred tax by balance sheet category 52 weeks ended 26 March 2017	At 28 March 2016 £m	(Charged)/ credited to income statement £m	(Charged)/ credited to other comprehensive income £m	(Charged)/ credited directly to equity £m	Acquisition of subsidiaries £m	R&D credit £m	At 26 March 2017 £m
Liabilities							
Accelerated capital allowances	(1)	(13)	(2) ^a	-	-	-	(16)
Pensions temporary differences	(565)	25	(107)	-	-	-	(647)
Employee share schemes	(25)	15	-	(1)	-	-	(11)
Intangible assets	(33)	17	(3) ^a	-	(17)	-	(36)
Hedging derivatives temporary differences	4	-	(5)	-	-	-	(1)
Deferred tax liabilities	(620)	44	(117)	(1)	(17)	-	(711)
Assets							
Deferred capital allowances	78	(41)	-	-	-	-	37
Provisions and other	19	-	-	-	1	-	20
Losses available for offset against future taxable income	63	(5)	-	-	4	-	62
R&D expenditure credit	-	-	-	-	-	4	4
Deferred tax assets	160	(46)	-	-	5	4	123
Net deferred tax liability	(460)	(2)	(117)	(1)	(12)	4	(588)

Deferred tax by balance sheet category 52 weeks ended 27 March 2016	At 30 March 2015 £m	(Charged)/ credited to income statement £m	(Charged)/ credited to other comprehensive income £m	At 27 March 2016 £m
Liabilities				
Accelerated capital allowances	(1)	-	-	(1)
Pensions temporary differences	(667)	53	49	(565)
Employee share schemes	(48)	23	-	(25)
Intangible assets	(29)	(2)	(2) ^a	(33)
Deferred tax liabilities	(745)	74	47	(624)
Assets				
Deferred capital allowances	127	(49)	-	78
Provisions and other	25	(6)	-	19
Losses available for offset against future taxable income	82	(19)	-	63
Hedging derivatives temporary differences	7	-	(3)	4
Deferred tax assets	241	(74)	(3)	164
Net deferred tax liability	(504)	-	44	(460)

Deferred tax – balance sheet presentation	At 26 March 2017 £m	At 27 March 2016 £m
Liabilities		
GLS group	(50)	(34)
Net UK position	(553)	(435)
Deferred tax liabilities	(603)	(469)
Assets		
GLS group	15	9
Net UK position	-	-
Net deferred tax liability	(588)	(460)

^a £5 million charged (2015-16: £2 million) to the 'Foreign currency translation reserve'.

Notes to the consolidated financial statements (continued)

6. Taxation (continued)

The deferred tax position shows an increased overall liability in the reporting year to 26 March 2017.

This increase in the liability is primarily as a result of the deferred tax impact of the increase in the surplus in RMPP.

The movement in pensions temporary differences credited to 'Other comprehensive income' includes a credit of £43 million (2015-16: £48 million) relating to the change in tax law detailed below. Additionally a charge of £65 million (2015-16: £59 million credit) has been recognised in relation to the IFRIC 14 adjustment detailed in Note 9.

GLS has deferred tax assets and liabilities in various jurisdictions which cannot be offset against one another. The main elements of the liability relate to goodwill and intangibles in GLS Germany, for which the Group has already taken tax deductions, and acquisition intangibles in relation to ASM and GSO.

At 26 March 2017, the Group had unrecognised deferred tax assets of £73 million (2015-16: £68 million) comprising £68 million (2015-16: £62 million) relating to tax losses of £259 million (2015-16: £234 million), mainly in GLS, that are available for offset against future profits if generated in the relevant GLS companies, and £5 million (2015-16: £6 million) in relation to £30 million (2015-16: £30 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 (2015-16: £211 million) of capital losses, the tax effect of which is £36 million (2015-16: £38 million) in respect of assets previously qualifying for industrial buildings allowances. Further temporary differences exist in relation to £212 million (2015-16: £217 million) of gains for which rollover relief has been claimed, the tax effect of which is £36 million (2015-16: £40 million). No tax liability would be expected to crystallise on the basis that, were the assets (into which the gains have been rolled over) to be sold at their residual values, no capital gain would arise.

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 17 per cent (effective 1 April 2020) were substantively enacted on 26 October 2015 and 15 September 2016 respectively. 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.

7. 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 2017			52 weeks 2016		
	Reported	Specific items ¹	Adjusted	Reported	Specific items ¹	Adjusted
Attributable to equity holders of the parent Company						
Profit for the year from continuing operations (£million)	272	(165)	437	215	(198)	413
Weighted average number of shares issued (million)	990	n/a	990	1,000	n/a	1,000
Basic earnings per share from continuing operations (pence)	27.5	n/a	44.1	21.5	n/a	41.3
Diluted earnings per share from continuing operations (pence)	27.3	n/a	43.8	21.4	n/a	41.1
Profit for the year (£million)	272	(165)	437	241	(172)	413
Weighted average number of shares issued (million)	990	n/a	990	1,000	n/a	1,000
Basic earnings per share (pence)	27.5	n/a	44.1	24.1	n/a	41.3
Diluted earnings per share (pence)	27.3	n/a	43.8	24.0	n/a	41.1

¹ Further detail of the balances which make up the specific items totals can be found in the Financial Review on page 27.

The diluted earnings per share for the year ended 26 March 2017 is based on a weighted average number of shares of 996,593,330 (2015-16: 1,004,792,701) to take account of the potential issue of 3,252,077 ordinary shares resulting from the Long Term Incentive Plans (LTIP) for certain senior management and 2,923,428 ordinary shares resulting from the the Save As You Earn (SAYE) scheme (see Note 15). The 9,582,175 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 (see Note 23). The Company, however, does not hold any shares in treasury.

Basic and diluted earnings per share from discontinued operations were nil pence per share (2015-16: 2.6 pence per share).

Notes to the consolidated financial statements (continued)

8. 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.

	52 weeks 2017 Pence per share	52 weeks 2016 Pence per share	52 weeks 2017 £m	52 weeks 2016 £m
Dividends on ordinary shares				
Final dividends paid	15.1	14.3	149	143
Interim dividends paid	7.4	7.0	73	70
Total dividends paid	22.5	21.3	222	213

In addition to the above dividends paid, the Directors are proposing a final dividend for the year ending 26 March 2017 of 15.6 pence per share, equivalent to £156 million. This dividend will be paid to shareholders on 28 July 2017 subject to approval at the AGM to be held on 20 July 2017.

9. Retirement benefit plans

In applying IAS 19 'Employee Benefits', the Group has recognised a pension asset of £3,839 million at 26 March 2017, compared with £3,430 million at 27 March 2016. 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 2017 £m	52 weeks 2016 £m
Ongoing UK pension service costs		
UK defined benefit plan (including administration costs) ¹	(568)	(619)
UK defined contribution plan	(51)	(45)
UK defined benefit and defined contribution plans' Pension Salary Exchange (PSE) ² employer contributions	(151)	(99)
Total UK ongoing pension service costs	(770)	(763)
GLS defined contribution type plan costs	(6)	(5)
Total Group ongoing pension service costs	(776)	(768)
Cash flows relating to ongoing pension service costs		
UK defined benefit plan employer contributions ³	(336)	(352)
Defined contribution plans' employer contributions	(57)	(50)
UK defined benefit and defined contribution plans' PSE employer contributions	(151)	(99)
Total Group cash flows relating to ongoing pension service costs	(544)	(501)
RMSEPP deficit correction payments	(10)	(10)
Pension charge to cash difference adjustment	(222)	(257)
	At 26 March 2017 '000	At 27 March 2016 '000
UK pension plans - active membership		
UK defined benefit plan	88	93
UK defined contribution plan	45	42
Total	133	135

¹ These pension service costs are charged to the income statement. They represent the cost (as a percentage of pensionable payroll - 28.8 per cent (2015-16: 29.8 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. Pensions administration costs for the Royal Mail Pension Plan (RMPP) of £5 million (2015-16: £6 million) continue to be included within the Group's 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 £151 million (2015-16: £99 million) 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 RMPP. 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)

9. 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 RMPP to new members.

Ongoing UK defined contribution plan costs have increased from £63 million in 2015-16 to £82 million (including £31 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 5.7 per cent in 2015-16 to 6.0 per cent in 2016-17.

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 Royal Mail Pension Plan (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 Company would have to make no further cash deficit correction payments relating to the historic liabilities. All further references in this Note to the RMPP, relate to its RM section.

Royal Mail Pension Plan

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.

Royal Mail Pensions Trustees Limited acts as the corporate trustee to the RMPP. Within the Trustee, there is a Trustee Board of nine nominated Trustee Directors. The Trustee Board is supported by an executive team of pension management professionals who provide day-to-day plan management, advise the Trustee on its responsibilities and ensures that decisions are fully implemented.

The Trustee has several responsibilities. It must always act in the best interests of all RMPP beneficiaries – including active members, deferred members, pensioners and beneficiaries. Specifically, it must pay all benefits as they fall due under the Trust Deed and Rules. The Trustee is responsible for:

- monitoring the RMPP – to help protect benefits, the Trustee monitors the financial strength of the participating employers;
- investing contributions – the Trustee invest the member and employer contributions in a mix of equities, bonds, property and other investments including derivatives. It holds all the contributions and investments on behalf of the members; and
- keeping members informed – the Trustee sends active members an annual benefit illustration, which shows what members can expect in the future, together with a summary of the RMPP's annual report and accounts.

2013 Pensions Review

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 Company agreed with the RMPP Trustee to implement a Pensions Reform with effect from 1 April 2014.

This agreement enabled the March 2012 actuarial valuation to be concluded, and allowed the Company's regular future service contribution rate for RMPP, expressed as a percentage of pensionable pay, to remain at 17.1 per cent.

The RMPP's investment strategy was developed to mitigate the largest risks – movements in interest rates and inflation rates. This has enabled the Company to maintain its March 2018 commitment.

As part of the March 2012 actuarial valuation, the Group agreed to pay additional contributions of up to £50 million a year from April 2016 onwards if the RMPP Trustee considers these necessary to maintain the RMPP's projected funding position in March 2019. The RMPP Trustee has carried out its assessment of liabilities as at March 2016 and confirmed that no payment was due for 2016-17. Following agreement on the revised Schedule of Contributions, such assessments will no longer be carried out.

Notes to the consolidated financial statements (continued)

9. Retirement benefit plans (continued)

2018 Pensions Review

In January 2017, the Company consulted RMPP members about its proposal for the future of the RMPP. The consultation closed on 10 March 2017. Following a review of member feedback, on 13 April 2017 the Company announced that it had not found an affordable way to keep the RMPP open in its current form after March 2018, and had made the decision to close the RMPP⁴ to future accrual on 31 March 2018.

