

Royal Mail plc

Annual Report and
Financial Statements

2017-18



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Who we are

We operate in 43 countries around the world. In the UK, our Company operates under the Royal Mail and Parcelforce Worldwide brands. GLS provides geographical diversification for our earnings and is a growth engine for the Group. It is expanding its presence in European markets and through focused and targeted acquisitions in the western US.

UK Parcels, International & Letters (UKPIL), is the UK's pre-eminent delivery company. As the UK's sole designated Universal Service Provider¹, we are proud to deliver a 'one price goes anywhere' service on a range of letters and parcels to over 30 million addresses (including 1.3 million businesses) across the country, six days a week. The Universal Service is vital for economic growth. It is the physical fulfilment arm of the digital economy and is crucial to the UK's economic future.

GLS is a force for growth. It is one of the largest, ground-based deferred parcel networks in continental Europe, covering 41 countries and nation states in Europe and, following recent acquisitions, seven states in the western US. It has a replicable and scalable business model and key strengths in business-to-business (B2B) and business-to-consumer (B2C) markets.

Our position

Our vision is to be recognised as the best delivery company in the UK and across Europe. We deliver more parcels in the UK each year than all of our competitors combined. We want to be the strategic partner of choice for the UK's e-retailers. The service and product improvements we have put in place are delivering real benefits.

GDP is a material driver for letter volumes. We continue to forecast a medium-term four to six per cent annual decline in addressed letter volumes (excluding political parties' election mailings). We are demonstrating the relevance and value of letters to all our customers.

GLS has continued to deliver significant growth in several key European markets. Its 'scale up and grow' strategy has helped expand its existing customer relationships and establish new ones in higher growth areas outside the EU. While it is largely a

B2B business, it is gaining market share by winning new business in both B2B and the premium B2C parcel markets.

Our people

We employ around 159,000 people across our Group; 141,000 are in the UK. We are committed to preserving the trust members of the public have in our hard-working employees. In a survey undertaken by Ipsos MORI, 81 per cent of our customers said they are favourable to us; 88 per cent are satisfied with the service we provide².

We are pleased to have reached agreement with the CWU on pensions, pay, a shorter working week and certain operational changes. Under the new Pensions, Pay and Pipeline agreement ('the agreement'), both parties will continue to work together to transform our operation, to grow our product portfolio and maintain our pre-eminent position. For more information, see the Chief Executive Officer's Review on page seven.

GLS employs around 18,000 people. GLS Denmark was rated as one of the country's best employers by Great Place to Work. GLS France was ranked 11 out of almost 100 freight transport and logistics companies in a list of best French employers by business magazine, Capital.

Our customers

Royal Mail Group offers services to suit every customer: consumers, sole traders, SMEs, large businesses and access operators. GLS provides B2B and premium B2C services across continental Europe and in the western US, serving 270,000 customers.

We are pleased that Ofcom continued to note that UK consumers believe they are getting value for money from postal services. In February 2018, the regulator found that 77 per cent of residential consumers were either fairly or very satisfied with the value for money of postal services. That is a two percentage point increase year-on-year³.

GLS

GLS is one of the largest ground-based deferred parcel delivery networks in continental Europe. The GLS network covers 41 European countries and nation states and seven US states through a combination of wholly owned companies and partner companies. Following the acquisitions of Agencia Servicios Mensajería S.A.U. (ASM) (2016) and Redyser Transporte (February 2018) in Spain, and Golden State Overnight Delivery Services (GSO) (2016) and Postal Express (April 2017) in the US, we have been focusing on integrating these businesses into GLS.

Our shareholders

Royal Mail is one of the most widely held stocks in the UK. We have a large and diverse shareholder base that includes many of our own people. All eligible full-time employees have received a maximum of 913 Free Shares, regardless of grade. In total, 12 per cent of the Company has been given to eligible colleagues – the largest free stake made available to employees as part of any major UK privatisation.

We have a proactive programme of engagement with all of our shareholders, including institutional investors in the UK and overseas.

Our progress

In the most competitive parcels market in Europe, and against a backdrop of structural decline in addressed letter volumes, UKPIL continues to roll out new services and products. It is adapting its operation to maintain its position as the leading UK player in letters and parcels. Using our PDA technology, we have rolled out notifications of estimated delivery windows for our Tracked products. UKPIL parcel volumes and revenue increased over the year, due to new contracts won with large customers, including e-retailers.

GLS accounts for around 33 per cent of the Group's adjusted operating profit after transformation costs. Recent acquisitions in Spain and the western US mean that its three major markets – Germany, France and Italy – now account for 60 per cent of its total revenue, compared with 63 per cent in the prior period.

GLS has successfully expanded several new B2C services across Europe: FlexDeliveryService, ShopReturnService and ShopDeliveryService. They have helped win new contracts and more business from existing customers. It has introduced a range of IT systems to improve the parcel process, such as scanning devices and customer tracking systems.

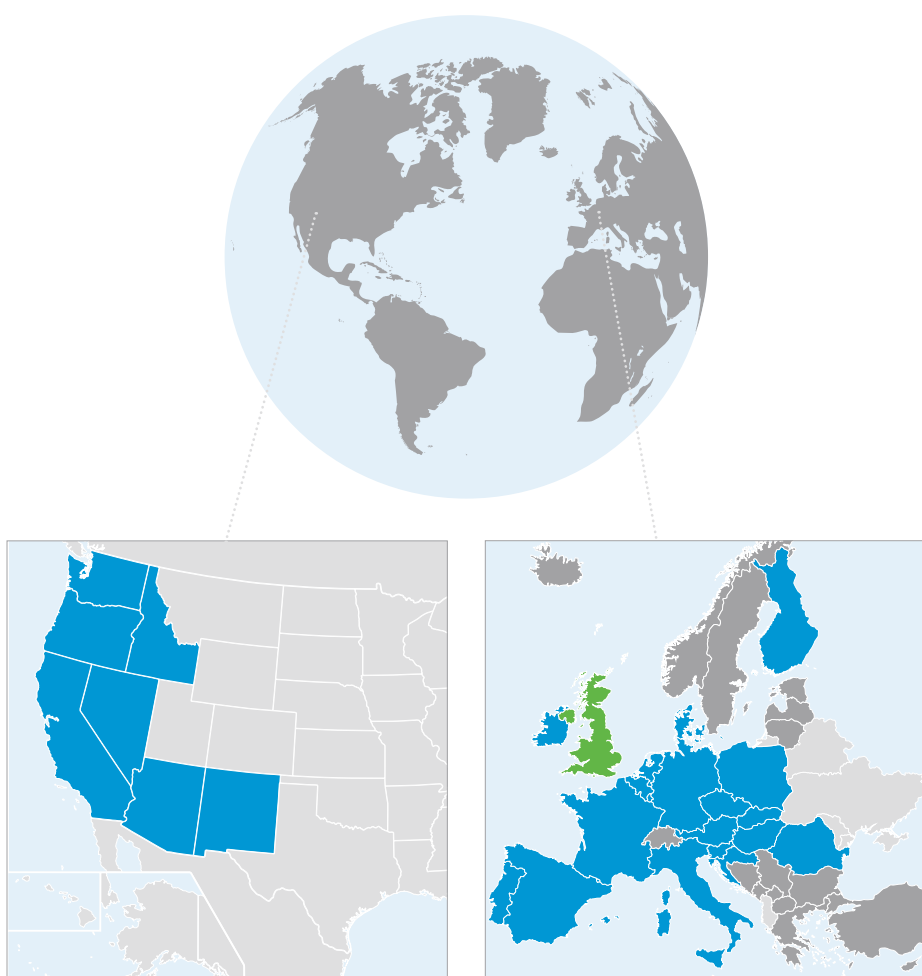
¹ Under the Postal Services Act 2011 ('the Act'), Ofcom is the regulator for postal services in the UK. Ofcom's primary regulatory duty for postal services is to secure the provision of the Universal Postal Service. This includes ensuring that an efficient provider of the Universal Service can make a reasonable commercial rate of return. Ofcom has designated Royal Mail as the Universal Service Provider.

² Ipsos MORI Corporate Image Survey Winter 2017.

³ Ofcom Residential Postal Tracker, February 2018, p.405.

UKPIL

UKPIL comprises Royal Mail's UK business 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 delivery services.

**UKPIL**

c.141,000

Employees

37

Mail Centres

c.1,350

Delivery Offices

c.11,400

Local Collect locations

c.48,000⁴

Vehicles

GLS

c.18,000

Employees

c.70

Network hubs

c.1,300

Depots

c.18,000

Parcel shops

⁴ Includes c.2,500 trailers.

Financial and operating performance summary

Group financial summary¹

Reported results (£m)	52 weeks ended 25 March 2018	52 weeks ended 26 March 2017	Underlying change ²
Revenue	10,172	9,776	2%
Operating profit before transformation costs	236	490	
Operating profit after transformation costs	123	353	
Profit before tax	212	335	
Basic earnings per share – continuing operations (pence)	25.9p	27.5p	
Proposed full year dividend per share (pence)	24.0p	23.0p	4%
Adjusted results (£m)			
Revenue	10,172	9,776	2%
Operating profit before transformation costs	694	712	1%
Operating profit after transformation costs	581	575	6%
Margin	5.7%	5.9%	20bps
Profit before tax	565	559	
Basic earnings per share (pence)	45.5p	44.1p	
In-year trading cash flow	545	420	
Net cash/(debt)	14	(338)	

Business units

	Revenue			Adjusted operating profit before transformation costs	
	52 weeks ended 25 March 2018	52 weeks ended 26 March 2017	Underlying change ²	52 weeks ended 25 March 2018	52 weeks ended 26 March 2017
(£m)					
UKPIL	7,615	7,658	flat	503	548
GLS	2,557	2,118	10%	191	164
Group	10,172	9,776	2%	694	712

Group performance^{1,2}

- Revenue up two per cent on an underlying basis, to £10.2 billion, driven by UKPIL and GLS parcels growth.
- On a reported basis, operating profit before transformation costs was £236 million.
- Adjusted operating profit before transformation costs was £694 million, up one per cent on an underlying basis.
- Adjusted operating profit margin after transformation costs of 5.7 per cent increased by 20 basis points on an underlying basis.
- Total net cash investment was £445 million, down from £492 million in 2016-17. In-year trading cash flow increased to £545 million.
- The Group had a net cash position of £14 million at 25 March 2018. This benefitted by around £100 million from the timing of the 2017-18 frontline pay award.
- The Royal Mail Pension Plan closed to future accrual in its Defined Benefit form on 31 March 2018. A new Defined Benefit Cash Balance Scheme was put in place from 1 April 2018. The overall ongoing annual cash cost of pensions will continue to be around £400 million.
- The Board is recommending a final dividend of 16.3 pence per ordinary share, giving a total dividend of 24.0 pence per share for 2017-18, up four per cent.

Business performance^{1,2}

- UKPIL revenue was unchanged. Parcel revenue grew four per cent. Total letter revenue declined by four per cent.
- UKPIL parcel volumes up five per cent. Addressed letter volumes declined by five per cent, in line with expectations.
- Underlying UKPIL operating costs before transformation costs unchanged. Exceeded our cost avoidance target, avoiding £642 million over the last three financial years. Transformation costs were £113 million.
- UKPIL collections, processing and delivery productivity improved by one per cent, outside our target range (two to three per cent).
- Our regulatory First Class Quality of Service performance was 91.6 per cent (target: 93 per cent). Second Class performance was within the target range when allowing for sampling margin of error. We are talking to Ofcom about exceptional events³. If taken into account, we estimate we would have achieved our First Class target and exceeded the Second Class one.
- GLS performed strongly. Revenue was up 15 per cent, including the impact of acquisitions on a constant currency basis.
- On an underlying basis, GLS revenue grew 10 per cent. Volumes were up nine per cent.

2018-19 outlook

- UKPIL parcel volume and revenue growth rates anticipated to be at least the same as 2017-18.
- Maintain outlook for addressed letter volume declines of four to six per cent per annum (excluding election mailings) over medium-term. Expect decline to be at higher end of range for 2018-19 due to GDPR and, or, if business uncertainty persists; may fall outside range in a period.
- Targeting to avoid around £230 million of UKPIL costs. Productivity improvements expected to be towards the upper end of targeted two to three per cent range. Transformation costs expected to be at upper end of forecast £130-150 million range.
- Expect continued good performance in GLS. Margins may be impacted by continuing labour market pressures.
- Total net cash investment expected to be around £500 million.
- Remain committed to progressive dividend policy going forwards.

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 reconciliations to the closest IFRS measures where appropriate, see page 34.

³ These factors included a challenging industrial relations environment, some very severe weather, Cyber Week and Australian flu. It will be for Ofcom to decide.



Chairman's statement

Throughout 2017-18, we have continued to drive the transformation of our Company, thanks to the hard work and dedication of our people. I have seen for myself the great contribution made by our postmen and women to the households, businesses and communities we serve across the UK.

We operate in 43 countries around the world. GLS provides geographical diversification for our earnings and is a growth engine for the Group. It is expanding its presence in European markets and through focused and targeted acquisitions in the western US.