On 8 May 2017, after the balance sheet date, agreement was reached between the Company and the RMPP Trustee on the March 2015 actuarial valuation and a revised Schedule of Contributions.

In accordance with the new Schedule of Contributions, the service contribution rate for 2017-18 will remain at 17.1 per cent. The March 2015 valuation continues to show the scheme in surplus and therefore no deficit correction payments are expected to be made. The Company expects to contribute around £320 million and employees around £110 million towards the RMPP in 2017-18.

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 Trustees, the Group makes deficit correction payments of £10 million per annum until at least the date on which the 2018 valuation is completed (no later than 30 September 2018). Deficit correction payments in 2016-17 were £10 million (2015-16: £10 million). The 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.

In April 2016 the RMSEPP Trustees purchased a 'buy-in' policy of insurance in respect of pensions in payment of its oldest members. This is considered an asset of the RMSEPP and does not confer any rights to individual members. All benefit payments due from the RMSEPP remain unchanged. The insurance policy exactly matches the value and timing of the benefits payable under the RMSEPP (for the oldest members) and the fair value is deemed to be the present value of the related obligation. The buy-in policy valued at £151 million is included as a pension asset and a pension liability at 26 March 2017.

A liability of £2 million (2015-16: £2 million) has been recognised for future payment of pension benefits to a past Director.

Accounting and actuarial surplus position (RMPP and RMSEPP)

The combined plans' assets and liabilities are shown below.

	Accounting (IAS 19)		Actuarial/cash funding	
	At 26 March 2017	At 27 March 2016	At 31 March 2017	At 31 March 2016
	£m	£m	£m	£m
Fair value of plans' assets (9(b) below) ⁵	9,847	7,374	10,066	7,442
Present value of plans' liabilities	(5,992)	(3,815)	(8,984)	(5,665)
Surplus in plans (pre IFRIC 14 adjustment)	3,855	3,559	1,082	1,777
IFRIC 14 adjustment	(16)	(129)	n/a	n/a
Surplus in plans	3,839	3,430	1,082	1,777

There is no element of the present value of the plans' liabilities above that arises from plans that are wholly unfunded.

Accounting (IAS 19)

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.

In the current period, the RMPP surplus is assumed to be fully recoverable as a reduction to future employer contributions as the economic benefit resulting from comparing the future service costs to the employer contributions is more than the accounting surplus. Therefore, no IFRIC 14 adjustment is required.

Following the Company's decision to close the RMPP, after 31 March 2018 the surplus will no longer be assumed to be recoverable as a reduction to future employer contributions. If this had been the position at 26 March 2017, only one year of economic benefit would be recoverable as a reduction to future employer contributions, with the remaining surplus assumed to be available as a refund. This would result in an additional IFRIC 14 adjustment of £1,176 million and a reduction in the overall 26 March 2017 pension surplus (net of IFRIC 14) from £3,839 million to £2,663 million. On this basis, the deferred tax liability in respect of the surplus as at 26 March 2017 of £647 million would be reduced to £85 million. It is not currently anticipated that any curtailments will arise as a result of the closure of RMPP.

Included in the IAS 19 figures in the table above is an RMSEPP surplus at 26 March 2017 of £47 million (pre IFRIC 14) (2015-16: £37 million surplus).

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 years.

⁴ The decision was made to close Sections B and C of the RMPP to future accrual. Section A of the Plan which has a small number of active members remains open to future accrual.

⁵ 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.

Notes to the consolidated financial statements (continued)

9. Retirement benefit plans (continued)

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 legal right to benefit from a surplus has not changed as a result of the changes agreed between the Company and Trustee on 8 May 2017.

Actuarial/cash funding

The actuarial funding surplus of the RMPP and RMSEPP is £1,082 million at 31 March 2017 (2015-16: £1,777 million surplus). The cost of benefits being accrued to RMPP each year, based on market conditions at the end of March 2017, would currently be £1,260 million. This is significantly greater than projected 2017-18 contributions of £320 million by the Company and £110 million by employees. Accordingly we expect the actuarial surplus would be exhausted during 2018 if the RMPP had remained open in its current form.

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 26 March 2017	At 27 March 2016
Retail Price Index (RPI)	3.2%	3.0%
Consumer Price Index (CPI)	2.2%	2.0%
Discount rate		
– nominal	2.5%	3.5%
– real (nominal less RPI) ⁶	(0.7)%	0.5%
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	28/26 years	29/27 years
Life expectancy from age 60 – for a current 40/60 year old female RMPP member	31/29 years	32/30 years

⁶ The real discount rate used reflects the long average duration of the RMPP of around 30 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

Mortality

The March 2017 mortality assumptions have been updated in line with the March 2015 valuation. The RMPP assumptions are based on the latest Self-Administered Pension Scheme (SAPS) S2 mortality tables with appropriate scaling factors (116 per cent for male pensioners and 109 per cent for female pensioners). Future improvements are based on the CMI 2015 core projections with a long-term trend of 1.5 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	220
Increase in inflation rate (both RPI and CPI simultaneously) of 0.1% p a	160
Decrease in discount rate of 0.1% p a	160
Increase in CPI assumption (assuming RPI remains constant) of 0.1% p a	30

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 30 years (2015-16: 27 years).

Notes to the consolidated financial statements (continued)

9. Retirement benefit plans (continued)

b) RMPP and RMSEPP assets

	At 26 March 2017			At 27 March 2016		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Equities						
UK	22	126	148	20	138	158
Overseas	561	27	588	427	-	427
Bonds						
Fixed interest – UK	306	11	317	272	7	279
– Overseas	938	14	952	793	2	795
Index linked – UK	26	151	177	191	-	191
Pooled investments						
Managed funds	1,018	-	1,018	775	-	775
Unit Trusts	6,004	-	6,004	4,188	-	4,188
Property (UK)	26	317	343	25	302	327
Cash and cash equivalents	320	-	320	210	-	210
Other	5	-	5	(3)	-	(3)
Derivatives	(25)	-	(25)	27	-	27
Total plans' assets	9,201	646	9,847	6,925	449	7,374

There were open equity derivatives within this portfolio with a fair value of £1 million at 26 March 2017 (2015-16: £48 million). £5 billion (2015-16: £4 billion) of HM Government Bonds are primarily included in Unit Trusts above. The plans' assets do not include property or assets used by the Group, but do include shares of the Royal Mail plc with an approximate market value of £21,000 at 26 March 2017 (2015-16: £27,000).

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 RMPP are movements in interest rates and inflation rates. To reduce the risk of movements in these rates driving the RMPP into a funding deficit, and the Group not being able to maintain its March 2018 commitment, the RMPP 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 index-linked gilts and derivatives (interest rate and inflation rate swaps) held in Unit Trust pooled investments providing economic exposure to gilts. The impact of the RMPP'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-hedged assets is predominantly reflected in the Unit Trust values above which have increased from £4,188 million at 27 March 2016 to £6,004 million at 26 March 2017.

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 26 March 2017 is £2.3 billion (2015-16: £2.6 billion) and the notional value covered by the inflation rate swaps at 26 March 2017 is £1.9 billion (2015-16: £1.8 billion).

The equity exposure of RMPP was reduced in October 2016 by means of a short Total Return Swap (TRS), a derivative that can be used to reduce exposure to a particular asset class without selling the physical assets held. TRS were introduced in order to control some downside risk whilst broadly maintaining the existing expected returns. The TRS economically offset £260 million of the Plan's global equity exposure.

The spread of investments continues to balance security and growth in order to pay the RMPP benefits when they become due.

In addition to holding return-seeking assets, RMSEPP holds long-dated index linked gilts of £26 million (2015-16: £191 million) and the buy-in annuity policy of £151 million at 26 March 2017 (2015-16: £nil) to match its liabilities.

Notes to the consolidated financial statements (continued)

9. Retirement benefit plans (continued)

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	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
Retirement benefit surplus (pre IFRIC 14 adjustment) at 28 March 2016 and 30 March 2015	7,374	6,619	(3,815)	(3,237)	3,559	3,382
Amounts included in the income statement						
Ongoing UK defined benefit pension plan and administration costs (included in people costs)	(5)	(6)	(683)	(694)	(688)	(700)
Pension interest income/(cost) ⁸	265	240	(145)	(127)	120	113
Total included in profit before tax	260	234	(828)	(821)	(568)	(587)
Amounts included in other comprehensive income – remeasurement gains/(losses)						
Actuarial gain/(loss) arising from:						
Financial assumptions	-	-	(1,711)	102	(1,711)	102
Demographic assumptions	-	-	243	-	243	-
Experience assumptions	-	-	76	186	76	186
Return on plans' assets (excluding interest income)	1,791	32	-	-	1,791	32
Total remeasurement gains/(losses) of the defined benefit surplus	1,791	32	(1,392)	288	399	320
Other						
Employer contributions	476	488	-	-	476	488
Employee contributions	6	48	(6)	(48)	-	-
Benefits paid	(55)	(47)	55	47	-	-
Curtailment costs	-	-	(5)	(45)	(5)	(45)
Movement in pension-related accruals	(5)	-	(1)	1	(6)	1
Total other movements	422	489	43	(45)	465	444
Retirement benefit surplus (pre IFRIC 14 adjustment) at 26 March 2017 and 27 March 2016	9,847	7,374	(5,992)	(3,815)	3,855	3,559

In addition to the above items which affect the net defined benefit surplus, estimated curtailment costs of £4 million (2015-16: £36 million) have been provided for in Transformation costs in the income statement, along with the associated redundancy costs.

⁸ Pension interest income results from applying the plans' discount rate at 27 March 2016 to the plans' assets at that date. Similarly, the pension interest cost results from applying the plans' discount rate as at 27 March 2016 to the plans' liabilities at that date

Notes to the consolidated financial statements (continued)

10. Acquisition of businesses

This Note provides details of the Group's business acquisitions which relate mainly to Golden State Overnight Delivery Services Inc. (GSO), Agencia Servicios Mensajería S.A.U. (ASM) and Revisecatch Limited (trading name eCourier).

Acquisitions made in the year for a total consideration of £129 million in respect of GSO and other smaller acquisitions, ASM and eCourier, are detailed below. This information includes the provisional fair value of the identifiable assets and liabilities recognised as at the date of acquisition.

	52 weeks ended 26 March 2017		
	GSO £m	Other £m	Total £m
Tangible assets acquired	5	4	9
Intangible assets recognised on acquisition	24	32	56
Trade and other receivables	10	21	31
Cash and cash equivalents	1	3	4
Goodwill recognised on acquisition	46	44	90
Total assets acquired	86	104	190
Trade and other payables	(9)	(22)	(31)
Obligations under finance leases	(3)	-	(3)
Interest bearing loans and borrowings	-	(7)	(7)
Tax liabilities	(8)	(6)	(14)
Non-controlling interests	-	(6)	(6)
Net assets acquired	66	63	129
Cash paid during the period	66	60	126
Deferred consideration	-	3	3
Total consideration	66	63	129

The fair value of trade debtors is equal to the gross contractual amounts receivable. An initial review of trade debtors has not indicated any recoverability issues.

The intangible assets recognised at fair value on acquisition relate to customer lists, software and brands. The goodwill of £90 million arising on these acquisitions is indicative of the acquired business knowledge of products and markets, and synergies that are expected through the integration of services.

No material fair value adjustments have been identified in respect of the remaining assets and liabilities acquired in the year.

Revenue generated from these entities since the date of acquisition is £139 million and the combined profit is £7 million, of which £51 million and £1 million relates to GSO, respectively. If these combinations had taken place at the beginning of the financial year, revenue generated would have been £222 million and the combined profit would have been £11 million, of which £98 million and £3 million relates to GSO, respectively.

The Group obtained control of GSO on 30 September 2016, through the acquisition of 100 per cent of the company's voting equity interest. GSO is a regional next day parcel delivery company, operating principally in California, and was purchased as part of GLS' careful and focused expansion outside of Europe.

There are no material non-controlling interests in relation to these acquisitions.

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			Plant and machinery £m	Motor vehicles £m	Fixtures and equipment £m	Total £m
	Freehold £m	Long leasehold £m	Short leasehold £m				
Cost							
At 28 March 2016	1,646	281	773	1,078	654	454	4,886
Exchange rate movements	29	2	-	16	5	10	62
Reclassification	(18)	4	14	-	-	-	-
Additions	98	2	14	61	73	28	276
Disposals	(1)	(2)	(2)	(28)	(34)	(100)	(167)
Acquisition of business	1	1	-	2	4	1	9
Reclassification to non-current assets held for sale	(12)	(1)	-	-	-	-	(13)
At 26 March 2017	1,743	287	799	1,129	702	393	5,053
Depreciation and impairment							
At 28 March 2016	843	179	532	698	314	318	2,884
Exchange rate movements	10	1	-	10	3	7	31
Depreciation (see Note 3)	42	7	42	56	51	37	235
Disposals	-	(1)	(2)	(28)	(29)	(98)	(158)
Reclassification to non-current assets held for sale	(1)	-	-	-	-	-	(1)
At 26 March 2017	894	186	572	736	339	264	2,991
Net book value							
At 26 March 2017	849	101	227	393	363	129	2,062
At 27 March 2016	803	102	241	380	340	136	2,002
Net book value comprises:							
Owned assets	849	90	223	300	147	129	1,738
Finance leased assets	-	11	4	93	216	-	324
At 26 March 2017	849	101	227	393	363	129	2,062

Notes to the consolidated financial statements (continued)

11. Property, plant and equipment (continued)

	Land and buildings			Plant and machinery	Motor vehicles	Fixtures and equipment	Total
	Freehold £m	Long leasehold £m	Short leasehold £m				
Cost							
At 30 March 2015	1,614	265	719	1,048	657	367	4,670
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	281	773	1,078	654	454	4,886
Depreciation and impairment							
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	102	241	380	340	136	2,002
At 29 March 2015	802	95	225	378	347	88	1,935
Net book value comprises:							
Owned assets	803	89	236	274	133	136	1,671
Finance leased assets	-	13	5	106	207	-	331
At 27 March 2016	803	102	241	380	340	136	2,002

Depreciation rates are disclosed within 'Significant accounting policies'. No depreciation is provided on land, which represents £211 million (2015-16: £198 million) of the total cost of properties.

The net book value of the Group's property, plant and equipment includes £149 million (2015-16: £119 million) in respect of assets in the course of construction. The net book value of the Group's land and buildings includes £407 million (2015-16: £431 million) in respect of building fit-out.

The £276 million (2015-16: £304 million) additions do not include any borrowing costs capitalised in relation to specific qualifying assets.

Notes to the consolidated financial statements (continued)

12. Goodwill

This Note provides details of the Group's goodwill, which mostly relates to its overseas subsidiary, GLS and business acquisitions in the year.

	2017 £m	2016 £m
Cost		
At 28 March 2016 and 30 March 2015	559	512
Exchange rate movements	57	36
Acquisition of businesses	90	11
Disposal of businesses	(1)	-
Reclassification of goodwill in respect of prior year acquisition	(2)	-
At 26 March 2017 and 27 March 2016	703	559
Impairment		
At 28 March 2016 and 30 March 2015	353	330
Exchange rate movements	34	23
At 26 March 2017 and 27 March 2016	387	353
Net book value:		
At 26 March 2017 and 27 March 2016	316	206
At 27 March 2016 and 29 March 2015	206	182

The carrying value of goodwill of £316 million (2015-16: £206 million) at the balance sheet date includes £299 million (2015-16: £192 million) in relation to GLS and acquisitions by GLS. This goodwill has been reviewed for impairment in line with IAS 36. The carrying value of GLS, excluding interest-bearing and tax-related assets and liabilities, is £718 million (2015-16: £557 million) and the operating profit before transformation costs is £164 million (2015-16: £117 million) for the year (see Note 2).

The carrying value of GLS of £718 million represents a multiple of 4.4 (2015-16: 4.8) 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 EBITDA earnings multiples for quoted entities in a similar sector of 6.6 (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 48 per cent to 3.4 to reduce the net realisable value to below the carrying value.

The remaining goodwill of £17 million (2015-16: £14 million) arising from an aggregation of business acquisitions within the UKPIL business unit is not material in the context of the Group's total goodwill.

Notes to the consolidated financial statements (continued)

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 eleven years).

	2017					2016			
	Master franchise licences £m	Customer listings £m	Software £m	Brands £m	Total £m	Master franchise licences £m	Customer listings £m	Software £m	Total £m
Cost									
At 28 March 2016 and 30 March 2015	21	36	670	-	727	21	31	496	548
Additions	-	3	126	-	129	-	-	194	194
Disposals	-	-	(12)	-	(12)	-	-	(25)	(25)
Acquisition of business	-	26	16	14	56	-	1	1	2
Reclassification of goodwill in respect of prior year acquisition	-	-	2	-	2	-	-	-	-
Exchange rate movements	-	7	5	-	12	-	4	4	8
At 26 March 2017 and 27 March 2016	21	72	807	14	914	21	36	670	727
Amortisation and impairment									
At 28 March 2016 and 30 March 2015	21	32	223	-	276	21	26	201	248
Amortisation (see Note 3)	-	7	66	4	77	-	2	46	48
Disposals	-	-	(12)	-	(12)	-	-	(25)	(25)
Exchange rate movements	-	4	2	-	6	-	4	1	5
At 26 March 2017 and 27 March 2016	21	43	279	4	347	21	32	223	276
Net book value:									
At 26 March 2017 and 27 March 2016	-	29	528	10	567	-	4	447	451
At 27 March 2016 and 29 March 2015	-	4	447	-	451	-	5	295	300

The intangible assets detailed above have finite lives and are being written down on a straight-line basis. The £129 million (2015-16: £194 million) additions include £4 million (2015-16: £4 million) borrowing costs capitalised at a rate of 2.4 per cent in relation to specific qualifying assets.

The Group holds individually material intangible assets totalling £192 million (2015-16: £197 million). These assets relate to various IT initiatives taking place across the business and have an average remaining useful life of seven years (2015-16: eight years).

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 listed below. To ensure that the reported share of the results of these companies aligns with the Group's reporting year ended 26 March 2017 (2015-16: 27 March 2016), 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 for inclusion in these financial statements.

	Principal activities	Country of incorporation	Reporting date	% ownership 2017	% ownership 2016
Associate company					
Quadrant Catering Limited	Catering services	United Kingdom	30 September	51.0	51.0
Mallzee Limited	Personal shopping application ('app')	United Kingdom	30 April	25.0	25.0
Market Engine Global Pty Limited	Software development	Australia	30 June	34.5	34.5
Joint venture company					
ParcelLock GmbH	Parcel locker provision	Germany	31 December	33.3	33.3

The majority of board membership and voting power to direct relevant activities in Quadrant Catering Limited (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 'Consolidated Financial Statements'.

Notes to the consolidated financial statements (continued)

14. Investments in associates and joint venture (continued)

Movements in interests in associates

	2017 £m	2016 £m
Cost		
At 28 March 2016 and 30 March 2015	8	5
Additions	-	3
Share of (loss)/profit after tax for the year from continuing operations ¹	(1)	1
Dividends received	-	(1)
At 26 March 2017 and 27 March 2016	7	8

Movements in interest in joint venture

	2017 £m	2016 £m
Cost		
At 28 March 2016 and 30 March 2015	1	-
Share of loss after tax for the year from continuing operations ¹	(1)	-
Additions	-	1
At 26 March 2017 and 27 March 2016	-	1

There are no significant restrictions on the ability of the associates or joint venture to transfer funds to the Group in the form of cash dividends or repayment of loans and advances.

¹ The Group's share of (loss)/profit after tax is recorded against 'Other operating costs' in the income statement

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 'Share-based Payment', 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 granted 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.

2016 SIP

On 6 October 2016 ordinary shares representing one per cent of the Company were granted free of charge to eligible full-time employees by HM Government. Accordingly, each eligible full-time employee received 81 shares as their 2016 SIP allocation with part-time eligible employees being allocated a pro-rata number of shares. All allocated shares will be equity-settled.

The fair value of the 2016 award of Free Shares is £50 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 £105 million (including £5 million National Insurance) has been made for the year ended 26 March 2017 for all four SIP allocations (see page 27 of Financial Review).

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 26 March 2017 is shown below.

	Number of shares
Total shares remaining in SIP at 28 March 2016	110,650,576
2016 SIP shares awarded in the reporting year	304,018
Shares sold/transferred out of SIP during the reporting year (fully vested)	(13,786,182)
Shares transferred out of SIP during the reporting year ('good leavers')	(3,407,578)
Total shares remaining in SIP at 26 March 2017	93,760,834

Of the total shares remaining in the scheme, 91,757,525 have been allocated to current employees. The remaining 2,003,309 shares are unallocated and have arisen as a result of forfeitures.

Award of shares under the Long Term Incentive Plan (LTIP)

LTIP awards were granted to senior management on 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 450.4 pence and 511.0 pence respectively. The maximum shares that have the potential to vest under each of the schemes are 2,983,419 under the 2014 LTIP and 2,868,528 under the 2015 LTIP.

2016 LTIP

LTIP awards were granted to senior management on 21 July 2016 and 8 December 2016 (together the 2016 LTIP). The vesting period of three years from 1 April 2016 and performance conditions are identical for both awards. These awards are equity-settled with the fair value of the shares awarded being calculated using a Monte-Carlo simulation, taking into account dividend accrual, and set at 333.0 pence and 278.0 pence, respectively. The maximum shares that have the potential to vest under the 2016 LTIP are 3,063,825.