Turning to important Board changes, in April 2018, outside the reporting period, we announced the retirement later this year of our CEO, Moya Greene, and the appointment of Rico Back as her successor from 1 June 2018. We also announced the appointment of Sue Whalley as CEO of Post and Parcels, Royal Mail UK.

Dividends and Free Shares

One of the many great things about Royal Mail is its diverse shareholder base. We estimate that nearly 20 per cent of our Company is owned by its own employees and retail investors. Eligible full-time employees have now received a maximum of 913 Free Shares. Taking into account the proposed final dividend, those employees with the full allocation of shares will have received well over £863 in dividends before tax since privatisation.

The Board is committed to our progressive dividend policy. The Board recommends the payment of a final dividend of 16.3 pence per ordinary share on 31 August 2018, giving a total dividend of 24.0 pence per share for 2017-18, subject to shareholder approval at our 2018 Annual General Meeting (AGM). The proposed total dividend is a four per cent increase on the total dividend of 23.0 pence per ordinary share for 2016-17.

Connecting companies, customers and communities

We are proud to provide the Universal Service. We believe that a modern and contemporary Universal Service Obligation (USO) is vital to the UK economy. It is the delivery backbone of e-commerce in the UK. The high fixed cost Universal Service network is funded by the market. We need to evolve with the market to win new business and ensure the Universal Service is financially sustainable.

Our ongoing transformation – one of the largest of its kind in the UK – has enabled us to barcode over 70 per cent of our parcels, complete one of the largest PDA rollouts across Europe and give customers greater visibility of the mail delivery process through Mailmark®.

We are the most trusted and the most recommended parcel delivery company in the UK. Our Net Promoter Score is 40 – over 10 points higher than our nearest competitor.

As our gateway to continental Europe and the western US, GLS is a strategically important part of the Group. It offers geographic diversification for our earnings and access to around 270,000 customers. Its recent expansion in the US has enabled GLS to create an extensive parcel delivery network along the West Coast. GLS also recently expanded its FlexDeliveryService, which makes it easier for online shoppers to take delivery of goods purchased abroad. The service is now available in a total of 20 countries in Europe.

A responsible employer

I am proud that, in a highly-competitive commercial environment, Royal Mail continues to fulfil its obligations to its hardworking employees.

We make the seventh largest contribution of any UK company to the UK economy. One in every 194 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.

Thanks to the changes enabled by our ground-breaking agreement with the CWU, we will continue to offer the best terms and conditions in the delivery industry by some distance. We continue to work with the Government in an effort to improve labour standards across the 'gig economy'. Our postman and woman's pay compares very well to the industry. Better labour standards will lead to better service standards for consumers.

The safety of our employees is always our first priority. In 2017-18, we delivered a nine per cent reduction in road traffic collisions, one of our 2017-18 key performance indicators (KPIs).

A responsible company

I am consistently proud of, and humbled by, the generosity of our people raising money for good causes. Our Payroll Giving scheme reached a significant milestone – our employees have donated over £60 million through the scheme since it launched in 1989. We received a Lifetime Achievement award at the National Payroll Giving Excellence Awards in recognition of the success of our scheme.

We are committed to doing even more in support of mental health awareness. In May 2017, we announced our strategic charity partnership with Action for Children, Mind and Mental Health UK. 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 at risk of developing mental health issues.

We also took further steps to manage our environmental impact and carbon emissions. For example, we purchased 100 electric vans to be used by postmen and women on their rounds. We have commissioned nine electric-powered heavy goods vehicles to trial for transporting mail between distribution centres in London and the South East. Royal Mail is the first UK fleet operator to trial these new larger vehicles.

We welcome the introduction of the Non-Financial Reporting Directive which aims to increase transparency on social and environmental issues. Full details of non-financial matters relevant to our business, including our customers, our people, and our impact on the environment, can be found in the Corporate Responsibility section of this report (see pages 48-53).

Our Board

We have been pleased to welcome new members to the Board in the last 12 months. Following last year's AGM, on 20 July 2017, Stuart Simpson was formally appointed Chief Finance Officer and joined the Board. Stuart brings a very detailed knowledge of our business to this key role, which he has developed over eight years working both at the Group level and in our UK business.

Keith Williams and Simon Thompson joined the Board during the year as Non-Executive Directors, both also becoming members of the Audit and Risk Committee. Keith has an outstanding record as a business executive with extensive financial and customer service experience across the aviation, retail and insurance sectors. Simon, currently Chief Product Officer, Ocado plc, has proven expertise in the digitisation of business and customer experience across the financial, retail and technology sectors.

Cath Keers stepped down in February 2018 as a Non-Executive Director, having served almost eight years on the Board. Cath has played a pivotal role in this tremendous period of change. I am grateful for her contribution and, on behalf of the Board, I wish her well for the future.

On 20 April 2018, after the reporting period, we announced that the Board and Moya Greene, our CEO, had agreed the time was right for her to retire. Moya will step down as CEO on 1 June 2018, and from the Board at the AGM; she will be providing advice and counsel to our new CEO until September.

Under Moya's leadership, Royal Mail has been transformed, including our privatisation in 2013 and two significant, ground-breaking agreements with the CWU. Alongside the strong financial position Moya has secured for the Company, there has been significant investment in our UK operation in recent years. The Board is extremely grateful to Moya for her contribution to the Group over the past eight years of service. We wish her all the best in the future.

I am also delighted to say that our internal succession planning allowed us to announce the promotion of two exceptional executives at the same time.

So, we announced on 20 April 2018 that Rico Back would succeed Moya as Group CEO and join the Board on 1 June 2018. Under Rico's leadership, GLS has become the leading delivery company of its kind in Europe, making a highly valuable contribution to the wider Royal Mail Group at the same time. The Board believes that Rico's track record, his strong commercial acumen and his deep understanding of the delivery industry mean he is ideally placed to lead Royal Mail.

Alongside Rico's appointment as Group CEO, I am delighted to welcome Sue Whalley to our Board as Chief Executive Officer of Post and Parcels, Royal Mail UK. Sue is leading the very important transformation of our UK business. Her very significant experience in strategy development, business transformation, regulation and stakeholder management will be of great value to us.

The effectiveness of the Board, its Committees, the Executive Directors, Non-Executive Directors, and the Chairman was assessed in March 2018 by an external consultancy. The results of this evaluation found that our Board and each of the Committees function very well. The findings of the evaluation are discussed in more detail on page 67.

Thank you

Special companies are made special by extraordinary people. Royal Mail is no exception. I had the pleasure of overseeing the Chairman's Awards this year. They highlight the remarkable work of our people right across our organisation. Royal Mail's postmen and women are quite simply the best in the business. Our customers choose us because of the quality of service they provide. Thanks to the continued hard work of our people, Royal Mail is making a difference on a daily basis – to businesses, to consumers, to households and to local communities. I look forward to another year of working with this remarkable group of people.

Peter Long
Chairman
16 May 2018



Chief Executive Officer's review

This has been a challenging year. I am pleased that, in my final review, I can report that we continued to grow, thanks to the hard work and dedication of our people. Group revenue reached £10 billion for the first time. We exceeded our cost avoidance target, avoiding around £640 million of annualised costs over the three financial years ending 2017-18.

Adjusted operating profit before transformation costs was £694 million.

GLS has had another strong year, growing revenue organically and through targeted and focused acquisitions in higher growth markets. UKPIL's performance was driven by growth in parcels and a resilient performance in letters.

We are pleased to have reached a ground-breaking agreement with the CWU on pensions, pay and a number of customer-focused operational changes. It will help us to grow our business, which means we can continue to provide the best pay and terms and conditions for our people.

Our performance

We are the UK's number one delivery company for letters and parcels. UKPIL revenue was flat. This was due to a good performance in UKPIL parcels, where revenue was up four per cent; letter revenue declined by four per cent. Parcels growth was primarily driven by Royal Mail domestic account parcel volumes (excluding Amazon, they were up four per cent) and international import parcel volumes. Addressed letter volumes (excluding political parties' election mailings) declined by five per cent, in line with our forecast range.

GLS revenue increased by 15 per cent, including the impact of acquisitions, on a constant currency basis in the year. It rose by 10 per cent on an underlying basis. Volumes were up nine per cent. GLS now accounts for 33 per cent of the Group's adjusted operating profit after transformation costs, up from 29 per cent in 2016-17.

Winning in parcels

Competitive landscape

The UK is Europe's most competitive parcels market, with 15 key competitors. Consumers are spending more online per head than in any other major market, including the US and China¹. Pure play e-retailers (those that trade online only) are now the leading drivers of market growth. They overtook online retailers with a store presence for the first time in 2016².

As the Universal Service Provider, we provide the delivery backbone for e-commerce in the UK. We have 53 per cent of total market share by volume, in an addressable market growing at around three per cent per annum³. Our strategy of targeting faster growing sectors – like clothing and footwear – and winning and retaining volumes is paying off. This year, we delivered our biggest parcel volume growth since privatisation. Royal Mail Tracked 24°/48° and Tracked Returns® growth is ahead of the market by some distance.

E-commerce is also fuelling international growth. The largest European B2C parcels markets outside the UK are Germany, Italy and France – GLS' largest markets. Having recently expanded its international FlexDeliveryService across 20 European countries, GLS is well placed to capitalise on opportunities for growth, particularly in cross-border parcels.

¹ Ofcom International Communications Market report, December 2017.

² Mintel online retailing report, July 2017.

³ Excludes Amazon Logistics and other retailers' own delivery networks.

Our progress

- **Winning business with UK's leading e-retailers**
- **More barcoding and delivery confirmation on UK parcels**
- **Expanding our parcels automation programme**
- **Strong performance from GLS**

Our service and product developments are designed to meet customer demand for faster delivery and more tracking information. We won a number of new contracts with large customers in our target sectors of clothing and footwear. They include New Look and Inditex. We also secured more business from existing customers. This includes growing the share of revenue generated by our largest account customers. Parcelforce Worldwide volumes were up two per cent, driven by new contract wins and existing customer relationships.

Over 70 per cent of Royal Mail parcels now carry a barcode. In April 2017, we began offering delivery confirmation for the majority of those barcoded parcels. We introduced new automated parcel sorting machines at our Chelmsford, Home Counties North, Greenford and Warrington Mail Centres, following the successful installation of a parcel sorting machine at our Swindon Mail Centre in the prior year. They enable quicker and more accurate scanning and sortation. Preparations are underway for our sixth machine in the South Midlands Mail Centre. Automation serves to complement and enhance; it does not replace our existing parcel sortation processes.

Our International business performed well. This was driven by growth in cross-border parcels, mainly from Asia into Europe. It accounts for 20 per cent of UKPIL parcel volumes and 18 per cent of revenue. In exports, we are focusing on major e-commerce retailers. We are also upgrading our processing automation at our Heathrow hub. It is helping to improve quality of service and reduce cost.

While negotiations are ongoing and the future UK-EU relationship remains unclear, it is not possible to predict with any degree of accuracy what impact Brexit could have on Royal Mail Group. The main issues for us relate to any potential economic downturn, and changes associated with customs and VAT processing. We are working closely with Government on alternative models for customs and tax collection after the UK leaves the EU. We were pleased that the UK Government explicitly referenced Royal Mail's role in its recent Customs Bill White Paper.

GLS revenue growth was achieved in almost all its markets. Volume growth was driven by both international and domestic parcels.

We won more new business and new traffic from existing customers.

GLS is a growth engine for the Group. It has delivered consistent, strong underlying growth. This is driven by its focus on B2B parcels and the premium B2C market. Its recent acquisitions in the western US and Spain have helped further establish GLS as a major player in and outside Europe. It now operates in 41 European countries and seven US states. Its largest markets – Germany, Italy and France – account for 60 per cent of GLS revenue. In Italy, GLS is now within the top three players in the market. In Germany and France, it is in the top five.

Defending letters

- **Resilient performance in UK letters**
- **Maximising the value of letters including the rollout of Mailmark®**
- **Coordinating with the industry and our customers in the lead up to the introduction of GDPR**
- **Leading industry response to stop scam mail**

Letters performed as expected. Addressed letter volumes (excluding the impact of political parties' election mailings) were down five per cent. Total letter revenue benefited from 2017 General Election mailings and declined by four per cent. Unaddressed letter volumes (which typically have low average unit revenue), were up six per cent. Our performance in marketing mail was resilient. Revenue was up one per cent.

The UK continues to have a relatively high number of letters per capita compared to other major countries. So, we continue to forecast a medium-term four to six per cent annual decline in UK addressed letter volumes (excluding political parties' election mailings). The decline is broadly driven by e-substitution. But, GDP is also a material driver. We are closely monitoring the economic environment in the UK.

We introduced a number of strategic initiatives to demonstrate the value of letters. Our Scheme for Growth incentivises companies to grow their direct mail. It does so by giving them discounts on incremental volumes. We launched a Joint Industry Committee to make the case for advertising mail. Our Keep Me Posted and MAILMEN campaigns are gaining traction. We also commenced the rollout of Mailmark® to unsorted mail. This offers customers more detail on the progress of their mailing, and online, customised reporting. It also ensures that we bill accurately and are fairly paid for the work we have done. Around 90 per cent of in scope mail now has a Mailmark®.