A charge to the income statement of £10 million (including £1 million National Insurance) has been made for the year ended 26 March 2017 in relation to all LTIP schemes (2015-16: £12 million, including £1 million National Insurance).

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 £2 million has been made for the year ended 26 March 2017 (2015-16: £3 million) 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	13,915,040
Options exercised	(141,911)
Options forfeited	(901,519)
Balance at the end of the reporting year	12,871,610

For SAYE options exercised during the year (by 'good leavers'), the weighted average share price at the date of exercise was 477.4 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', 130,360 (2015-16: 85,860) share options were exercisable at 26 March 2017 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 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 26 March 2017, only certain surplus property assets are held for sale.

The balance sheet values of the assets held for sale during the reporting year are shown below.

	At 26 March 2017 £m	At 27 March 2016 £m
Property assets held for sale	37	39
Total	37	39

Property assets held for sale

Non-current assets held for sale of £37 million (2015-16: £39 million) relate to land and buildings which are being actively marketed with a view to a sale within 12 months, including 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.

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 26 March 2017 £m	At 27 March 2016 £m
Trade receivables	979	897
Prepayments and accrued income	138	123
Total	1,117	1,020

Movements in the provision for bad and doubtful debts are shown below.

	2017 £m	2016 £m
At 28 March 2016 and 30 March 2015	(26)	(21)
Receivables provided for during the year	(14)	(12)
Release of provision	6	3
Utilisation of provision	5	5
Acquisition of business	(5)	-
Exchange difference on foreign denominated provision	(1)	(1)
At 26 March 2017 and 27 March 2016	(35)	(26)

The amount of trade receivables that were past due but not impaired are shown below.

	At 26 March 2017 £m	At 27 March 2016 £m
Not yet overdue	890	806
Past due not more than one month	71	68
Past due more than one month and not more than two months	9	14
Past due more than two months	9	9
Total	979	897

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 26 March 2017 and at 27 March 2016 are as follows:

	At 26 March 2017 £m	At 27 March 2016 £m
Cash at bank and in hand	144	185
Client cash	22	13
Cash equivalent investments. Short-term bank and local authority deposits and money market fund investments	133	170
Total cash and cash equivalents	299	368

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 26 March 2017 £m	At 27 March 2016 £m
Trade payables and accruals	(1,348)	(1,226)
Advance customer payments (mainly for stamps held, not yet used by customers)	(289)	(306)
Social security	(100)	(81)
Capital expenditure payables	(60)	(70)
Other	(13)	(17)
Total	(1,810)	(1,700)

The fair value of trade and other payables is not materially different from the carrying value.

£13 million in respect of GLS liabilities has been reclassified from accruals to provisions (see Note 22) during the year.

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 26 March 2017							
Loans and borrowings £m	Further committed facility £m	Total facility £m	Average interest rate of loan drawn down %	Basis of interest rate chargeable	Average maturity date of loan drawn down Year	Average maturity date of loan facility Year	
Syndicated bank loan facilities	32	1,018	1,050	1.3	LIBOR plus 0.55%	2017	2022
€500 million bond – 2.375% Senior Fixed Rate Notes	430	-	430	2.5	Fixed at 2.5%	2024	2024
Loans in overseas subsidiaries	1	-	1	2.0	Fixed at 2.0%	2017	2017
Total	463	1,018	1,481	2.4		2024	2022

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	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

Notes to the consolidated financial statements (continued)

20. Loans and borrowings (continued)

The €500 million bond, issued in July 2014, is shown net of issue discount and fees and at a closing spot rate of £1/€1.157. 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 £38 million (2015-16: £26 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 2017, the Group extended £952 million of the syndicated bank loan facilities for a further year (to March 2022) 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 26 March 2017 is 0.6:1 (2015-16: 0.4:1). The Group's ratio of EBITDA to interest (excluding certain arrangement fees) at 26 March 2017 is 53.1:1 (2015-16: 63.0:1). Accordingly, the Group comfortably meets 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.

21. Financial assets and liabilities and risk management

In considering the financial assets and liabilities of the Group, Management use judgment to assess the materiality to users of the financial statements, at a Group level, of each of the disclosure areas highlighted in IFRS 7 'Financial instruments: Disclosures'. This assessment is based on both the magnitude and nature of the financial instruments involved and informs the level of disclosure of the risk management objectives and policies in place across the Group provided in this Note.

The following table summarises the disclosures:

Disclosure requirement

a) Classification, carrying amount and fair values of financial assets and liabilities - Carrying amounts and fair value of each category of financial assets and liabilities.

b) Foreign currency risk management - How Management address the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

c) Commodity price risk management - How Management address the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices

d) Interest rate risk management - How Management address the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates

e) Liquidity risk management - How Management address the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset

f) Credit risk management - How Management address the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation

g) Sensitivity analysis - How the income statement and balance sheet would have been affected by changes in commodity prices and exchange rates in the reporting year

Notes to the consolidated financial statements (continued)

21. Financial assets and liabilities and risk management (continued)

a) Classification, carrying amount and fair value of financial assets and liabilities

The following table shows the classification, carrying amount and fair value of the Group's financial assets.

		At 26 March 2017	At 26 March 2017	At 27 March 2016	At 27 March 2016
	Level Classification	Carrying Amount £m	Fair Value £m	Carrying Amount £m	Fair Value £m
Financial assets					
Cash		166	166	198	198
Cash equivalent investments		133	133	170	170
Money market funds	Loans and receivables	133	133	120	120
Short-term deposits – bank	Loans and receivables	–	–	50	50
Cash and cash equivalents		299	299	368	368
RMSEPP pension escrow – money market funds	Loans and receivables	20	20	20	20
Derivative assets (current)	2	8	8	5	5
Derivative assets (non-current)	2	4	4	2	2
Total financial assets		331	331	395	395

The following table shows the classification, carrying amount and fair value of the Group's financial liabilities.

		At 26 March 2017	At 26 March 2017	At 27 March 2016	At 27 March 2016
	Level Classification	Carrying Amount £m	Fair Value £m	Carrying Amount £m	Fair Value £m
Financial liabilities					
Syndicated bank loans (current loans and borrowings)	Amortised cost	(32)	(32)	–	–
Loans in overseas subsidiaries (current loans and borrowings)	Amortised cost	(1)	(1)	–	–
Obligations under finance leases (current)	Amortised cost	(64)	(64)	(84)	(84)
€500 million bond	Amortised cost	(430)	(464)	(392)	(424)
Obligations under finance leases (non-current)	Amortised cost	(130)	(137)	(136)	(138)
Derivative liabilities (current)	2	(9)	(9)	(33)	(33)
Derivative liabilities (non-current)	2	(2)	(2)	(8)	(8)
Total financial liabilities		(668)	(709)	(653)	(687)
Net total financial liabilities		(337)	(378)	(258)	(292)

The 'Level' classification in the above table is explained in the 'Fair value measurement of financial instruments' section of 'Significant accounting policies'.

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 considered further in this Note.

No speculative trading in financial instruments has been undertaken during the current or comparative reporting years, in line with Group policy.

b) Foreign currency risk

Foreign currency transaction risk

UKPIL is exposed to foreign currency risk due to interest payments on the €500 million bond, certain obligations under Euro-denominated finance leases, trading with overseas postal administrations and various purchase contracts denominated in foreign currency. GLS' functional currency is the Euro and it also has some exposure to non-Euro currencies, principally in emerging European markets, and to the US Dollar.

Where possible, exposures are netted internally and any remaining exposure is hedged using a combination of external spot and forward purchase and sale 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)

The following table shows for each hedge programme, the risk and the percentage hedged of the next 12 months' exposure:

Hedge programme	Risk	Percentage of next 12 months' exposure that has been hedged	
		At 26 March 2017	At 27 March 2016
Capital programmes	€/£ exchange rate movements	96%	100%
Overseas postal administrations	SDR/£ exchange rate movements	40%	69%

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.

Foreign currency translational risk

The Group's functional currency is £ Sterling. 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.

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. Royal Mail also entered into €30 million of Euro-denominated finance leases during the year (2015-16: €37 million) which similarly act as a hedge of the net assets of GLS. The remaining net assets of GLS in excess of the bond and lease payables are not hedged. 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 £38 million (2015-16: £26 million) and foreign exchange losses on the lease payables of £4 million (2015-16: £2 million) were deferred into equity. There was no hedge ineffectiveness in the current or prior reporting years.

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 €59 million of finance leases) are held within cash or derivatives.

	Sterling £m	US\$ £m	Euro £m	Other £m	Total £m
Net total financial assets/(liabilities) at 26 March 2017	27	(21)	(385)	42	(337)
Net total financial assets/(liabilities) at 27 March 2016	13	(10)	(290)	29	(258)

c) 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 forward commodity price swaps in US Dollar or £ Sterling and forward currency purchase contracts 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 forward commodity price swaps in £ Sterling.

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.

d) Interest rate risk

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. At 26 March 2017 there was no external hedge of interest rate risk (2015-16: none). 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 analysis below sets out the carrying amount of the Group's financial instruments that are exposed to interest rate risk.

Notes to the consolidated financial statements (continued)

21. Financial assets and liabilities and risk management (continued)

At 26 March 2017						
	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						
Syndicated bank loans	1.3	(32)	-	-	-	(32)
Loans in overseas subsidiaries	2.0	(1)	-	-	-	(1)
€500 million bond	2.5	-	-	-	(430)	(430)
Obligations under finance leases	2.8	(64)	(55)	(63)	(12)	(194)
Total		(97)	(55)	(63)	(442)	(657)
Floating rate						
Cash at bank	0.2	78	-	-	-	78
Cash equivalent investments – money market funds	0.4	133	-	-	-	133
Financial assets – pension escrow investments (non-current)						
RMSEPP pension escrow – money market funds	0.3	-	20	-	-	20
Total		211	20	-	-	231
Non-interest bearing						
Cash at bank or in hand		88	-	-	-	88
Derivative assets		8	4	-	-	12
Derivative liabilities		(9)	(1)	(1)	-	(11)
Total		87	3	(1)	-	89
Total financial assets		307	24	-	-	331
Total financial liabilities		(106)	(56)	(64)	(442)	(668)
Net total financial assets/(liabilities)		201	(32)	(64)	(442)	(337)

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)

Drawings under the syndicated bank loan facilities are at fixed rate to maturity (which must be 6 months or less). At 26 March 2017 there were drawings of £32 million (2015-16: £nil) representing a loan of US\$40 million at a closing spot rate of US\$1.25/£. The total interest-bearing financial assets of the Group (excluding the non-current investments) of £211 million (2015-16: £247 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 one day (2015-16: an average maturity of six days). These short-dated financial instruments are maturity-managed to obtain the best value out of the interest yield curve.

Notes to the consolidated financial statements (continued)

21. Financial assets and liabilities and risk management (continued)

Obligations under finance leases are either unsecured or secured on the leased assets. The average interest rate is 2.8 per cent (2015-16: 3.3 per cent). The average maturity date is more than five years (2015-16: more than five years).

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 one to two years.

e) 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. Borrowing facilities are regularly reviewed to ensure continuity of funding. The unused facilities for the Group of £1,018 million expire in 2020-22 (2015-16: £1,050 million expiring in 2020-21).

Below is a summary of the gross (undiscounted) contractual cash flows of the Group's financial liabilities. 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 26 March 2017 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.

	At 26 March 2017					
	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)	43	67	110	94	6	210
More than one year (non-current)	535	235	770	-	2	772
More than one year but not more than two years	11	59	70	-	1	71
More than two years but not more than five years	32	70	102	-	1	103
More than five years	492	106	598	-	-	598
Total	578	302	880	94	8	982
Less interest	(85)	(107)	(192)	n/a	n/a	n/a
Less exchange rate adjustment	(30)	(1)	(31)	n/a	n/a	n/a
Net total	463	194	657	n/a	n/a	n/a

	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

f) Credit risk

The level of credit granted to customers 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. An analysis of aged debt is included within Note 17.

Notes to the consolidated financial statements (continued)

21. Financial assets and liabilities and risk management (continued)

The Group's exposure to credit risk from other financial assets arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. At 26 March 2017, 95 per cent of financial assets (2015-16: 97 per cent) were held with AA or above rated counterparties.

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 respective GLS companies.

None of the financial assets is either past due or considered to be impaired.

g) 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 2017-18 operating profit risk from interest rate risk or commodity price risk (2015-16: £nil million risk).

The Group has an exposure to the exchange rate risk on translating the GLS profits; on trading with overseas postal administrations; on various purchase contracts and on the interest on the €500 million bond and Euro-denominated finance leases. The impact of a ten per cent strengthening of £ Sterling across all currencies on forecast profits/trade during 2017-18 would be to reduce the Group operating profit by £4 million (2015-16: £4 million). However, changes in exchange rates could also cause other impacts on operating profit including a change in import/export volumes.

The Group has an exposure to the exchange rate risk on translating the GLS net assets into £ Sterling on consolidation. This is partially offset by an exposure on translating the €500 million bond and Euro-denominated finance leases into £ Sterling at each balance sheet date. The impact of a ten per cent strengthening of £ Sterling against the Euro at 26 March 2017 would have been to reduce the Group net assets by £19 million (2015-16: £10 million).

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 28 March 2016	(12)	(154)	(81)	(247)
Arising during the year				
Charged in transformation costs and operating specific items	(49)	(11)	(2)	(62)
Charged in other operating costs	-	-	(24)	(24)
GLS reclassification	-	-	(13)	(13)
Unused amounts released	-	1	3	4
Utilised in the year	48	54	47	149
Foreign exchange rate adjustment	-	(1)	-	(1)
Unwinding of discount – industrial diseases claims	-	(2)	-	(2)
At 26 March 2017	(13)	(113)	(70)	(196)
Disclosed as:				
Current	(13)	(21)	(54)	(88)
Non-current	-	(92)	(16)	(108)
At 26 March 2017	(13)	(113)	(70)	(196)
Disclosed as:				
Current	(12)	(67)	(72)	(151)
Non-current	-	(87)	(9)	(96)
At 27 March 2016	(12)	(154)	(81)	(247)

Transformation costs

Transformation costs provisions comprise £13 million (2015-16: £12 million) in respect of redundancy schemes.

Notes to the consolidated financial statements (continued)

22. Provisions (continued)

Specific items and Other provisions

Below is a summary of the ageing profile of Specific items and Other provisions.

	At 26 March 2017					At 27 March 2016				
	Expected period of settlement					Expected period of settlement				
	Within one year £m	One to two years £m	Two to five years £m	After five years £m	Total £m	Within one year £m	One to two years £m	Two to five years £m	After five years £m	Total £m
Specific items										
Industrial diseases claims	(3)	(3)	(3)	(75)	(84)	(2)	(3)	(3)	(70)	(78)
German property tax	(4)	-	-	-	(4)	(5)	-	-	-	(5)
Employee Free Shares - NI	(11)	-	(2)	-	(13)	(13)	-	(2)	-	(15)
Legacy property costs	-	-	(1)	(8)	(9)	-	-	(1)	(8)	(9)
Post Office Limited separation	-	-	-	-	-	(2)	-	-	-	(2)
French Competition Authority fine	-	-	-	-	-	(43)	-	-	-	(43)
Other	(3)	-	-	-	(3)	(2)	-	-	-	(2)
Total	(21)	(3)	(6)	(83)	(113)	(67)	(3)	(6)	(78)	(154)
Other										
Property onerous lease and decommissioning obligations	(15)	-	(6)	-	(21)	(14)	-	(7)	-	(21)
Litigation claims	(33)	-	-	-	(33)	(38)	-	-	-	(38)
LTIP - NI	-	-	(2)	-	(2)	-	-	(2)	-	(2)
Operational transformation	(1)	-	-	-	(1)	-	-	-	-	-
Onerous contracts	-	-	-	-	-	(20)	-	-	-	(20)
GLS reclassification	(5)	(6)	(2)	-	(13)	-	-	-	-	-
Total	(54)	(6)	(10)	-	(70)	(72)	-	(9)	-	(81)

The potential liability for industrial diseases claims relating to both current and former employees of the Group 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.

£13 million was reclassified to Other provisions during the year (presented within accruals previously) in respect of GLS liabilities, mainly in respect of litigation claims.

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.

	At 26 March 2017 £m	At 27 March 2016 £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 9,582,175 (2015-16: 27,042) 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 since 28 March 2005 from cash flow hedges.

Notes to the consolidated financial statements (continued)

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 lie with 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 26 March 2017	At 27 March 2016	At 26 March 2017	At 27 March 2016	At 26 March 2017	At 27 March 2016	At 26 March 2017	At 27 March 2016
	£m	£m	£m	£m	£m	£m	£m	£m
Within one year	(130)	(120)	(21)	(13)	(5)	(9)	(156)	(142)
Between one and five years	(369)	(358)	(61)	(25)	(10)	(22)	(440)	(405)
Beyond five years	(445)	(427)	(26)	(7)	-	-	(471)	(434)
Total	(944)	(905)	(108)	(45)	(15)	(31)	(1,067)	(981)

Existing leases for UK land and buildings have an average term of 15 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 seven years. The existing leases have an average term remaining of five years. The majority of the IT commitments relate to four contracts, with an average term remaining of three years.

Finance lease commitments

	At 26 March 2017		At 27 March 2016	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
	£m	£m	£m	£m
Within one year	(67)	(64)	(87)	(84)
Between one and five years	(129)	(118)	(134)	(123)
Beyond five years	(106)	(12)	(108)	(13)
Total minimum lease payments	(302)	(194)	(329)	(220)
Less future finance charges	107	-	108	-
Less exchange rate impact	1	-	1	-
Total	(194)	(194)	(220)	(220)

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 four 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 £27 million (2015-16: £34 million) for property, plant and equipment, £16 million (2015-16: £3 million) for vehicles and £4 million (2015-16: £12 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 of anti-competitive conduct in relation to certain Contract Change Notices issued by the Group in January 2014. Ofcom's investigation was launched in February 2014 following a complaint brought by TNT Post UK (now Whistl).

The Group has robustly defended its conduct in written and oral representations made to Ofcom and will continue to defend itself.

The Group is still not in a position to accurately predict when it will receive Ofcom's final decision. The Group continues to maintain that it has not infringed competition law and its representations to Ofcom have been made 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 2017 £m	52 weeks 2016 £m
Sales/recharges to:		
RMPP (administration and investment service recharge)	5	5
Purchases/recharges from:		
Associate undertaking (Quadrant Catering Limited)	(8)	(11)
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 2017 £000	52 weeks 2016 £000
Short-term employee benefits	(11,174)	(9,809)
Post-employment benefits	(44)	(172)
Other long-term benefits	(734)	-
Share-based payments	(4,102)	(1,879)
Total	(16,054)	(11,860)

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 52) 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 26 March 2017 unless otherwise indicated.

Company	Principal activities	Country of incorporation	% equity interest 2017	% equity interest 2016
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	Facilities management	United Kingdom	100	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

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 26 March 2017 and the publication date of the Annual Report and Financial Statements.

Acquisition of Postal Express

On 6 April 2017, GLS acquired the US overnight parcel delivery company, Postal Express.

Postal Express is a regional overnight carrier operating in the states of Washington, Oregon and Idaho. It offers overnight parcel delivery, mainly to business-to-business customers across a number of industries. The total consideration paid for 100 per cent of the shares in Postal Express was \$13.3 million (approximately £10.6 million).

No fair value disclosure has been made in these financial statements as the acquisition balance sheet is still being compiled under the terms of the purchase agreement.

Notes to the consolidated financial statements (continued)

27. Events after the reporting year (continued)

Royal Mail Pension Plan (RMPP)

On 13 April 2017, the Company announced its decision to close RMPP to future accrual on 31 March 2018.

On 8 May 2017, agreement was reached between the Company and the RMPP Trustee on the March 2015 actuarial valuation and a revised Schedule of Contributions.

Further details can be found in the Strategic Report and Note 9.

28. Related undertakings of Royal Mail plc

This Note provides a full list of the related undertakings of Royal Mail plc in line with Companies Act requirements.

In accordance with Section 409 of the Companies Act 2006 a full list of related undertakings, the country of incorporation, registered office address and the effective percentage of equity owned, as at 26 March 2017 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

Company Name	Share Class	% held by Group
Austria		
Traunfurterstrasse 105A, A-4052 Ansfelden, Austria		
General Logistics Systems Austria GmbH	€1,090,092.51 Ordinary shares	100.000
Belgium		
Humaniteitslaan 233, 1620 Drogenbos, Belgium		
General Logistics Systems Belgium N.V.	€100.00 Ordinary shares	100.000
GLS Belgium Distribution S.A./N.V.	€4.27 Ordinary shares	100.000
China		
Suite 966, 9F, No.2 bldg, China Central Place, No.79, Jian Guo Rd, Chao Yang Distt, Beijing		
EBP Consultancy (Beijing) Co. Ltd ¹	-	100.000
Croatia		
10360 Popovec, Varazdinska ulica 116, Croatia		
General Logistics Systems Croatia D.O.O.	HRK760,000.00 Ordinary shares	100.000
Czech Republic		
Prumyslova 5619/1, 58601 Jihlava, Czech Republic		
General Logistics Systems Czech Republic S.R.O.	CZK2,970,000.00 Ordinary shares	100.000
	CZK30,000.00 Ordinary shares	100.000
Denmark		
Kokmose 3, 6000 Kolding, Denmark		
General Logistics Systems Denmark A/S	DKK100.00 Ordinary shares	100.000
General Logistics Systems Express A/S	DKK1,000.00 Ordinary shares	100.000
Finland		
Rydöntie 22, 20360 Turku, Finland		
General Logistics Systems Finland Oy	€50.00 Ordinary shares	100.000
France		
14 Rue Michel Labrousse, CS 93730, 31037 Toulouse Cedex 01, France		
General Logistics Systems France S.A.S	€50.00 Ordinary shares	100.000
GLS Invest France S.A.S	€21.00 Ordinary shares	100.000

¹100% of the equity contribution. No shares are issued by EBP.