Protecting customer data and treating it with respect is a key priority for us. We have been working closely with our customers and industry stakeholders in the lead up to the introduction of General Data Protection Regulation (GDPR) in May 2018. We have also outlined how mail can help our customers thrive in a GDPR world.

Scam mail is a scourge. We launched a new initiative impounding scam mail at distribution centres before it reaches the customer's letterbox. This is part of our rolling programme of moves to stop postal scammers. We have stopped three million items of scam mail since stepping up our drive against fraudsters in November 2016.

Adding value and expanding our networks

- **GLS' 'scale up and grow' strategy progressing well**
- **Expansion in Spain following targeted and focused acquisitions**
- **Introduction of International Tracked email notifications service**

GLS occupies a leading position in all its major markets. Its 'scale up and grow' strategy to strengthen its position in its core markets and grow in higher growth areas is progressing well. It has delivered strong volume growth in key markets and targeted acquisitions in Spain and the western US.

In February 2018, GLS acquired Spanish express parcels delivery company Redyser Transporte. Redyser will further strengthen GLS' position as Spain's second biggest national express parcels network following the acquisition of ASM Transporte Urgente in 2016. Since acquiring Redyser, the focus has been on integration. This is going well. The business is performing in line with expectations.

Following its acquisitions of GSO (2016) and Postal Express (April 2017), GLS now provides a parcel service with full US west coast coverage. GLS' coverage in this area enables it to offer shorter delivery times than its competitors. This, in turn, is helping it to win more business and benefit from growth in interstate deliveries. We are integrating Postal Express into GSO, with the first GLS branded vans being deployed in the region shortly. Integration costs and inflationary pressure have negatively impacted our operational costs and profitability in the region in the period.

GLS is making the most of the opportunities to harness growth in cross-border e-commerce. Its FlexDeliveryService is a great example of this strategy in action. FlexDeliveryService makes it easier for online shoppers to take delivery of goods purchased

abroad. GLS also now offers its international returns service, ShopReturnService, across seven European countries.

In September 2017, we announced our International Tracked email notifications service. This enables overseas customers of UK-based retailers to track the progress of their parcels. The service, initially available to customers who have a business account with Royal Mail, has received positive initial feedback. We also now have the capability to offer tracked cross-border outbound and returns services to our larger customers.

Strategic focus on costs and investment

- **Exceeded our three year £600 million cost avoidance target**
- **Extended our Collection on Delivery programme**
- **Ongoing investment programme**

Underlying UKPIL operating costs before transformation costs were flat. We have exceeded our three year cost avoidance target. We avoided around £640 million of costs, while simultaneously delivering service and product improvements.

We are disappointed to have missed our productivity target of a two to three per cent improvement per annum. This was driven by the challenging industrial relations environment for much of the year, high levels of sickness-related absence and adverse weather conditions in the last month of the year. We continue to focus on controlling costs and making investments in technology to drive productivity.

We are constantly looking at ways to deliver efficiency improvements across our cost base. For example, we are extending our Collection on Delivery programme. This is where colleagues collect mail while they are out on delivery. Over 50,000 post boxes are now covered by this programme. We are also reducing costs in central functions, marketing, property and technology.

Since privatisation in 2013, we have invested over £1.8 billion in our UK operations. This year, we made a net cash investment of around £445 million. Our ongoing investment programme is one of the largest of its kind in the UK.

Becoming more digitally-enabled

- **PDA rollout complete**
- **Parcelforce Worldwide one-hour delivery timeslot notification and My Parcel Live**
- **GLS app and private customer portals in Europe**

Investing in technology and innovation is a core part of our growth strategy. We completed the rollout of our Postal Digital Assistant (PDA) technology. This technology has been used in the rollout of estimated delivery windows for customers using our Tracked 24*/48* service. As part of our negotiations with the CWU during the year, we reached an agreement on the use of 'PDA outdoor actuals'. This enables us to gain a better understanding of our outdoor delivery and collection activities. This will help us meet the increasing demand for new and improved services. It will also ensure that workload is fair and balanced for our postmen and women. We are carrying out further trials before national rollout.

Parcelforce Worldwide is expanding its range of digital tools to enable customers to send parcels more quickly and easily. It launched its own app to give customers more control over their deliveries. We also launched the Parcelforce one-hour delivery timeslot notification and 'My Parcel Live'. A new online tool also helps marketplace sellers' customers to link their eBay and Amazon accounts to their Parcelforce Worldwide account. This makes it easier and quicker to send several different parcels at once.

At GLS, comprehensive technology solutions – scanning devices and customer tracking systems – have been employed at every stage of the parcel process. They help customers track their parcel's delivery status for both national and cross-border shipments. We also launched GLS-ONE for customers in Belgium and Luxembourg. There are plans to expand this next year. GLS-ONE offers maximum flexibility as customers can now send a parcel using the online portal, GLS app or one of 5,500 ParcelShops. They can either order a pickup service from their home or workplace or receive and send goods easily and securely using a parcel box. We also upgraded the GLS app this year. Recipients can track the current position of a delivery vehicle and the expected delivery window of their parcel. GLS also carried out a Europe-wide upgrade of the scanning terminals for incoming shipments at its depots and hubs.

Our workforce

- **Agreement with the Communication Workers Union**
- **Employee engagement in line with large company average**
- **Gender pay report shows men and women are paid broadly the same**

In February 2018, we announced our agreement in principle with the Communication Workers Union (CWU) on pensions, pay, a shorter working week, culture and operational changes. CWU

members overwhelmingly voted in favour of the agreement in March 2018. This is an affordable and sustainable agreement; it enables us to continue to innovate and grow. It puts us in a better position to serve our customers' evolving needs. The agreement contains commitments to work together to extend last letter delivery times and later Latest Acceptance Times (LATs). These changes are fundamental to our objective to be the chosen delivery partner of e-retailers. A joint review will help us to design a more efficient and responsive pipeline. This should enable more flexibility in our working practices, new delivery methods that benefit the single operational pipeline and add more value to our service for our customers. The phased introduction of a shorter working week is dependent on the completion of trials and the successful implementation of a range of initiatives.

Just after the reporting period, we were also pleased to announce that, following extended discussions and difficult negotiations, we have reached agreement with Unite on pay, pensions and working arrangements for junior and middle managers in Royal Mail. Unite will ballot its members on the agreement with a recommendation that they accept. This is a positive position to reach and much of the agreement commits both parties to ongoing discussion to make Royal Mail the success we all want it to continue to be.

As previously announced, the Royal Mail Pension Plan closed to future accrual in its previous Defined Benefit form on 31 March 2018. This step was necessary to avoid an expected increase in cash contributions to around £1.2 billion per annum – an unaffordable amount. I know how important pension benefits are to our colleagues; I have heard from and spoken to many of them on this subject. The pension arrangements we have put in place are a good and fair outcome. They compare favourably with the retirement benefits offered in our industry and by other large UK employers. Working together with the CWU, we are lobbying Government to make the necessary legislative and regulatory changes to enable the introduction of a Collective Defined Contribution pension scheme. In the meantime, from 1 April 2018, the Company has put in place transitional arrangements. For Royal Mail Pension Plan members, we implemented a Defined Benefit Cash Balance Scheme. Members of our Defined Contribution Plan have also benefitted from an increased contribution from the Company.

We saw an increase in our employee engagement score, up from 57 points to 59, which is in line with the Ipsos MORI norm for large organisations. Engagement levels also play a part in employee turnover. This influences training and recruitment costs.

Our employee turnover rate remained low at 7.2 per cent. This compares well with the average UK turnover rate of 23 per cent⁴.

We were pleased – but not complacent as there is more to do – with the results of our annual pay review. The average salaries for male and female Royal Mail employees are broadly the same. On a mean basis, women are paid 2.1 per cent more than men. This is because we have a greater proportion of women in senior positions. On a median basis, men are paid 1.5 per cent more than women. This compares to an average UK pay gap, according to the Government, of 9.7 per cent⁵. Our difference in median pay rates is due to men being more likely to select work that qualifies for allowances, such as shift work during the evening or at night.

Customer focus

- **Mean business customer satisfaction score of 78; in line with last year**
- **Named global sustainability leader of the Transportation industry group in the Dow Jones Sustainability Indices**

For 2017-18, our mean business customer satisfaction score was 78, in line with our performance in 2016-17. In a recent survey conducted by Ipsos MORI, 81 per cent of customers said they were favourable towards Royal Mail in 2017; 88 per cent said they were satisfied with our services. This was well above the average for all the brands in the survey. The majority of our customers rated us as delivering extremely or very good value for money⁶.

We were disappointed that our full year regulatory First Class Quality of Service performance was 91.6 per cent, below our target of delivering 93 per cent of First Class mail the next working day. For Second Class mail delivered within three working days, our performance of 98.4 per cent was within the 98.5 per cent annual regulatory target range when allowing for the margin of error in sampling.

We are talking to Ofcom about a number of exceptional events during the year. They impacted our Quality of Service performance. These factors included a very challenging industrial relations environment, some very severe weather, Cyber Week falling outside the exemption period and significantly reduced staffing levels caused by the Australian flu outbreak. We believe that, if the 2017-18 performance was adjusted for these factors, we would have achieved our First Class Target. We are asking Ofcom to take

these issues into consideration. It will be for Ofcom to decide.

We were disappointed that we have seen an overall increase in complaints. This was driven principally by an increase in 'Denial of receipt' claims. We continue to highlight the importance of correct doorstep scanning and ensuring that if an item is left with a neighbour, the appropriate details are written on the 'Something for You' card.

We make the seventh biggest contribution to the UK economy of any UK company through our high quality employment, our procurement activities and the taxes that we pay. That is why we are delighted to be named global sustainability leader of the Transportation industry group in the Dow Jones Sustainability Indices.

Current trading and outlook

Trading in the first few weeks of 2018-19 has been in line with our expectations.

The UK parcels market remains highly competitive. We anticipate that UKPIL parcel volume and revenue growth rates in 2018-19 will be at least the same as in 2017-18 due to the expected growth in our tracked and international products, as well as additional initiatives.

We maintain our outlook for addressed letter volume declines of between four to six per cent per annum (excluding political parties' election mailings) over the medium-term. However, due to the potential impact of GDPR and, or, if business uncertainty persists, we expect to be at the higher end of the range of decline for 2018-19 and may fall outside the range in a period. In addition, we are not expecting any benefit from political parties' election mailings in 2018-19.

The new Pensions, Pay and Pipeline agreement provides a framework for the next phase of transformation of our UK business into a truly customer-focused organisation. In this first year of the agreement we will be working with our unions and people to implement operational changes to help retain and grow parcel volumes and to lay the foundations for future growth and productivity opportunities through operational trials.

Our cost avoidance programme in UKPIL is targeting to deliver around £230 million costs avoided this year. This encompasses productivity improvements towards the upper end of our targeted two to three per cent range. Higher variable costs associated with increasing volumes of tracked and international products are expected to create some incremental cost pressures.

Transformation costs for the year are expected to be at the upper end of our

forecast £130-150 million range due to the expected productivity improvements.

GLS has performed consistently strongly over the past few years and we expect continued good performance in 2018-19 although margins may be impacted by continuing labour market pressures in many of its markets.

Total net cash investment is expected to be around £500 million in 2018-19, within which transformation operating expenditure will reflect the expected productivity improvements.

In-year trading cash flow in 2018-19 will reflect the payment of the 2017-18 frontline pay award in the first quarter of 2018-19. Given the good cash generation characteristics of the business we remain committed to our progressive dividend policy going forwards.

As in previous years, the outcome for the full year will be dependent on our performance over the important Christmas period.

Thank you

As you may know, we announced that the Board and I agreed that I will retire in September 2018, and step down as CEO on 1 June 2018. It has been my pleasure and a great privilege to serve as CEO of this cherished UK institution. I am proud of what we have achieved over the last eight years.

I would like to warmly congratulate Rico Back and Sue Whalley on their new roles, as our Group CEO and CEO of Post and Parcels, Royal Mail UK. I have had the privilege of working closely with Rico and Sue for many years. They are the best possible team to continue to transform our business. I am delighted that they have both been promoted to the Board and into expanded roles.

We are pleased to have come to an agreement with the CWU during the year. We are determined to continue to provide the best pay and terms and conditions in our industry by some distance. Good labour standards lead to better service standards for customers. Our commitment to serving our customers throughout this period has enabled our good trading performance to continue and helps to secure a sustainable future for our people and our business.

I am honoured to have worked alongside Royal Mail's people and the union leadership. It is their hard work and dedication that connects households, communities and companies across the UK every day.

Moya Greene
Chief Executive Officer
16 May 2018

⁴ Total UK turnover rate taken from www.xperthr.co.uk/survey-analysis/labour-turnover-rates-2017/162496/

⁵ Data reported by over 10,000 companies with more than 250 employees to the Government Equalities Office.

⁶ Ipsos MORI Corporate Image Survey Winter 2017.