Notes to the consolidated financial statements (continued)

28. Related undertakings of Royal Mail plc (continued)

Company Name	Share Class	% held by Group
Germany		
Doerrwiese 2, 36286 Neuenstein, Germany		
Der Kurier Beteiligungsgesellschaft mbH	€25,000.00 Ordinary shares	100 000
Der Kurier GmbH & Co. KG	€2,561,572.32 Cash Contribution	100 000
GLS Germany-Str. 1-7, 36286 Neuenstein, Germany		
General Logistics Systems Germany GmbH & Co. OHG	€178,249,643.37 Cash Contribution	100 000
GLS IT Services GmbH	€127,822.97 Ordinary shares	100 000
GLS Germany-Str. 1-7, D-36286 Neuenstein, Germany		
GLS Beteiligungs GmbH	€7,720,507.41 Ordinary shares	100 000
GLS Germany-Straße 1-7, 36286 Neuenstein, Germany		
GLS Verwaltungs-und Service GmbH	€153,387.56 Ordinary shares	100 000
Pinkertweg 49, 22113 Hamburg, Germany		
Overnight Services GmbH Vermittlung Ueberregionaler Kurierdienste	€25,564.59 Ordinary shares	100 000
Guernsey		
PO BOX 160, Dixcart House, St Peter Port, GY1 4EY, Guernsey		
Postcap (Guernsey) Limited	£1.00 Ordinary shares	100 000
Hungary		
GLS Europa utca 2, 2351 Alsonemedi, Hungary		
GLS General Logistics Systems Hungary Kft	HUF30,000,000.00 Ordinary shares	100 000
Ireland		
Unit 1 Stadium Business Park, Ballycoolin Road, Ballycoolin, Dublin, D11 DK24, Ireland		
General Logistics Systems Ireland Limited	€1.2697 Ordinary shares	100 000
RM Financing Operations Limited	€1.00 Ordinary	100 000
	€1.00 Redeemable Preference shares	100 000
RMF Operations Designated Activity Company	US\$1.00 Ordinary Shares	100 000
	US\$1.00 Redeemable Preference Shares	-
Williames Cargo Systems Limited ²	€1.2697 Ordinary shares	100 000
Italy		
Via Basento No. 19, 20098 San Giuliano Milanese, Italy		
Agone S.R.L.	€10,000.00 Ordinary shares	100 000
General Logistics Systems Enterprise S.R.L.	€1,011,000.00 Ordinary shares	100 000
General Logistics Systems Italy S.P.A.	€0.52 Ordinary shares	100 000
Gruppo Executive Societa Consortile a.R.L.	€255.00 Ordinary shares	81 667
Luxembourg		
Avenue de Luxembourg, 2 a 4950 Bascharage		
General Logistics Systems Belgium S.A. Succursale de Luxembourg ³	-	-
Netherlands		
Breguetlaan 28-30, 1438 BC Oude Meer, Netherlands		
General Logistics Systems B.V.	€100.00 Ordinary shares	100 000
Proostwetering 40, 3543 AG Utrecht, Netherlands		
General Logistics Systems Netherlands B.V.	€50.00 Ordinary shares	100 000
GLS Netherlands Holding B.V.	€0.50 Ordinary shares	100 000
GLS Netherlands Services B.V.	€50.00 Ordinary shares	100 000
Poland		
UL. Teczowa 10, Gluchowo, 62-052 Komorniki, Poland		
General Logistics Systems Poland Spolka Z O O	PLN1 721 Ordinary shares	100 000

² In Liquidation

³ Branch of GLS Belgium. No shares are issued or held.

Notes to the consolidated financial statements (continued)

28. Related undertakings of Royal Mail plc (continued)

Company Name	Share Class	% held by Group
Portugal		
Rua Ramalho Ortigao 17, 3, 1070-228 Lisboa, Portugal		
ASM Transporte Urgente Portugal Unipessoal LDA	€50,000 Share capital	
Rua da Bica, No. 10, 2669-608 Venda do Pinheiro, Portugal		
General Logistics Systems Portugal Lda	€199,900.00 Ordinary shares	100 000
	€100.00 00 Ordinary shares	100 000
Romania		
106, Str. Dorobantilor, 550231 Sibiu, Romania		
GLS General Logistics Systems Romania Srl	RON4,000.00 Ordinary shares	100 000
Slovakia		
Lieskovska cesta 13, 96221 Lieskovec, Slovakia		
GLS General Logistics Systems Slovakia S R O.	€98,604.00 Ordinary shares	100 000
	€996.00 Ordinary shares	100 000
Slovenia		
Cesta v Prod 84, 1000 Ljubljana, Slovenia		
General Logistics Systems D O O.	€751,127.00 Ordinary shares	100 000
Spain		
Avenida Fuentemar 18, 28823 Coslada, Madrid, Spain		
Agencia Servicios Mensajería, S.A.U.	€ 9,758,136 Share capital	100 000
ASM Transporte Urgente Andalucía, S.A.U.	€120,600 Share capital	100 000
Calle Poima 8, Poligono Industrial Can Valero, 07011 Palma de Mallorca, Spain		
ASM Supply Chain Solutions, S.L.U.	€10,302 Share capital	-
C/Lacus No 12, CIM Valles, 08130 Santa Perpetua de Mogoda-Barcelona, Spain		
General Logistics Systems Spain S.L.	€20.00 Ordinary shares	100 000
United Kingdom		
100 Victoria Embankment, London, EC4Y 0HQ, United Kingdom		
Angard Staffing Solutions Limited	£1.00 Ordinary shares	100 000
Community Couriers Ltd	£1.00 Ordinary shares	100 000
Consignia (Customer Management) Limited	£1.00 Ordinary shares	100 000
Consignia Limited	£1.00 Ordinary shares	100 000
DGMH Clayton Limited	£1.00 Ordinary shares	100 000
Envision Licensing Limited	£1.00 Ordinary-A shares	100 000
	£1.00 Ordinary-B shares	100 000
	£1.00 Ordinary-C shares	100 000
Intersoft Systems & Programming Limited	£1.00 Ordinary shares	100 000
IREP Partnership Limited	£1.00 Ordinary shares	100 000
Nine Elms Parkside Estate Management Limited	£1.00 Ordinary Shares	100 000
Parcellforce Limited	£1.00 Ordinary shares	100 000
Phatware Limited	£1.00 Ordinary shares	100 000
POSG Limited	£1.00 Ordinary shares	100 000
Revisecatch Limited	£0.01 Ordinary Shares	100 000
RM (International) Limited	£1.00 Ordinary shares	100 000
Royal Mail Courier Services Ltd	£1.00 Ordinary shares	100 000
Royal Mail Enterprises Limited	£1.00 Ordinary shares	100 000
Royal Mail Estates Limited	£1.00 Ordinary shares	100 000
Royal Mail Finance (No2) Limited	£1.00 Ordinary shares	100 000
Royal Mail Finance Limited	£1.00 Ordinary shares	100 000
Royal Mail Group Limited	£1.00 Ordinary Shares	100 000
Royal Mail Innovations Limited	£1.00 Ordinary shares	100 000
Royal Mail Investments Limited	£1.00 Ordinary shares	100 000
Senditnow Limited	£1.00 Ordinary shares	100 000
Storefeeder Ltd	£1.00 Ordinary shares	100 000
Viacode Limited	£1.00 Ordinary shares	100 000
Century House, 19 High Street, Marlow, Buckinghamshire, SL7 1AU, United Kingdom		
NetDespatch Ltd	£0.001 Ordinary-A shares	58 904
	£0.001 Ordinary-B shares	14 377

Notes to the consolidated financial statements (continued)

28. Related undertakings of Royal Mail plc (continued)

Company Name	Share Class	% held by Group
Highbank House, Exchange Street, Stockport, Cheshire, SK3 0ET, United Kingdom		
RM Property and Facilities Solutions Limited (formerly Romec Limited Romec)	£1.00 Ordinary shares	98.040
	£1.00 B Shares	0.980
	£1.00 C Shares	0.980
Romec Enterprises Limited	£1.00 Ordinary shares	100.000
11 Ironmonger Lane, London, EC2V 8EY, United Kingdom		
Royal Mail Pensions Trustees Limited	£1.00 Ordinary shares	100.000
USA		
1679 S. Dupont Highway, Suite 100, Dover, Delaware 19901, USA		
GLS U.S. Holdings Inc	1,000 Shares Common Stock, USD 0.001 par value per share	100.000
GSO Delivery Inc	1,000 Shares Common Stock, USD 0.001 par value per share	100.000
7901 Stoneridge Drive, Suite 400, Pleasanton, CA 94588, USA		
Golden State Overnight Delivery Services, Inc	1,000 Shares Common Stock	100.000

Associates and joint venture undertakings

Company Name	Share Class	% held by Group
Associates		
Australia		
Level 1, 60 Toorak Road, South Yarra, VIC 3141		
Market Engine Global Pty Limited	AUD1.00 Preference shares	34.474
United Kingdom		
Hayweight House, 5th Floor, 23 Lauriston Street, Edinburgh, Scotland, EH3 9DQ, United Kingdom		
Mallzee Ltd	£0.01 Ordinary shares	25.005
Parklands Court, 24 Parklands, Birmingham Great Park, Rubery, Birmingham, West Midlands, B45 9PZ, United Kingdom		
Quadrant Catering Limited	£1.00 Ordinary-A shares	51.000
Joint venture		
Germany		
Stresemannstr. 23, 22769 Hamburg, Germany		
ParcelLock GmbH	€50,000.00 Ordinary shares	33.333

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 at arm's length/fair value on the 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 equity attributable to shareholders of the Company.

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 27 March 2016, and the adoption of new and amended accounting standards with effect from 28 March 2016 as detailed below:

New and amended accounting standards adopted in 2016-17

IAS 1 (Amended) 'Disclosure Initiative'

IAS 16 (Amended) and IAS 38 (Amended) 'Clarification of acceptable methods of depreciation and amortisation'

IAS 27 (Amended) 'Equity method in Separate Financial Statements'

IFRS 11 (Amended) 'Accounting for Acquisitions of Interests in Joint Operations'

Annual improvements 2012-2014

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 for RMPP are included within Note 9.