Market overview

Royal Mail plays a crucial role in the UK economy. In particular, we support the continued growth of e-commerce by providing an unparalleled delivery network through the Universal Service. In this section, we review the main market developments in the UK. We have also increased our analysis of international developments, given the fact that we now operate in 43 countries, principally through GLS.

UK parcels market

E-commerce is responsible for generating two in every three parcels sent in the UK. It continues to drive parcel volume growth¹.

In 2017, online retail grew four times faster than the wider UK retail market. It is forecast to make up 17 per cent of total retail spending in 2018, rising to 20.3 per cent by 2023².

The UK retail environment is becoming tougher due to rising costs, the structural shift to online retailing and a move by consumers towards spending more on experiences such as entertainment and holidays. Retailers of all sizes are having to work harder to remain relevant. Pure play e-retailers (those who only trade online) are driving consumer behaviour and growth. Online fulfilment is a key differentiator. Key retailers are investing in a range of flexible online purchasing and delivery options.

The UK is Europe's most competitive parcels market, with 15 key competitors. We estimate that the blended UK parcels market^{3,4} is growing by around four per cent a year⁵. Addressable growth of the market is three per cent per year⁶. Parcel carriers continue to invest in new capacity, resulting in increased pricing pressure. We estimate that there is 25 per cent overcapacity in the parcels market, on average, throughout the year. At the same time, traditional retailers are improving their in-store collection and delivery services.

Online retailers are increasingly looking to differentiate their customer proposition in an intensely competitive retail marketplace. Online retailers are also seeing an uplift in subscription memberships. They provide members with unlimited next day delivery and returns on all orders within the pre-paid period. One in four UK online shoppers now subscribe to a delivery service, receiving an average of three deliveries a month from that retailer. Convenience and value for money are the major reasons for taking out a delivery subscription.

Growth areas

The rapid pace of change in the UK parcels market is expected to continue. This is due to low barriers to entry, greater disintermediation and disruptive business models. Ofcom estimates that next-day parcels now account for 57 per cent of domestic volumes⁷. Next-day delivery is often used by online retailers as a promotional tool in order to gain competitive advantage.

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. They are forecast to reach £5.4 billion in 2022⁸.

Home is the delivery location of choice for 84 per cent of consumers, with nominated safe place or neighbour becoming increasingly important⁹. Other than home, the most trusted alternative delivery locations are the Post Office[®], Royal Mail Customer Service Point and a neighbour's house. All three of these locations receive a 72 per cent trust rating as alternatives to home¹⁰. Nevertheless, click and collect is now an established alternative, particularly during peak periods, with the most popular delivery location being the retailer's store.

The number of third party parcel shops and lockers has grown quickly over the past five

years. Carriers, retailers and asset-light technology companies are all seeking to provide alternative convenient delivery and returns locations. But, to date parcel volumes handled by this channel remain relatively small.

Consumers shop at a time and place which suits them. This includes shopping late in the evenings. Retailers have extended their online order acceptance times for next-day delivery. Some accept orders as late as midnight. Carriers are adapting their networks to facilitate accepting parcels later in the night for next-day delivery.

International parcels

E-commerce is also fuelling growth in cross border parcels. In 2017, European B2C e-commerce is expected to have grown 14 per cent to €612 billion¹¹. In 2016-17, international outbound parcels (exports) represented eight per cent of all parcel volumes shipped, but 22 per cent of revenue¹².

Our study into the international ambitions of small UK online 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 US and North America are the most promising markets.

Consumers mainly purchase from international sellers offering better prices, unique products or specific brands. They expect clear information about delivery charges, a simple returns process and a seamless cross border delivery and returns experience. The top three countries for cross-border purchases into the UK are China, the US and Germany. Clothing and footwear, jewellery and watches and consumer electronics are the most frequently purchased items¹³.

A recent Royal Mail study found there is a keen appetite for exporting, with almost two thirds (64 per cent) of SMEs looking to increase international sales in 2018. It is a particularly good time for UK businesses to explore exporting options given the current strength of the pound.

Outside the EU, Chinese e-commerce marketplaces are developing more international cross border services. Alibaba has reported that the value of goods sold on its marketplace on Singles'

1 Triangle Management Services/RMG, UK Fulfilment Market Measure (2016), includes Access and Large Letters and Amazon Logistics. Amazon Logistics value is a Royal Mail management estimate.

2 GlobalData Report, 2017.

3 Internal estimate based on Triangle Management Services/RMG Fulfilment Market Measure (2016); 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 GlobalData UK E-retail survey and RMG market insight.

6 Excludes Amazon Logistics and other retailers' own-delivery networks.

7 Ofcom Annual Monitoring Update 2016-17.

8 GlobalData e-retail, April 2017.

9 IMRG UK Consumer Home Delivery Review 2017.

10 Royal Mail Delivery Matters 2017.

11 E-commerce European B2C Report 2017.

12 Including Amazon – Ofcom Annual Monitoring Report, 2017.

13 IPC cross border e-commerce shopper survey 2017.

Day (11 November) rose 39 per cent to over \$25 billion, breaking the 2016 record of \$18 billion. At nearly four times the size of Black Friday and Cyber Monday combined, Singles' Day is the world's largest shopping event.

UK letters market

The UK letters market is significantly more competitive than people think. E-substitution is a potent form of competition. Letter volumes are in structural decline. Addressed letter volumes per household are around half their peak figure. But, the UK letters market continues to have a relatively high number of letters per capita compared to other developed countries.

The UK's volume decline since peak is mid-range compared to International peers

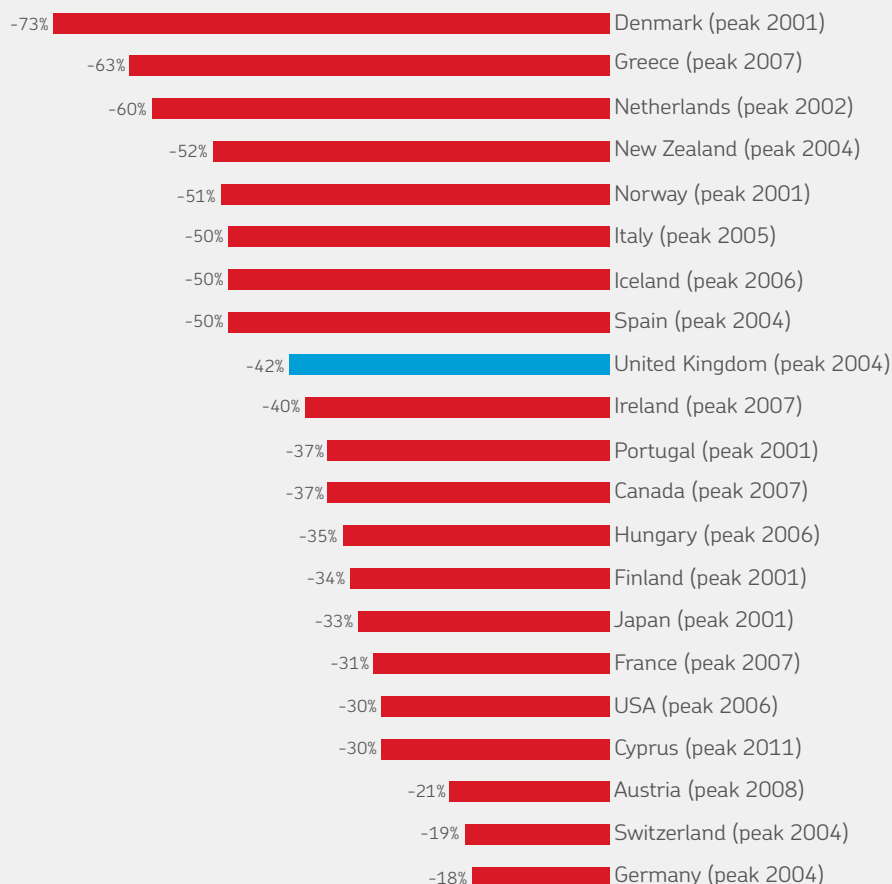
In letters, the UK 'Access' market is, by some distance, the biggest in Europe. Access competition is where a postal operator other than Royal Mail collects mail from the customer, sorts it and then transports it to our Mail Centres for us to deliver. This enables other operators to offer postal services to larger business customers for letters and large letters without setting up a delivery network. Access operators accounted for 61 per cent of addressed inland letters in the nation's postbag in 2016-17¹⁴.

We continue to see the impact of UK economic developments and overall business uncertainty in the UK on letter volumes, in particular, advertising and business letters. Customers are constantly looking for ways to reduce mailing costs, especially in the retail, financial services, utility and Government sectors.

Since the EU referendum, overall advertising market growth has slowed¹⁵. Television, print and mail advertising declined in 2017, with advertisers delaying or substituting investment decisions and shifting from traditional to cheaper digital forms of advertising. Direct mail continues to perform better than print media. Print media faces ongoing double-digit declines. Digital forms of advertising now account for one in every two pounds spent on advertising in the UK. In fact, mobile advertising overtook TV for the first time in Q3, 2017.

With the introduction of General Data Protection Regulation (GDPR) in May 2018, we will continue to monitor developments closely, including any impact on advertising mail.

Domestic mail volumes: % change since peak to 2016



¹⁴ Ofcom Annual Monitoring Report, Nov 2017.

¹⁵ WARC Expenditure Report for the 2017 calendar year.

Delivery matters



84%

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

74%

of consumers trust Royal Mail to deliver their online purchases¹⁶.

Singles Day



\$25 billion

Singles Day in China is the world's largest shopping event; nearly four times the size of Black Friday and Cyber Monday combined.

M-commerce



52%

of younger consumers have purchased via smartphone, but desktop remains the most commonly used device¹⁸.

SME exports



64%

Almost two thirds of SMEs are looking to increase international sales in 2018.

UK leading in e-commerce



E-commerce accounted for

16%

of all retail trade in 2017, the highest ever¹⁷.



¹⁶ Royal Mail Delivery Matters 2017.

¹⁷ GlobalData, 2018.

¹⁸ Mintel E-retail, 2017.

Our business model

Operating in 43 countries, 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 to deliver high quality, value for money services for both sending and receiving customers. Our UK business is unparalleled in size and scope. GLS provides geographical diversification for our earnings. It is a growth engine for the Group. Through this combination, we generate cash to invest appropriately in our UK operation and GLS, and pay dividends to our shareholders.

Operating through our resources and relationships



Our networks in 43 countries

Our role as the Universal Service Provider means Royal Mail has the capability to deliver to every address across the UK. Our UK network is unparalleled in both size and scope. Such a network is expensive to run. But, it also offers us a commercial advantage; we benefit when we deliver letters and parcels together.

We are improving the UK services we offer. Over 70 per cent of parcels are now barcoded; one-third can be tracked in some way. Customers can drop off pre-paid items at 1,200 Customer Service Points; over 340 are now open on a Sunday. Through Local Collect customers can collect their parcels from 11,400 sites. Parcelforce Worldwide provides additional fulfilment options. It provides premium parcel services within the courier express market.

GLS, one of the largest European ground-based deferred delivery networks, offers reliable, high-quality parcel services, complemented by logistics and express services. As a leading market player across Italy (top three), Germany and France (top five), GLS is well positioned to capture the expected growth in its key markets. Although B2B is its core market, GLS is focused on profitable B2C growth too. It is investing in technology and improvements to its customer experience to achieve this.



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 194 jobs in the UK is provided by Royal Mail. Achieving our strategic priorities depends on our people. 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.

We are proud to offer around 18,000 GLS employees secure and fairly paid employment with long-term prospects and career development. GLS works to promote a culture of openness and transparency. This year, GLS Denmark was rated as one of the country's best employers by the Great Place to Work Institute. GLS France was ranked 11 out of almost 100 freight transport and logistics companies by business magazine, Capital.



Our customers and our Royal Mail and GLS brands

We deliver to over 30 million business and consumer addresses across the UK. 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. It is a highly respected brand. It is one of the leading players of its kind in continental Europe.

Research we commissioned found that 74 per cent of online shoppers trust Royal Mail to deliver their online purchases¹. Royal Mail ranked first globally in the Transportation Industry Group in the Dow Jones Sustainability Indices. We are also a constituent of the FTSE4Good Index, ranked in the top eight per cent of companies.



Investment in our business

We continue to invest in our UK operation and, through GLS, in high growth markets through targeted and focused acquisitions. We have invested £1.8 billion in our UK business since privatisation. Now that some of the larger projects – rebuilding our legacy IT systems and resizing the UK network – are mostly complete, we have reduced our investment spend. But, it remains substantial. Recent acquisitions by GLS have enabled us to scale up our presence in key European markets and to build a presence in the western US. GLS is a force for growth for our Company.

¹ Delivery Matters: Understanding the needs of online shoppers in the UK in 2017.

Creating value

Continually improving our efficiency and productivity in the UK allows us to be more competitive. This means we are better positioned to grow our existing customer relationships and win new business. This, in turn, enables us to fund investment in our growth and maintain fair terms and conditions for our people. GLS is a growth engine for the Group. We are investing in carefully scaling up GLS in a number of its existing markets and in new territories like the western United States. As the returns it generates are typically higher than our UK business, GLS is making an increasingly important financial contribution to our Group. It is through the combination of our UK and GLS strategies that we aim to deliver sustainable shareholder value.

Continually improving efficiency

- Automated parcel sorting live and rolling out to further UK sites
- Adopting a strategic approach to costs and efficiency and meeting our cost avoidance targets
- Continuously improving productivity
- Improving the efficiency of our logistics network; promoting more efficient driving using telemetry technology

Maintaining financial flexibility

- Investing in new areas to support growth. This includes the careful and focused expansion of GLS outside Europe
- Using technology to be more cost-efficient
- Ensuring efficient investment spending
- The scaling up of GLS in some of its existing European markets

Meeting changing customer expectations

- At GLS, investing in technology solutions to improve customer tracking, e.g. GLS-ONE
- Increasing the number of parcels we barcode and scan. Over 70 per cent of Royal Mail parcels now carry a barcode
- The GLS FlexDeliveryService is now available in 20 European countries. It makes it easier for online shoppers to take delivery of goods purchased through an overseas website
- Demonstrating the value of letters through initiatives such as the Strategic Mailing Partnership™

Engaged, motivated people

- Continuing to offer UK employees the best pay and terms and conditions in the industry
- Ensuring UK employees have a meaningful stake in the Company through the Free Share offers
- Taking into account the final 2017-18 dividend, each eligible full-time employee, with the full allocation of 913 free shares, will have received over £863 (before tax) in dividends since privatisation

Outputs

- Delivering a high quality, financially sustainable Universal Service to maintain our trusted UK brand.
- Progressing the GLS 'scale up and grow' strategy. This is through growth in its existing markets and targeted acquisitions in higher growth areas.
- Continuing to invest in our business and our people, through effective management of our financial resources. This includes a strategic focus on costs.
- Driving the generation of cash in UKPIL and GLS to support progressive dividends for our shareholders.

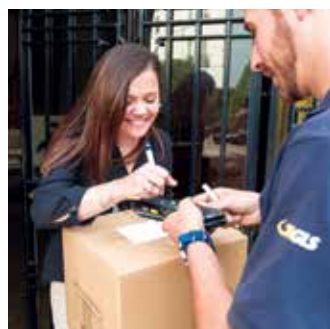
Investing in our business and our people

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 in the UK and overseas through GLS. We aim to generate sustainable shareholder value and deliver our Universal Service commitment.

Our strategic priorities

Winning in parcels



We have maintained our pre-eminent position in the UK by successfully pursuing faster growing parts of the UK parcels market while making it easier for consumers, SMEs and marketplace sellers to use Royal Mail services. GLS is scaling up and growing – either through new services or carefully targeted acquisitions – in a number of the countries it operates in, including the western US. The returns it generates are typically higher than in our UK business.

Key initiatives:

- Growing Royal Mail Tracked 24*/48* to meet customer demand for faster delivery and more tracking information
- Completed a national rollout of estimated delivery windows using our PDA technology for customers using Royal Mail Tracked 24*/48*
- GLS has expanded its FlexDeliveryService to consumers in 20 European countries
- ShopReturnService, the international return service offered by GLS, is now available across seven European countries

Defending letters



Letters are important to our customers. They account for almost 55 per cent of our UK revenue. We work with customers and supply chain partners to add value to mail, promote its effectiveness, and increase its efficiency.

Key initiatives:

- Launched Joint Industry Committee (JIC) to make the case for advertising mail
- Applied Mailmark® to around 90 per cent of in scope mail
- The Strategic Mailing Partnership™, a joint initiative with the mailing house industry, to improve overall efficiency and operational processes and share insight with respect to GDPR implications
- Leading industry response to prevent scam mail, including stopping three million fraudulent items from reaching customers
- Enhanced revenue protection measures

Strategic priorities, enabled by...

Growing in new areas



We are making the most of our existing UK assets. We are increasing our capability through a range of investments. GLS is a force for growth for our Company. We are doing so through our 'scale up and grow' strategy for GLS. It is progressing well. We are also increasing our digital capabilities across the Group, particularly in e-commerce.

Key initiatives:

- Offering high volume customers later collection and delivery capability enabling them to ship later into the evening for next day delivery of their customers' orders
- GLS acquired Redyser Transporte, a Spanish delivery company. This acquisition will strengthen GLS' position as Spain's second biggest national express parcels network following the acquisition of ASM Transporte Urgente in 2016
- Following its acquisition of GSO (2016) and Postal Express (April 2017), GLS now provides a parcel service with full US west coast coverage. Postal Express is being integrated into GSO. The first GLS branded vans to be deployed in the region will do so shortly
- Continuing to rollout our UK fleet maintenance services to other businesses, employees, friends and family

Enabling our strategic priorities

Strategic focus on costs



Being more efficient and controlling our costs means we are able to be more competitive, which helps us win and retain business, whilst continuing to provide the best employment terms and conditions in the industry.

Key initiatives:

- Exceeded our three year cost avoidance target of £600 million. We delivered around £640 million of avoided costs
- Continuing to optimise our network processes and operating site requirements to reflect changes in customer demand and automation capability
- Improving the efficiency of our logistics network, through the use of telemetry
- Extended Collection on Delivery programme, where colleagues collect mail while out on delivery. Over 50,000 postboxes are now covered by this programme
- Reducing costs in central functions. Examples include senior manager and marketing reviews

Technology and innovation



We invest in technology to support our strategic priorities to win in parcels, defend letters and grow in new areas. We are investing in our UK business and GLS to improve our digital capabilities, customer connectivity and scanning. We continue to deploy technology to drive efficiency and increase the pace of change through our operation.

Key initiatives:

- Mobile apps for consumers in the UK and through GLS to access a broader range of services and functionality
- Completed the rollout of our PDA technology across our entire UK business
- Launched GLS-ONE for customers in Belgium and Luxembourg. They can now send a parcel using the GLS online portal, app or one of its 5,500 ParcelShops
- GLS upgraded its consumer app. Recipients can track the current position of a delivery vehicle and the expected delivery window for their parcel
- 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 subsidiary, Intersoft
- Around 90 per cent of in scope mail now has a Mailmark®. It has been extended to unsorted mail during the year.

An engaged and motivated workforce



Our employees drive the success of Royal Mail Group. We believe good employment conditions underpin this. Over 98.7 per cent of our employees are permanent. Our postman and woman pay compares very well to the industry. We have a proactive relationship with our unions and a strategic focus on efficiency in our UK operations.

Key initiatives:

- Reached an agreement with the Communication Workers Union (CWU) on pensions, pay, a shorter working week, culture and operational changes
- Employee engagement increased from 57 points to 59. Against a backdrop of significant change for our business, we achieved an above average employee engagement score for the last three years
- GLS Denmark was rated as one of the country's best employers by Great Place to Work. GLS France was ranked 11 out of almost 100 freight transport and logistics companies

Key performance indicators

The 2017-18 Corporate Balanced Scorecard includes 10 equal measures, all weighted at 10 per cent. The 10 measures alongside the relevant key performance indicators (KPIs) are set out below. The Corporate Balanced Scorecard links all managers' remuneration to our performance against a set of key financial and non-financial performance measures.

Further details on the links between our KPIs and Executive remuneration, and the Corporate Balanced Scorecard for 2017-18, can be found in the Directors' Remuneration Report on page 75.

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.	This year, we reduced our reported road traffic collisions by nine per cent	2017-18 Actual: 9.0% (above target) 2016-17: 12.3% (above target) 2015-16: 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.	Our employee engagement score was 59 - Increase of two points from 2016-17 - Held around 1,000 town hall briefing sessions, where we engaged with over 43,000 frontline colleagues	2017-18 Actual: 59 (at stretch) 2016-17: 57 (above target) 2015-16: 57 (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 ¹ .	Our First Class Quality of Service fell below the 93.0 per cent target - For Second Class mail, our performance of 98.4 per cent was within the 98.5 per cent annual regulatory target range when allowing for the margin of error in sampling. - Our performance was impacted by a number of exceptional factors. These factors included a very challenging industrial relations environment, some very severe weather, Cyber Week falling outside the exemption period and significantly reduced staffing levels caused by the Australian flu outbreak. We believe that, if the 2017-18 performance was adjusted for these factors, we would have achieved our First Class Target. We are asking Ofcom to take these issues into consideration. It will be for Ofcom to decide. - We take Quality of Service very seriously and are subject to some of the highest regulatory standards in Europe - We are redoubling our efforts to tackle quality issues when they arise	2017-18 Actual: 91.7% (below target) 2016-17: 93.2% (above target) 2015-16: 92.6% (threshold)
Mean business customer satisfaction (score)  	Results from the customer satisfaction survey completed by business customers.	Levels of satisfaction amongst our business customers were in line with last year, which were already very high - Our considerable investment in a range of customer initiatives is delivering results. e.g. including our significantly enhanced tracking capability - We continue to have more access points for our customers – by some margin – compared with our competitors	2017-18 Actual: 78 (at stretch) 2016-17: 78 (above target) 2015-16: 76 (above threshold)

¹ 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
Customer complaints ('000)² 	Number of complaints (not claims) opened by our Customer Service team.	• There was an overall increase in complaints in 2017-18, driven principally by the growth in tracked parcels. • Complaints across some of our main complaint types, such as misdeliveries and redirections, reduced during the year • Continuing to improve the scanning of items and ensuring that appropriate details are written on the 'Something for You' card if a customer is not home	2017-18 Actual: 565 (below threshold) 2016-17: 517 (threshold) 2015-16: 476 (below threshold)
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.	• A one per cent improvement in productivity • Productivity improvement was lower than our annual target of two to three per cent due to the industrial relations environment, high-levels of sickness-related absence and adverse weather conditions in the second half, driving an increase in variable hours • As part our agreement with the CWU, we will undertake a joint review of sick absence management. We continue to focus on controlling costs and making investments in technology to drive productivity	2017-18 Actual: 1.0% (below threshold) 2016-17: 2.7% (above target) 2015-16: 2.4% (above target)
UKPIL costs (£m) 	Adjusted operating costs for UKPIL.	• Total adjusted UKPIL costs were flat on an underlying basis • Cost avoided was £235 million in the year taking the total annualised avoided cost to £642 million in the past three years. This is ahead of our £600 million target	2017-18 Actual: £7,112m (above target) 2016-17: £7,082m ³ (above target) 2015-16: not a KPI
Group revenue (£m)⁴ 	Group revenue adjusted for budgeted foreign exchange rate.	• Group revenue was up two per cent • Milestone group revenue of over £10 billion achieved in the year	2017-18 Actual: £10,051m (above target) 2016-17: £9,455m ⁵ (threshold) 2015-16: £9,191m ⁵ (above target)
Group operating profit before transformation costs (£m)⁴ 	Adjusted Group operating profit before transformation costs, adjusted for budgeted foreign exchange rate.	• Adjusted Group operating profit before transformation costs increased by one per cent on an underlying basis	2017-18 Actual: £685m (above target) 2016-17: £701m ⁵ (threshold) 2015-16: £738m ⁵ (above target)
In-year trading cash flow (£m) 	In-year trading cash flow before cash flows relating to London Development Portfolio.	• In-year trading cash flow was £444 million • After adjusting for timing of 2017-18 frontline pay award of around £100 million, which was paid in the first quarter of 2018-19	2017-18 Actual: £444m (at stretch) 2016-17: £420m (above target) 2015-16: not a KPI

² This year, we introduced delivery confirmation for standard parcels for the first time. It was decided that any related Denial of Receipt complaints should be excluded from complaints reporting and KPIs for this year only. 14,274 complaints have therefore been excluded from this figure. All other Denial of Receipt complaints are included.

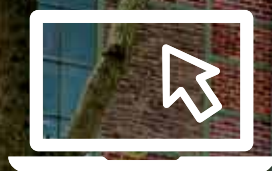
³ Prior year results include an adjustment to remove the impact of the underlying impact of weaker Sterling on UKPIL.

⁴ Reported results are adjusted to reflect a constant foreign exchange rate of £1/€1.19 in GLS.

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

Adding value and convenient services in the UK and at GLS

What we have done...



GLS' FlexDeliveryService is now available in a total of 20 countries in Europe



GLS SameDay offering same day evening deliveries in 11 cities



Launched GLS-ONE for customers in Belgium and Luxembourg, with plans to expand this further next year



Completed PDA rollout across our UK network



Delivery confirmation available on the majority of barcoded parcels



Improved service and systems for international shipments

What's in our plan...



Careful and focused geographic expansion through GLS



Parcels automation live and rolling out to further sites



Increasing the number of parcels we track



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). Reported results are set out in the section entitled 'Presentation of results and Alternative Performance Measures' on pages 34 to 35 and the audited Financial Statements on pages 106 to 110.

In addition to reported results, the Group's performance in this Financial Review is also explained through the use of APMs that are not defined under IFRS. Management considers that these measures provide a more meaningful basis on which to analyse business performance. They are consistent with the way that financial performance is measured by Management and reported to the Board.