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
	30	As reported 99	300	
At 26 March 2017				
Public stamp holdings value (£m)	152	184	200	216

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.

Significant accounting policies (continued)

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.

Provisions

Due to the nature of provisions, a significant part of their determination is based upon estimates and/or judgements concerning the future. The industrial diseases claims provision is considered to be the area where the application of judgement has the most significant impact.

The industrial diseases claims provision arose as a result of a Court of Appeals judgement in 2010 and relates to individuals who were employed in the General Post Office Telecommunications division prior to October 1981. The provision requires estimates to be made of the likely volume and cost of future claims, as well as the discount rate to be applied to these, and is based on the best information available as at the year end, which incorporates independent expert actuarial advice. The result of a 0.5 per cent decrease in the discount rate estimate would be a £6 million increase in the overall industrial diseases provision. The carrying value of this provision is included within Note 22.

Business acquisitions

Identifiable assets acquired and liabilities and contingent liabilities assumed in business acquisitions are measured initially at their fair values at the acquisition date. The fair value of an asset or liability represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Independent valuers were used to assist in the valuation of the Group's in-year acquisitions.

In determining the fair value of the intangible assets acquired, risk-adjusted future cash flows discounted using discount rates specific to the asset are generally used. In determining cash flows, a combination of historical data and estimates regarding revenue growth, profit margins and operating cash flows have been used.

- customer relationships required judgement on future cash flows, churn, and the expected remaining life of the customer relationship.
- brands were measured by estimating the savings realised by owning or holding the right to use the brand name (as opposed to paying a royalty fee to a third party). This includes an estimate of the projected revenues generated and the estimated life of the brand to a third party.
- internally developed software acquired was valued using the relief from royalty approach, taking into account software licencing costs in the postage, courier and shipping service sector. Internally developed software acquired, was valued on the basis of the estimated cost to recreate the software.
- tangible assets were valued by estimating the current cost to purchase or replace the assets, whilst also taking into account available market data for the sale or transfer of such assets.

The excess of the consideration transferred over the fair value of the net identifiable assets acquired is recorded as goodwill. The Group has one year from the acquisition date to re-measure the fair values of the acquired assets and liabilities and the resulting goodwill if new information is obtained relating to conditions that existed at the acquisition date.

Acquisition related costs are expensed as incurred. The business acquisitions during the period are disclosed in Note 10.

Goodwill allocation and impairment testing

Goodwill recognised in a business combination is not amortised and, as such, must be tested annually for impairment in line with IAS 36 'Impairment of Assets'. In making assessments for impairment, assets that do not generate independent cash flows, such as goodwill, are allocated to an appropriate cash-generating unit (CGU), or group of CGUs, on the basis of whether those CGUs are expected to benefit from the synergies of the combination. Management necessarily applies judgement in allocating goodwill to CGUs. As at 26 March 2017 £299 million of the total goodwill balance of £316 million was allocated to the Group of CGUs making up the GLS reportable segment.

In assessing whether there has been any impairment of goodwill, Management determines whether the goodwill carrying value is higher than the recoverable amount of the underlying CGUs. The recoverable amount is the higher of a CGU's fair value less costs to sell (realisable value) and value-in-use. In the case of goodwill allocated to the GLS reportable segment the realisable value is estimated by applying an average share price/earnings ratios of quoted peers to the current year results of GLS. Judgement must be made by Management in choosing a suitable peer group against which to compare the realisable value of GLS. Further details of the impairment calculations, including sensitivity of the assumptions made, are included in Note 12.

Deferred tax

Assessment of the deferred tax asset requires an estimation of future profitability. Such estimation is inherently uncertain in a market subject to various competitive pressures. Should estimates of future profitability change in future years, the amount of deferred tax recognised will also change accordingly. Prior to recording deferred tax assets for tax losses, relevant tax law is considered to determine the availability of the losses to offset against the future taxable profits. The carrying values of the deferred tax assets and liabilities are included within Note 6.

Significant accounting policies (continued)

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. These costs are disclosed separately on the face of the income statement.

Transformation costs

These costs relate to the ongoing transformation of the business, and include voluntary redundancy, project costs and other transformation-related payments.

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 Managements' opinion require separate identification.

These items include 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 amortisation of intangible assets in acquisitions.

Non-operating specific items

These are recurring or non-recurring items of income or expense of a particular size and/or nature which do not form part of the Group's trading activity and in Managements' opinion require separate identification. These items include profit or loss on disposal of property, plant and equipment and businesses, and the IAS 19 non-cash pension interest credit.

Share-based payments

The Group operates a number of equity-settled, share-based compensation schemes under which the Group receives services from employees as consideration for equity instruments (shares) of the Company. These include the HMRC-approved (Employee Free Shares) Share Incentive Plan (SIP) and the Save As You Earn (SAYE) scheme. Both schemes are based on non-market conditions and do not vest until the employee completes a specific period of service. Share-based payments awarded as part of Long Term Incentive Plans (LTIP) vest based on 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 with reference to the share price upon issue and using the Black-Scholes and Monte Carlo models where appropriate.

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. No expense is recognised for awards that do not ultimately vest. At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and Management's best estimate of the achievement or otherwise of service conditions and of the number of equity instruments that will ultimately vest. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity. The social security contributions payable in connection with the grant of shares is considered an integral part of the grant itself, and the charge is treated as a cash-settled transaction.

Significant accounting policies (continued)

Income tax and deferred tax

The charge for current income tax is based on the results for the reporting year as adjusted for items that are non-assessable or disallowed. It is calculated using rates that have been substantively enacted at the balance sheet date.

Deferred income tax assets and liabilities are recognised for all taxable and deductible temporary differences and unused tax assets and losses except:

- Initial recognition of goodwill;
- The initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit and loss;
- Taxable temporary differences associated with investments in subsidiaries, associates and interest in joint ventures, where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future; and
- Deferred tax assets are recognised only to the extent that it is probable that taxable profit will be available against which they can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and increased or reduced to the extent that it is probable that sufficient taxable profit will be available to allow them to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the tax asset is realised or the liability is settled, based on tax rates (and tax laws) that have been substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

Current and deferred tax is charged or credited directly to equity if they relate to items that are credited or charged directly to equity, otherwise it is recognised in the income statement.

Where tax credits are claimed against eligible research and development costs, these amounts are credited against the relevant expense or capitalised asset to match the accounting treatment applied to the original expenditure.

Earnings per share (EPS)

Basic earnings per share (EPS) from continuing operations is calculated by dividing the profit/loss from continuing operations (adjusted for the non-controlling interests' share of profit) by the weighted average number of ordinary shares in issue. The total Group EPS is calculated in the same way, except that it also includes profit/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 an operating unit that offers different products and serves largely different markets.

The Board monitors the operating results of its main operating units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit before and after transformation costs.

Operating segments are made up of business units based in the UK, other parts of Europe and the United States with the latter two being relevant to the GLS operations. The UK operating segment comprises the various business units which make up UKPIL. There is no aggregation of operating segments.

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 the basis of charges reached through negotiation between the relevant 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	2-12 years
Fixtures and equipment	2-15 years

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising at derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year that the asset is derecognised. Gains or losses from the disposal of assets are recognised in the income statement at the point that all significant risks and rewards of ownership are transferred.

All subsequent expenditure on property, plant and equipment is capitalised if it meets the recognition criteria, and the carrying amount of those parts replaced is derecognised. All other expenditure including repairs and maintenance expenditure is recognised in the income statement as incurred.

Business combinations and 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 (CGUs), or groups of CGUs, which are expected to benefit from synergies of the combination.

A goodwill impairment loss is recognised in the income statement for the amount by which the carrying value of the related CGU, or group of CGUs, exceeds the recoverable amount, which is the higher of a CGU'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 on the balance sheet as goodwill.

Purchase of non-controlling interests (NCI) and treatment of NCI put options

Where the Group purchases some or all of the non-controlling equity interest in a subsidiary company this is accounted for as an equity-only transaction. Any difference between the purchase price of the interest and the carrying amount of the NCI being derecognised will be shown as a movement through the 'Consolidated statement of changes in equity'.

At a point in time there may exist unexercised put options for the Group to purchase the shareholdings of non-controlling interests. Any such put options are recognised as a liability calculated on the assumption that they will be exercised at the earliest opportunity with a corresponding debit made to Group equity in line with IAS 32 'Financial Instruments: Presentation'. The Group has elected to recognise any change in the fair value of these put options through the 'Consolidated statement of changes in equity'.

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:

Master franchise licences	7 to 10 years
Customer listings	3 to 11 years
Software	3 to 10 years
Brands	2 to 3 years

Investment in associates

The Group's investments in its associate companies are accounted for under the equity method of accounting. Under the equity method, an investment is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of the net assets of the associate, less

Significant accounting policies (continued)

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 with 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.

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. Borrowing costs capitalised are deducted in determining taxable profit in the reporting year in which they are incurred.

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 to be 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 any post-tax gain or loss recognised on any remeasurement of the disposal group to fair value less costs to sell, or on the 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 relates to 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.

Capital management

The Group has established four key objectives for capital management. Details of these can be seen in the Financial Review on page 30.

Significant accounting policies (continued)

Financial instruments

Financial assets within the scope of IAS 39 'Financial Instruments: Recognition and Measurement' are classified as: financial assets at fair value through the 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.

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

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

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 creditor is measured at amortised cost in Euros 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.

Derivatives that do not qualify for hedge accounting are classified as fair value through profit and loss and any gains or losses arising from changes in fair value are taken directly to the income statement in the year.

Significant accounting policies (continued)

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point, any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement for the reporting year.

Fair value measurement of financial instruments

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value of quoted investments is determined by reference to bid prices at the close of business on the balance sheet date.

Where there is no active market, fair value is determined using valuation techniques. These include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; and discounted cash flow analysis and pricing models. Specifically, in the absence of quoted market prices, derivatives are valued by using quoted forward prices for the underlying commodity/currency and discounted using quoted interest rates (both as at the close of business on the balance sheet date). Hence derivative assets and liabilities are within Level 2 of the fair value hierarchy as defined within IFRS 13 'Fair Value Measurement'.

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.

For the purposes of comparing carrying amounts to fair value, 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.

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.

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 (€) and for the overseas subsidiary in the United States it is the Dollar (US\$).