The APMs used are explained in the paragraphs entitled 'Alternative Performance Measures' on pages 35 to 38 and reconciliations to the closest measure prescribed under IFRS are provided where appropriate. The analysis of underlying movements in adjusted results is set out in the paragraph entitled 'Underlying change adjustments' on page 39. Commentary is provided on both reported and adjusted results.

UK Parcels, International & Letters (UKPIL)

Reported results

Summary results (£m)	Reported 52 weeks ended 25 March 2018	Reported 52 weeks ended 26 March 2017
Revenue	7,615	7,658
Operating costs	(7,570)	(7,332)
Operating profit before transformation costs	45	326
Transformation costs	(113)	(137)
Operating (loss)/profit after transformation costs	(68)	189
Operating (loss)/profit margin after transformation costs	(0.9%)	2.5%

UKPIL reported revenue declined by £43 million compared with 2016-17. Operating profit before transformation costs declined to £45 million, mainly due to the International Accounting Standards (IAS) 19 pension charge. After lower transformation costs of £113 million, there was an operating loss after transformation costs of £68 million.

Adjusted results

The adjustments made to reported results are set out in the paragraph entitled 'Specific items and pension charge to cash difference adjustment' on pages 27 to 28. The full UKPIL reported results are set out in the paragraph entitled 'Segmental reported results' on page 35.

Summary results (£m)	Adjusted 52 weeks ended 25 March 2018	Adjusted 52 weeks ended 26 March 2017	Underlying change ¹
Letters and other revenue	3,051	3,234	(6%)
Marketing mail revenue	1,101	1,087	1%
Total letters revenue	4,152	4,321	(4%)
Parcels revenue	3,463	3,337	4%
Total revenue ²	7,615	7,658	Flat
Operating costs before transformation costs	(7,112)	(7,110)	Flat
Operating profit before transformation costs	503	548	(2%)
Transformation costs	(113)	(137)	(17%)
Operating profit after transformation costs	390	411	4%
Operating profit margin after transformation costs	5.1%	5.4%	20bps

¹ Movements in revenue, costs, profits and margins are shown on an underlying basis, taking into account non-recurring or distorting items such as the first year impact of acquisitions and foreign exchange translation in GLS and working days and the first year costs of the Apprenticeship Levy in UKPIL. More details are available in the paragraph entitled 'Underlying change adjustments'.

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.

	Adjusted 52 weeks ended 25 March 2018	Adjusted 52 weeks ended 26 March 2017	Underlying change ¹
Volumes (m)			
Letters			
Addressed letters	11,269	11,922	(5%)
Unaddressed letters	3,109	2,934	6%
Parcels			
Core network	1,132	1,073	6%
Parcelforce Worldwide	98	96	2%
Total	1,230	1,169	5%

UKPIL delivered a resilient performance. Revenue was flat on an underlying basis. Total parcel revenue was up four per cent, offsetting total letter revenue which was down four per cent.

Total parcel volumes increased by five per cent on an underlying basis. Performance in the last month of the year was impacted by adverse weather conditions in the UK. Total parcel revenue growth of four per cent reflects the mix in domestic and international traffic channels.

Royal Mail domestic account parcels saw good growth. We won new customers and gained more traffic from existing customers. Royal Mail domestic account parcel volumes, excluding Amazon, were up four per cent on an underlying basis. Royal Mail Tracked 24^h/48^h and Tracked Returns[®], our key e-commerce products, grew by 28 per cent. We expect growth from these products to moderate in 2018-19 due to the strong historic performance. Amazon parcel traffic grew strongly due to higher volumes of letterbox-sized parcels. We continue to launch new initiatives to win more volumes. They include providing later LATs for next day delivery.

Our international parcels business benefitted from our new initiative to attract cross-border traffic mainly from Asia into Europe. This accounted for around two percentage points of the underlying parcel volume growth and around one percentage point of the parcel revenue growth in the year, contributing £48 million of revenue. We are targeting continued growth in this product as we plan to expand the service to the US in 2018-19. We saw improved import volumes outside our cross-border initiative, however contract export volumes were flat due to the competitive market. Parcelforce Worldwide volumes increased by two per cent. This was driven by new contract wins and growth in existing customers in a highly competitive express parcels market.

Addressed letter volumes (excluding political parties' election mailings) declined by five per cent on an underlying basis, in line with our expectations. Low average unit revenue (AUR) unaddressed letter volumes were up six per cent reflecting recent initiatives to encourage incremental volumes. Total letter revenue (including marketing mail) decreased by four per cent, benefiting from revenue from mailings associated with the 2017 General Election. Marketing mail revenue, which includes redirections and our Address Management Unit, increased by one per cent following last year's sharp slowdown due to business uncertainty.

We are monitoring the impact of continuing business uncertainty in the UK on letter volumes. We are also monitoring the potential impact of the General Data Protection Regulation (GDPR), which takes effect from 25 May 2018. This may lead to a decline in marketing mail volumes. We maintain our medium-term outlook for an annual decline of four to six per cent in addressed letter volumes (excluding political parties' election mailings). However, due to the potential impact of GDPR and, or, if business uncertainty persists, we expect that addressed letter volume decline will be at the higher end of the four to six per cent range in 2018-19 and may fall outside the range in a period.

Operating costs before transformation costs

(£m)	Adjusted 52 weeks ended 25 March 2018	Adjusted 52 weeks ended 26 March 2017	Underlying change ¹
People costs	(4,908)	(4,865)	Flat
Non-people costs	(2,204)	(2,245)	(2%)
Distribution and conveyance costs	(798)	(828)	(4%)
Infrastructure costs	(751)	(740)	1%
Other operating costs	(655)	(677)	(3%)
Total	(7,112)	(7,110)	Flat

Total adjusted operating costs before transformation costs were flat on an underlying basis. Whilst we have seen an increase in semi-variable costs associated with the growth in tracked and international parcel volumes, this was largely offset by our cost avoidance programme.

The cost avoidance programme in UKPIL was ahead of our expectations. It delivered £235 million of costs avoided in the year, comprising people costs of £90 million and non-people costs of £145 million. We delivered benefits across a number of initiatives during the year. They included distribution optimisation, transformation of our IT infrastructure, management headcount reduction, improvements in network productivity, terminal dues revenue protection activities, lower property costs and supplier contract renegotiations. We avoided annualised operating costs of £642 million over the past three financial years, ahead of our £600 million target. We are planning to avoid a further £230 million of costs in 2018-19, including absorption of the shorter working week for full-time employees covered in the new Pensions, Pay and Pipeline agreement.

Adjusted people costs were flat on an underlying basis. The five per cent frontline pay award effective from October 2017 was partially offset by our cost avoidance programme activities, largely management headcount reduction and network productivity. The frontline pay award of £101 million has been accrued this year and was paid in the first quarter of 2018-19. Bonus costs were £15 million lower as we missed our annual bonus targets on productivity, complaints and Quality of Service. Taking into account factors including a challenging industrial relations environment, severe weather, Cyber Week and Australian flu, we estimate we would have achieved our First Class Target and exceeded the Second Class one. Higher volumes in Parcelforce Worldwide led to incremental people costs.

We saw a one per cent improvement in core network productivity. This was achieved through a 0.9 per cent reduction in core network hours, with workload 0.1 per cent higher as the increase in parcel volumes was partially offset by declining letter volumes. Productivity was lower than our annual improvement target of two to three per cent due to the industrial relations environment, high levels of sickness-related absence and adverse weather conditions in the second half, which drove an increase in variable hours. We are targeting productivity improvement towards the upper end of our two to three per cent target range in 2018-19.

The first year impact of the Apprenticeship Levy was £20 million, which we have excluded from underlying movements. As previously disclosed, further changes in wage legislation such as the Working Time Directive may also impact people costs in the future.

Non-people costs decreased by two per cent on an underlying basis. Distribution and conveyance costs decreased by four per cent. This was mainly due to terminal dues £14 million lower as increases of £6 million driven largely by volume were more than offset by savings from revenue protection activities. Total diesel and jet fuel costs of £147 million were £12 million lower than the prior year due to lower pricing and improved fleet management. We expect diesel and jet fuel costs to be broadly flat in 2018-19.

Infrastructure costs were one per cent higher on an underlying basis. This was largely driven by a £36 million increase in depreciation and amortisation from investment in IT, new vehicles and other assets. We expect depreciation costs to increase by around £10 million in 2018-19. Increased utilisation of technology to support growth in tracked parcels led to an increase in infrastructure costs in the year. We expect growth in tracked parcel volumes to continue in 2018-19, driving a further increase in IT costs of around £15 million. Within infrastructure costs, the cost avoidance programme delivered benefits in property through the integration of the Romec business, supplier contract renegotiations and lower discretionary spend across the estate.

Other operating costs decreased by three per cent on an underlying basis due to cost avoidance activities, including savings on other supplier contract renegotiations and lower marketing and discretionary spend. This more than offset an increase in customer service costs driven by higher tracked parcel volumes.

Transformation costs

(£m)	Adjusted 52 weeks ended 25 March 2018	Adjusted 52 weeks ended 26 March 2017
Voluntary redundancy	(44)	(62)
Project costs	(69)	(75)
Total	(113)	(137)

Transformation costs of £113 million were below our expectation of around £130 million. This was due to the industrial relations environment, which affected the pace of change and therefore voluntary redundancies in the year. There was a net decrease of around 660 employees in the year largely reflecting management headcount reductions. At the year end, full time equivalent employees (FTEs)³ reduced by 185 to 147,985 FTEs reflecting the higher level of variable hours in the network to recover from the impact of adverse weather and sickness-related absences. Project costs largely comprised initiatives supporting the cost avoidance programme. We continue to forecast transformation costs of between £130-150 million per annum. However, we expect transformation costs to be at the higher end of the range in 2018-19 as we continue to drive network productivity improvements.

Operating profit after transformation costs

Adjusted operating profit after transformation costs of £390 million was up four per cent on an underlying basis due to lower transformation costs. Operating profit margin after transformation costs was 5.1 per cent. It is up 20 basis points compared with the prior year.

³ 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 table below sets out a summary of the reported GLS Sterling and Euro results. GLS results are not subject to adjustment.

Summary results (£m)	Reported Year ended March 2018	Reported Year ended March 2017	Underlying change ¹
Revenue	2,557	2,118	10%
Operating costs	(2,366)	(1,954)	10%
Operating profit	191	164	10%
Margin (£m)	7.5%	7.7%	10bps
Revenue	2,899	2,521	10%
Operating costs	(2,682)	(2,325)	10%
Operating profit	217	196	10%
Volumes (m)	584	508	9%

GLS continued to perform strongly. Performance in the year was impacted by the timing of Easter and other public holidays across Europe. Excluding this impact, underlying revenue and volume movements would each have been two percentage points higher.

Volumes were up nine per cent on an underlying basis, with growth in both domestic and international volumes in most markets. Revenue increased by 10 per cent, slightly better than volume growth due to price and product mix improvements in several markets. Revenue in Sterling terms benefited from a £106 million impact from exchange rate movements and a £105 million impact from acquisitions. These have been excluded from underlying movements. Including the impact of acquisitions, revenue was up 15 per cent on a constant currency basis.

Revenue growth was achieved in almost all markets and from a broad customer base. The largest customer accounted for around three per cent of total GLS revenue. The three major markets, Germany, Italy and France, accounted for 60 per cent of total GLS revenue. This is down from 63 per cent in 2016-17, reflecting the impact of recent acquisitions and growth in other GLS markets.

Operating costs (£m)	Reported Year ended March 2018	Reported Year ended March 2017	Underlying change ¹
People costs	(608)	(489)	8%
Non-people costs	(1,758)	(1,465)	10%
Distribution and conveyance costs	(1,558)	(1,278)	12%
Infrastructure costs	(148)	(128)	5%
Other operating costs	(52)	(59)	(21%)
Total	(2,366)	(1,954)	10%

Total operating costs were up 10 per cent on an underlying basis. They were broadly in line with volumes. People costs increased by eight per cent as a result of higher semi-variable costs linked to volumes and higher rates of pay due to wage inflation. This was especially the case across Central and Eastern European markets.

Distribution and conveyance costs were up 12 per cent. This was driven by higher volumes and sub-contractor costs due to labour market conditions in many of GLS' European markets and the US. This included around €5 million due to the four per cent minimum wage increase in Germany from 1 January 2017. We expect these trends to persist in 2018-19, which may place pressure on operating margins.

Infrastructure costs increased by five per cent, principally due to the one-off provision release for IT related costs which benefited the prior year. Other operating costs decreased by 21 per cent, due to a one-off provision release in the year and higher acquisition costs in the prior year.

Operating profit

Operating profit was £191 million with a margin of 7.5 per cent, 10 basis points higher compared with 2016-17 on an underlying basis. This was slightly better than our expectations due to a stronger revenue performance. Operating profit in Sterling benefited from a £9 million impact from exchange rate movements, which is excluded from underlying movements.

Germany

Germany remains the largest GLS market by revenue. Revenue grew by six per cent, driven by international volume, improved domestic pricing, winning new customers and growing premium B2C volumes.