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 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 7 (Amended) 'Disclosure Initiative'*

IAS 12 (Amended) 'Recognition of Deferred Tax Assets for Unrealised Losses'*

IAS 40 (Amended) 'Transfers of Investment Property'*

IFRS 2 (Amended) 'Classification and Measurement of Share-based Payment Transactions'*

IFRS 4 (Amended) 'Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts'*

IFRS 9 'Financial Instruments'

IFRS 10 (Amended) and IAS 28 (Amended) 'Sale of Assets between an Investor and its Associate or Joint Venture'*

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 (Amended) 'Clarifications to IFRS 15'*

IFRS 16 'Leases'*

Annual Improvements 2014-2016*

IFRIC 22 'Foreign Currency Transactions and Advance Consideration'

* Not yet endorsed by the EU

Of the accounting standards listed above, the standards explained in more detail below are considered of particular relevance to the Group. Excepting these three standards, the Directors do not expect that the adoption of the amendments, interpretations and annual improvements listed above will have a material impact on the financial performance or position of the Group in future periods.

IFRS 9 'Financial Instruments'

This standard was issued in July 2014 and replaces 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 being considered by the Group, along with the possibility of early adopting the new standard.

IFRS 15 'Revenue from Contracts with Customers'

This standard, issued in May 2014, with further amendments issued in April 2016, 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. Under the new model, total contract consideration must be allocated to each performance obligation within the contract, based on stand-alone selling price, and be recognised over the period in which the performance obligation is satisfied.

Significant accounting policies (continued)

The standard also introduces increased revenue disclosure requirements, including disaggregation of revenue into categories that depict how the nature, amount, timing and uncertainty of revenue is affected by economic factors. Whilst the impact of this new standard continues to be assessed, the Group does not expect its adoption to have a material impact on the Group's financial performance or position.

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 allowed for low value and short term leases.

Upon adoption, IFRS 16 may be applied on either a full retrospective basis, requiring restatement of comparative year information, or on a modified retrospective basis, where the impact of the standard is recognised as a movement through equity on the date of adoption.

An assessment of the impact of IFRS 16 on the financial performance and position of the Group is ongoing with a view to informing the transition decisions to be made before adoption of the new standard. Although the impact is yet to be quantified, 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; increase in finance costs; increase in cash flows from financing activities; and decrease in cash flows from operating activities.

Currently, unless specified otherwise, the Group does not expect to early adopt these new standards.

Royal Mail plc – parent Company

financial statements

The Annual Report and Financial Statements primarily relates to the consolidated results of Royal Mail plc Group's trading entities. The mandatory disclosures in this section relate to the financial statements of the ultimate parent company, Royal Mail plc (the Company).

Statement of changes in equity

For the 52 weeks ended 26 March 2017 and 52 weeks ended 27 March 2016

	Share capital £m	Retained earnings £m	Total equity £m
At 30 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
Profit for the year	-	218	218
Purchase of own shares	-	(53)	(53)
Investment in subsidiary	-	111	111
Dividend paid	-	(222)	(222)
At 26 March 2017	10	1,984	1,994

Balance sheet

At 26 March 2017 and 27 March 2016

Registered number: 08680755

	Notes	At 26 March 2017 £m	At 27 March 2016 £m
Non-current assets			
Investment in subsidiary	6	2,040	1,929
Total non-current assets		2,040	1,929
Current assets			
Trade and other receivables	7	396	409
Current liabilities			
Trade and other payables		(12)	(6)
Provisions	8	-	-
Net current assets		384	403
Interest bearing loans and borrowings	9	(430)	(392)
Net assets		1,994	1,940
Equity			
Share capital	10	10	10
Retained earnings		1,984	1,930
Total equity		1,994	1,940

The balance sheet was approved and authorised for issue by the Board of Directors on 17 May 2017 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 26 March 2017 (2015-16: 52 weeks ended 27 March 2016).

Authorisation of financial statements and statement of compliance with FRS 101

The financial statements of the Company for the year ended 26 March 2017 were authorised for issue by the board of Directors on 17 May 2017. 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 (2014-15 Cycle) issued in July 2015 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 applied FRS 101 for all periods presented. The accounting policies which follow, set out those policies which apply in preparing the financial statements for the reporting year ended 26 March 2017.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- (a) the requirements of IFRS 7 'Financial Instruments: Disclosures'¹;
- (b) the requirements of paragraphs 91-99 of IFRS 13 'Fair Value Measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities)¹;
- (c) 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 (reconciliation of shares outstanding);
- (d) the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B-D, 40A-D, 111 and 134-136 of IAS 1 'Presentation of Financial Statements';
- (e) the requirements of IAS 7 'Statement of Cash Flows';
- (f) the requirements of paragraph 17 and 18(a) of IAS 24 'Related Party Disclosures' (details of key management compensation and related party transaction amounts);
- (g) 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; and
- (h) the requirements of paragraphs 30 and 31 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'.

Changes in accounting policy

The accounting policies are consistent with those of the previous year.

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 at the original invoice amount less an allowance for any non-collectable amounts, including where collection is no longer probable.

¹ Exemption taken as equivalent disclosures are included within the consolidated financial statements of Royal Mail plc.

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 (see Note 4).

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 consolidated financial statements (see Note 3).

4. Income statement

The Company is a non-trading company. The profit for the year of £218 million (2015-16: £221 million) is primarily the net sum of: the £222 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. A profit of £38 million and a loss of £38 million (2015-16: both £26 million), on the translation of Euro-denominated assets and liabilities has also been recognised in the year.

5. Taxation

There is no tax charge/credit for the year.

6. Investment in subsidiary

	At 26 March 2017 £m	At 27 March 2016 £m
At 28 March 2016 and 30 March 2015	1,929	1,759
Investment in subsidiary – charge for Employee Free Shares/LTIP/SAYE ¹	111	170
At 26 March 2017 and 27 March 2016	2,040	1,929

¹ Excludes £6 million (2015-16: £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 26 March 2017 £m	At 27 March 2016 £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 9,582,175 (2015-16: 27,042) 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 2013 comparative year, 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				
	2017 £m	2016 £m	2015 £m	2014 £m	2013 £m
Income statement – Reported					
Revenue	9,776	9,251	9,328	9,456	9,146
Operating profit before transformation costs	490	485	611	671	598
Transformation costs	(137)	(191)	(145)	(241)	(195)
Operating profit after transformation costs	353	294	466	430	403
Operating specific items	(134)	(156)	(248)	1,213	(77)
Non-operating specific items	12	29	133	21	4
Earnings before interest and tax	231	167	351	1,664	330
Finance income – mainly net pension interest (non-operating specific item)	120	113	75	69	52
Finance costs	(16)	(13)	(26)	(67)	(99)
Profit before tax	335	267	400	1,666	283
Tax (specific items and other)	(62)	(45)	(72)	(386)	246
Profit after tax	273	222	328	1,280	529

	Financial reporting year (52 weeks) ended March				
	2017 £m	2016 £m	2015 £m	2014 £m	2013 £m
Income statement – Adjusted					
Revenue	9,776	9,251	9,328	9,456	9,146
Operating profit before transformation costs	712	742	740	729	595
Transformation costs	(137)	(191)	(145)	(241)	(195)
Operating profit after transformation costs	575	551	595	488	400
Finance costs	(16)	(13)	(26)	(67)	(99)
Profit before tax	559	538	569	421	301
Tax	(121)	(118)	(138)	(110)	(81)
Profit after tax	438	420	431	311	220

Group five year summary (unaudited) (continued)

	At March financial reporting year end date				
	2017	2016	2015	2014	2013
	£m	£m	£m	£m	£m
Balance sheet					
Property, plant and equipment	2,062	2,002	1,935	1,992	1,919
Intangible assets	567	451	300	195	139
Inventories	23	21	20	22	24
Trade and other receivables	1,137	1,038	960	939	1,012
Trade and other payables	(1,857)	(1,741)	(1,708)	(1,683)	(1,647)
Other net assets/(liabilities)	26	(18)	(33)	(23)	(3)
Provisions	(196)	(247)	(253)	(268)	(246)
Goodwill	316	206	182	197	196
Investments in associates	7	9	5	4	3
Net operating assets and investments in associates	2,085	1,721	1,408	1,375	1,397
Cash and cash equivalents	299	368	287	366	351
Pension escrow investments	20	20	20	20	20
Loans and borrowings	(463)	(392)	(366)	(600)	(973)
Other net financial liabilities	(194)	(220)	(216)	(341)	(304)
Net debt	(338)	(224)	(275)	(555)	(906)
Deferred tax (liabilities)/assets	(588)	(460)	(504)	(175)	89
Net assets before pension deficit and pension escrow investments	1,159	1,037	629	645	580
Pension surplus	3,839	3,430	3,367	1,889	825
Net assets	4,998	4,467	3,996	2,534	1,405
	Financial reporting year (52 weeks) ended March				
	2017	2016	2015	2014	2013
People numbers – year end headcount					
UKPIL	141,819	142,544	146,109	152,440	153,970
GLS	17,136	13,991	14,409	13,811	13,646
Group total	158,955	156,535	160,518	166,251	167,616

Shareholder information

Managing your shares online

Shareholders are able to access an electronic version of shareholder information by registering through Shareview, a platform provided by Equiniti, the Company's registrars.

This service allows you to:

- Manage your shares online.
- Receive notifications of new shareholder information by e-mail.
- Arrange dividend payments.
- Update personal records.

Please go to www.shareview.co.uk for full details of the shareholder services and to register. When registering, you will need to have your 11-digit shareholder reference number to hand, which is found 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

Share scams are often run from 'boiler rooms' where fraudsters cold-call investors offering them worthless, overpriced or even non-existent shares. While they promise high returns, investors usually end up losing their money.

5,000 people contact the Financial Conduct Authority (FCA) about share fraud each year, with victims losing an average of £20,000. As much as £200 million is lost in the UK each year.

It is strongly advised that you only deal with financial services firms that are authorised by the FCA. You can report a firm or scam by contacting the FCA Consumer Helpline on 0800 111 6768 or using the reporting form at <https://www.fca.org.uk/consumers/report-scam-unauthorised-firm>. If you have already bought or sold shares through a 'boiler room', be especially careful as fraudsters are likely to target you again or sell your details to other criminals.

Information for investors

Our website provides information for investors, such as trading updates, share price information, AGM and dividend information, shareholder FAQs and results and reports.

The website can be accessed via <http://www.royalmailgroup.com/investor-centre>.

Registered office

Royal Mail plc, 100 Victoria Embankment, London, EC4Y 0HQ

Registered in England and Wales

Company number 08680755

Company Secretary

Kulbinder Dosanjh

Registrar

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www.shareview.co.uk

Tel: 0371 384 2656 (from outside the UK: +44 (0)121 415 7086)
Lines are open 8:30am to 5:30pm UK time, Monday to Friday, excluding public holidays in England and Wales.

Financial Calendar

Trading update – 18 July 2017

Annual General Meeting – 20 July 2017

Ex-dividend date – 29 June 2017

Record date – 30 June 2017

Payment date – 28 July 2017

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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