¹ Movements in revenue, costs, profits and margins are shown on an underlying basis, taking into account non-recurring or distorting items such as the first year impact of acquisitions and foreign exchange translation in GLS and working days and the first year costs of the Apprenticeship Levy in UKPIL. More details are available in the paragraph entitled 'Underlying change adjustments'.

Italy

GLS Italy continued to perform strongly. Revenue growth of 19 per cent reflected strong B2C volume growth driven by Amazon and other customers. Given the strong performance over the last three years and the evolving competitive environment, it will be challenging to maintain this rate of growth in the future.

France

In GLS France, revenue growth slowed to one per cent (2016-17: eight per cent). It was impacted by customer losses, lower new customer acquisitions and fewer working days. Operating losses increased by €4 million to €12 million.

France remains a challenging market. While actions are underway which target a break even result, higher costs of sales, including those associated with a changing mix of parcel size, means that it is unlikely we will achieve this in the short term. Despite the challenges in the domestic market, GLS France continues to be integral to the GLS network by supporting exports from other markets into France, allowing GLS to provide a comprehensive service across Europe.

Spain

Spain is now the fifth largest market for GLS in terms of revenue. Revenue grew by 13 per cent on an underlying basis, benefitting from nine months' incremental contribution from ASM. The integration of ASM into GLS Spain is progressing well and a number of operational activities are being streamlined. ASM has exceeded performance expectations since acquisition due largely to strong volume growth and higher network rationalisation opportunities.

We announced the acquisition of Redyser Transporte in February 2018. Redyser strengthens GLS' position as Spain's second largest national express parcels network. It predominantly serves the express B2C parcels segment and delivers around 14 million parcels annually. It operates through a network of over 200 agencies and franchisees and 12 own operated sites in Spain's main cities. Redyser generated revenue of approximately €45 million in the year ended 31 December 2017 and will be consolidated within our existing Spanish operations.

USA

We are pleased with the revenue development in Golden State Overnight (GSO), in particular, the growth in interstate traffic. However, profitability was impacted by local cost pressures.

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. Postal Express offers overnight parcel delivery mainly to B2B customers across a number of industries. GSO and Postal Express are being integrated to create an interstate overnight parcel delivery service with full US west coast coverage and to realise operational synergies and commercial benefits.

Postal Express' profitability during the period was impacted by its integration with GSO and yield management activities. These initiatives are expected to result in improved financial performance going forward.

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

Revenue growth was achieved in the majority of the other developed European markets. There was continued strong volume and revenue growth in Denmark due to changing dynamics in the market, driving higher B2C volumes. We are planning to increase the number of ParcelShops to support our growth in this market.

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. There was strong double digit growth in Croatia, Czech Republic, Hungary, Poland, Romania and Slovenia. We will continue to invest in our network in these countries to take advantage of their growing parcel markets.

Group results

Reported results

Summary Results

(£m)	Reported 52 weeks ended 25 March 2018	Reported 52 weeks ended 26 March 2017
Revenue	10,172	9,776
Operating costs	(9,936)	(9,286)
Operating profit before transformation costs	236	490
Transformation costs	(113)	(137)
Operating profit after transformation costs	123	353
Operating specific items	(57)	(134)
Operating profit	66	219
Non-operating specific items	71	12
Net finance costs	(16)	(16)
Net pension interest (non-operating specific item)	91	120
Profit before tax	212	335
Earnings per share (basic)	25.9p	27.5p

We achieved a milestone in 2017-18, delivering over £10 billion of Group revenue at £10,172 million. Group operating costs before transformation costs increased by £650 million. This was due mainly to the IAS 19 pension charge in UKPIL and volume-related increases in GLS semi-variable costs. Operating specific items decreased by £77 million (see paragraph entitled 'Specific items and pension charge to cash difference adjustment' on pages 27 to 28). Group operating profit decreased by £153 million to £66 million largely as a result of the increase to the IAS 19 pension charge. Profit before tax decreased to £212 million. Of the profit, UKPIL accounted for £39 million (2016-17: £183 million) while GLS contributed £173 million (2016-17: £152 million). Basic earnings per share decreased from 27.5 pence to 25.9 pence. A full reconciliation of reported to adjusted results is set out in the section entitled 'Presentation of results and Alternative Performance Measures' on pages 34 to 35.

Adjusted results

Group revenue

(£m)	Adjusted 52 weeks ended 25 March 2018	Adjusted 52 weeks ended 26 March 2017	Underlying change ¹
UKPIL	7,615	7,658	Flat
GLS	2,557	2,118	10%
Total	10,172	9,776	2%

Group revenue was up two per cent. This was driven by parcels growth in both UKPIL and GLS. Parcel revenue continued to grow as a percentage of Group revenue and accounted for 59 per cent of Group revenue (2016-17: 56 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 25 March 2018	Adjusted 52 weeks ended 26 March 2017	Underlying change ¹
People costs	(5,516)	(5,354)	1%
Non-people costs	(3,962)	(3,710)	3%
Distribution and conveyance costs	(2,356)	(2,106)	6%
Infrastructure costs	(899)	(868)	2%
Other operating costs	(707)	(736)	(5%)
Total	(9,478)	(9,064)	2%

¹ Movements in revenue, costs, profits and margins are shown on an underlying basis. They take into account non-recurring or distorting items such as the first year impact of acquisitions and foreign exchange translation in GLS and working days and the first year costs of the Apprenticeship Levy in UKPIL. More details are available in the paragraph entitled 'Underlying change adjustments'.

Group operating costs increased by two per cent on an underlying basis. This was mainly as a result of higher GLS semi-variable costs linked to volumes. 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 before transformation costs

(£m)	Adjusted 52 weeks ended 25 March 2018	Adjusted 52 weeks ended 26 March 2017
UKPIL	503	548
GLS	191	164
Total	694	712
<i>Margin</i>	6.8%	7.3%

Group operating profit after transformation costs

(£m)	Adjusted 52 weeks ended 25 March 2018	Adjusted 52 weeks ended 26 March 2017
UKPIL	390	411
GLS	191	164
Total	581	575
<i>Margin</i>	5.7%	5.9%

Group operating profit margin after transformation costs was up 20 basis points on an underlying basis. This was driven by lower transformation costs in UKPIL.

Specific items and pension charge to cash difference adjustment

(£m)	52 weeks ended 25 March 2018	52 weeks ended 26 March 2017
Pension charge to cash difference adjustment (within people costs)	(458)	(222)
Operating specific items		
Employee Free Shares charge	(33)	(105)
Amortisation of acquired intangible assets	(16)	(11)
Legacy/other credits/(costs)	(8)	(18)
Potential industrial diseases claims	2	(6)
Personal injury provision discount rate decrease	–	(4)
Other	(10)	(8)
Total operating specific items and pensions adjustment	(515)	(356)
Non-operating specific items		
Profit on disposal of property, plant and equipment	71	14
Loss on disposal of business	–	(2)
Net pension interest	91	120
Total non-operating specific items	162	132
Total specific items and pensions adjustment before tax	(353)	(224)
Total tax credit on specific items and pensions adjustment	157	59

The IAS 19 pension charge to cash difference adjustment was £458 million (2016–17: £222 million). The difference between the pension charge and cash cost largely comprises the difference between the relevant IAS 19 income statement pension charge rate of 41.1 per cent (2016–17: 28.8 per cent) and the actual cash payment agreed with the Royal Mail Pension Plan (RMPP) Trustee of 17.1 per cent of pensionable pay (2016–17: 17.1 per cent). As a result of the introduction of the Defined Benefit Cash Balance Scheme (DBCBS) from 1 April 2018, the IAS 19 pension service charge rate for 2018–19 is projected to decrease to 18.9 per cent and the cash contribution rate will decrease to 15.6 per cent. As a result, the pension charge to cash difference adjustment for 2018–19 is expected to reduce significantly to around £90 million.

Operating specific items in the year related mainly to the Employee Free Shares charge of £33 million (2016–17: £105 million). This decreased as a result of the Share Incentive Plan (SIP) 2013 maturing in October 2016, partially offset by the charge in relation to the Free Shares awarded in October 2016 (SIP 2016). The Employee Free Shares charge is expected to be around £26 million for 2018–19. This reflects the phasing of the charge over the vesting period.

Amortisation of acquired intangible assets of £16 million (2016–17: £11 million) related mainly to the acquisitions by GLS.

Legacy costs in the prior year were driven by a reduction in the discount rate used to calculate the industrial diseases provision and the legislative decrease in the discount rate used to determine personal injury claims announced in February 2017. Other specific items mainly related to the integration of Romec into the Group.

Non-operating specific items included a profit on disposal of property, plant and equipment of £71 million (2016-17: £14 million). This arose due largely to the £24 million overage payment in respect of the sale of Rathbone Place in 2011, £22 million from the completion of the sale of the Phoenix Place plot at Mount Pleasant and the £20 million overage payment in respect of the sale of the Paddington Mail Centre in 2014. The profit on disposal of property, plant and equipment in the prior year related mainly to the sale of a GLS property in Munich and the Maidstone Delivery Office. The loss on disposal of business in the prior year related to the sale of NDC 2000 Limited (NDC) and reflected the transfer of cash and other assets to the purchasers.

The net pension interest credit of £91 million (2016-17: £120 million) was lower than the prior year. This was due to the lower discount rate and lower surplus for 2017-18 compared with 2016-17. The net pension interest for 2018-19 in relation to RMPP and RMSEPP is expected to be around £80 million due to the lower pension surplus position at 25 March 2018 compared to 26 March 2017.

Net finance costs

Reported net finance costs were £16 million (2016-17: £16 million) comprising largely interest on the €500 million bond of £11 million (2016-17: £11 million).

Facility	Rate	Facility (£m)	Drawn (£m)	Facility end date
€500 million bond	2.5%	435	435	2024
Loans in overseas subsidiaries	1.4%	2	2	2018-23
Syndicated loan facilities	LIBOR+0.55%	1,050	–	2020-22
Total		1,487	437	

The blended interest rate on gross debt, including finance leases for 2018-19, 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 25 March 2018			52 weeks ended 26 March 2017		
	UK	GLS	Group	UK	GLS	Group
Reported						
Profit before tax	39	173	212	183	152	335
Tax credit/(charge)	93	(47)	46	(20)	(42)	(62)
Effective tax rate	n/a	27%	n/a	11%	28%	19%
Adjusted						
Profit before tax	378	187	565	398	161	559
Tax charge	(59)	(52)	(111)	(76)	(45)	(121)
Effective tax rate	16%	28%	20%	19%	28%	22%

The Group adjusted effective tax rate was 20 per cent (2016-17: 22 per cent).

The UK adjusted effective tax rate of 16 per cent (2016-17: 19 per cent) was lower than the prior year due to catch ups on patent box claims and the reduction in the UK statutory rate from 20 per cent to 19 per cent in 2017-18.

The GLS adjusted effective tax rate of 28 per cent (2016-17: 28 per cent) was consistent with the prior year.

The Group reported tax was a credit of £46 million on a reported profit before tax of £212 million. This was due mainly to the one-off deferred tax credit of £78 million which is a result of the closure of the RMPP to future accrual after 31 March 2018 and profits made on the disposal of properties which, for tax purposes, are offset by reinvestment relief.

The one-off deferred tax credit was due to the change to the previous assumption that the surplus would be recoverable from a reduction in contributions at some point in the future, which would have been taxed at the corporate tax rate. It is now assumed that the majority of the surplus will be available through a refund, net of withholding tax. This withholding tax is a charge on the pension scheme and recognised in the statement of comprehensive income by application of the International Financial Reporting Interpretation Committee (IFRIC) 14 guidance. This one-off tax credit is an accounting adjustment with no cash benefit to the Company.

Excluding this one-off deferred tax credit, the total Group reported tax in the income statement would change from a credit of £46 million to a charge of £32 million.

Earnings per share (EPS)

Adjusted basic EPS for continuing operations was 45.5 pence compared with 44.1 pence in the prior year. This largely reflected the decrease in transformation costs.

In-year trading cash flow

(£m)	52 weeks ended 25 March 2018	52 weeks ended 26 March 2017
EBITDA before transformation costs	577	793
Pension charge to cash difference adjustment	458	222
Adjusted EBITDA before transformation costs	1,035	1,015
Trading working capital movements	74	(3)
Share-based awards (SAYE, LTIP and DSBP) charge	6	11
Total investment	(485)	(529)
Income tax paid	(75)	(60)
Research and Development expenditure credit	5	–
Net finance costs paid	(15)	(14)
Total	545	420

In-year trading cash flow of £545 million was £125 million higher than the prior year. This was mainly due to the growth in adjusted EBITDA before transformation costs, positive movements in trading working capital and a decrease in total investment.

Trading working capital inflow of £74 million was £77 million higher than the prior year. It benefited from the timing of the settlement of the 2017-18 frontline pay award of £101 million, which was paid in the first quarter of 2018-19. This was partially offset by £15 million higher bonus payments relating to 2016-17 and higher terminal dues payments in the first half associated with the growth in export volumes seen in the second half of 2016-17.

Income tax paid was £15 million higher than the prior year due to GLS tax payments.

Net cash investment

(£m)	52 weeks ended 25 March 2018	52 weeks ended 26 March 2017 ²
Growth capital expenditure	(224)	(190)
Replacement capital expenditure	(136)	(197)
Transformation operating expenditure	(125)	(142)
Voluntary redundancy	(56)	(67)
Project costs	(69)	(75)
Total gross investment	(485)	(529)
Proceeds from disposal of property (excluding London Development Portfolio), plant and equipment	40	37
Total net investment	(445)	(492)

Total gross cash investment decreased by £44 million. Growth capital expenditure increased by £34 million as a result of continued investment in strategic projects in UKPIL and GLS. They included operations modernisation, parcel IT systems and parcel innovation projects. Replacement capital expenditure reduced by £61 million. This was driven by the completion of the IT transformation programme and lower property refurbishments. Transformation operating expenditure was £17 million lower, due to the industrial relations environment affecting the pace of change and voluntary redundancies in the year.

The proceeds from disposals of property (excluding London Development Portfolio), plant and equipment related to the £24 million overage for Rathbone Place, £14 million from the sale of various smaller Mail Centres and Delivery Offices and £2 million from the sale of vehicles. The cash payment from the £20 million overage due on the sale of the Paddington Mail Centre was received in April 2018.

Net cash/(debt)

The Group had a net cash position of £14 million at 25 March 2018. This compares with a net debt position of £338 million at 26 March 2017. The net cash position benefitted by £101 million from the timing of the settlement of the 2017-18 frontline pay award. This was paid in the first quarter of 2018-19.

² We have reclassified £18 million of growth capital expenditure in the prior year as replacement capital expenditure and £1 million of project costs as voluntary redundancy cash payments to more accurately reflect the nature of these cash investments.

A reconciliation of net cash/(debt) is set out in the following table.

(£m)	52 weeks ended 25 March 2018	52 weeks ended 26 March 2017
Net debt brought forward at 26 March 2017 and 27 March 2016	(338)	(224)
Free cash flow	562	209
In-year trading cash inflow	545	420
Other working capital movements	(3)	(6)
Cash cost of operating specific items	(12)	(61)
Proceeds from disposal of property (excluding London Development Portfolio), plant and equipment	40	37
Cash impact of disposal of discontinued operations and subsidiary	–	(3)
Acquisition of business interests	(18)	(126)
Cash flows relating to London Development Portfolio	10	(34)
Acquisition of non-controlling interests	–	(18)
Debt transferred on acquisitions	(3)	(10)
Purchase of own shares	–	(53)
Employee exercise of SAYE options	28	–
Foreign currency exchange impact	(2)	(30)
Increase in finance lease obligations (non-cash)	(2)	–
Dividends paid to equity holders of the parent Company	(231)	(222)
Dividends paid to non-controlling interests	–	(8)
Net cash/(debt) carried forward	14	(338)

Movements in GLS client cash are included within other working capital movements. The amount held at 25 March 2018 was £24 million (26 March 2017: £22 million).

The cash cost of operating specific items was an outflow of £12 million due to employer National Insurance contributions on the SIP 2013 and 2014 employee share sales, industrial disease settlements and Romec business integration costs. The cash costs of operating specific items in the prior year largely comprised the French Competition Authority fine of €55 million paid in April 2016, as disclosed in 2015-16. Proceeds from disposal of property (excluding London Development Portfolio), plant and equipment of £40 million is explained in the paragraph entitled 'Net cash investment' on page 29.

Cash inflow relating to the London Development Portfolio was £10 million. Infrastructure and enabling works costs of £33 million on the Nine Elms and Mount Pleasant sites were offset by £43 million of receipts in relation to the two Mount Pleasant plots. Debt transferred on acquisitions relates to £3 million of interest bearing loans and borrowings on GLS acquisitions.

The impact of foreign currency exchange rate movements reduced compared with the prior year. The exchange rate against Sterling in the prior year was affected by the reaction to the outcome of the EU referendum. It has subsequently remained relatively consistent.

The £53 million cash outflow in the prior year was in relation to the Company purchasing its own shares in advance of the Save As You Earn (SAYE) options exercised this year. Cash payments of £28 million were received from employees exercising their SAYE options to purchase company shares this year.

Acquisition of business interests in the year largely related to the acquisition of Postal Express and Redyser by GLS. The acquisition of business interests in the prior year related to the acquisitions of GSO and ASM by GLS and eCourier by UKPIL. The acquisition of non-controlling interests in the prior year was mainly in respect of the Romec business.

A reconciliation of cash flows relating to acquisitions is shown in the following table.

(£m)	52 weeks ended 25 March 2018
Postal Express	(8)
Redyser	(8)
Acquisition of business interests, net of cash acquired (see statutory cash flow statement)	(16)
Deferred consideration paid in respect of prior years' acquisitions	(2)
Acquisition of business interests	(18)

Approach to capital management

The Group has established four key objectives for capital management. Management proposes actions which reflect the Group's investment plans and risk characteristics as well as the macro-economic conditions in which we operate. The Board keeps this policy under constant review to ensure that capital is allocated to achieve our stated objective of delivering sustainable shareholder value.

Objectives	Enablers	2017-18 Update
Meet the Group's obligations as they fall due	Maintaining sufficient cash reserves and committed facilities to – • meet all obligations, including pensions; and • manage future risks, including those set out in the Principal Risks section on pages 40 to 45	At 25 March 2018, the Group had available resources of £1,650 million (2016-17: £1,317 million); made up of cash and cash equivalents of £600 million (2016-17: £299 million) and undrawn committed revolving credit facilities of £1,050 million (2016-17: £1,018 million). The Group met the loan covenants and other obligations for its revolving credit facility and €500 million bond. 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. Maintain sufficient distributable reserves to sustain the Group's dividend policy	Generated £545 million of in-year trading cash flow (2016-17: £420 million) to cover the full year dividend of 24.0 pence per share (2016-17: 23.0 pence per share) equivalent to £240 million. In-year trading cash flow benefitted by £101 million due to the timing of the cash payment of the 2017-18 frontline pay award. Capital managed by the Group, excluding the net assets of the pension scheme, is £2,274 million (2016-17: £1,806 million). The Group had retained earnings of £4,381 million at 25 March 2018 (2016-17: £4,940 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 £485 million (2016-17: £529 million) and acquisition of business interests and non-controlling interests of £18 million (2016-17: £144 million) while retaining sufficient capital headroom.

Pensions

Royal Mail Pension Plan (RMPP)

As previously announced, the RMPP in its previous Defined Benefit pension form, closed to future accrual after 31 March 2018. The legal right to benefit from any surplus in the Plan has not changed as a result of this decision. Therefore, only one week of economic benefit is recoverable as a reduction to future employer contributions at 25 March 2018, with the remaining surplus assumed to be available as a refund.

This has resulted in a change to the tax treatment of the economic benefit of the surplus. Following guidance from IFRIC 14, the accounting surplus has been adjusted downwards by £1,134 million (2016-17: £nil million) as a result of this change. This represents the taxation that would be withheld on the surplus amount.

The pre IFRIC 14 accounting surplus of the RMPP at 25 March 2018 was £3,250 million, comprising assets of £9,939 million and liabilities of £6,689 million. The reduction in the pre IFRIC 14 accounting surplus of £558 million, compared with the position at 26 March 2017, is mainly the result of the additional benefits accrued over the period being greater than the contributions paid during the period. After the IFRIC 14 adjustment, the accounting surplus of the RMPP was £2,116 million at 25 March 2018. This is an accounting adjustment with no cash benefit to the Company.

It was agreed between the Company and the Trustee in May 2017 that the Company would continue to contribute 17.1 per cent of pensionable pay until 31 March 2018. It was subsequently agreed with the Trustee that the employer contributions payable in respect of the period 1 September 2017 to 31 March 2018 would be held in pension escrow investments for the benefit of members.

In 2018-19, the IAS 19 pension service cost rate in respect of members' service up to 31 March 2018 (i.e. for one week) will be charged to the income statement at 41.0 per cent after which there will be no further IAS 19 pension service costs or regular cash contributions in respect of the RMPP. There will still be a pension interest income/cost in respect of RMPP and the assets and liabilities will still be shown on the balance sheet. The RMPP will still be subject to triennial actuarial valuations.

The actuarial funding position at 31 March 2018 will not be known until the actuarial valuation has been agreed between the Trustee and the Company, with the results being very sensitive to the assumptions adopted at that date. However, based on the rolled forward assumptions used for the March 2015 valuation, the RMPP actuarial surplus at 31 March 2018 was estimated to be £100 million (31 March 2017: £1,074 million). There is no cash benefit to the Company from this current actuarial surplus. Any actuarial surplus will remain in the RMPP for the benefit of members until the point at which all benefits have been paid out or secured.

Royal Mail Senior Executives Pension Plan (RMSEPP)

Based on the rolled forward assumptions used for the March 2015 valuation, the RMSEPP actuarial surplus at 31 March 2018 was estimated to be £36 million (31 March 2017: £8 million), comprising assets of £479 million and liabilities of £443 million. The RMSEPP closed in December 2012 to future accrual and the Company makes no regular future service contributions.

In accordance with the new Schedule of Contributions agreed for the period 29 March 2018 to 31 March 2025, deficit payments of £10 million per annum are due to be paid for the period up to 31 March 2018 resulting in a final amount of £1 million being paid in 2018-19, together with £1 million per annum for the period 1 April 2018 to 31 March 2025 in respect of the death-in-service lump sum benefits and administration expenses.

Transitional arrangements

Royal Mail and the CWU have agreed to work together to introduce a Collective Defined Contribution (CDC) scheme with a Defined Benefit Lump Sum Scheme (DBLSS) sitting alongside it, subject to the necessary legislative and regulatory changes. This would provide one scheme for all Royal Mail employees and would be the first of its type in the UK. The Company has put in place transitional arrangements from 1 April 2018 while it lobbies Government to make the necessary legislative and regulatory changes to enable a CDC scheme. As part of these transitional changes, the Company has implemented a new Defined Benefit Cash Balance Scheme (DBCBS) within the RMPP, and an improved Royal Mail Defined Contribution Plan (RMDCP).

Defined Benefit Cash Balance Scheme (DBCBS)

RMPP members have automatically started building up DBCBS benefits from 1 April 2018. If preferred, RMPP members can opt to join the improved RMDCP instead of the DBCBS. Under the DBCBS, the Company guarantees a minimum lump sum at age 65, based on Company and member contributions. The DBCBS will aim to provide increases to the lump sum each year, depending on investment performance.

The DBCBS will be accounted for as a defined benefit scheme and in a similar way to the RMPP. Specifically, the assets and liabilities that will build up from the start of the scheme will be shown on the balance sheet. IAS 19 pension service charge rates based on market yields of high quality corporate bonds and inflation at the start of the year will be charged to the income statement. Pension interest will be calculated on the assets and liabilities at the end of 2018-19 for inclusion in the income statement from 2019-20 onwards. The scheme will be subject to triennial valuations.

Under the DBCBS, the Company will contribute 15.6 per cent of DBCBS pensionable pay to the scheme. Of this, 13.6 per cent will go to the member's guaranteed lump sum. The remaining two per cent of the Company's contribution will go to the cost of other member benefits, including death in service and ill-health benefits. Members will contribute six per cent (including Pension Salary Exchange contributions where the Group makes additional employee pension contributions in return for a reduction in basic pay). The IAS 19 pension service cost rate is 18.9 per cent for 2018-19. The pension charge is greater than the cash contribution rate as there is an assumed constructive obligation for annual pension benefit increases of CPI plus two per cent. This means that the pension charge to cash difference adjustment for 2018-19 is expected to reduce significantly to around £90 million.

Improved Royal Mail Defined Contribution Plan (RMDCP)

Under the RMDCP, Company contributions have increased by one percentage point in each tier, up to a maximum of ten per cent. Current and future RMDCP members in the standard section will contribute at the highest contribution tier unless they opt to contribute at a lower level.

RMDCP members with a minimum of five years' service, including four years' continuous service at the standard level of contribution, can instead choose to join the DBCBS.

Assuming that all RMPP and eligible RMDCP members join the DBCBS, the Company expects to contribute around £350 million in the 2018-19 financial year in respect of RMPP, RMSEPP and DBCBS with employees expected to contribute around £135 million. The Company expects to contribute around £50 million to the RMDCP. Total employer contributions in respect of all pension schemes would therefore be around £400 million.

Collective Defined Contribution (CDC) scheme and Defined Benefit Lump Sum Scheme (DBLSS)

Based on current intentions and legislation, the CDC will be accounted for as a defined contribution scheme with the Group's contributions being charged to operating profit in the year to which the contributions relate. The CDC scheme will have fixed employer contributions of 13.6 per cent and employee contributions of six per cent. Investment and longevity risk will be pooled between members and will target but not guarantee the benefit the employee will receive in retirement. No benefit guarantees are underwritten by the employer. The DBLSS will be accounted for as a defined benefit scheme with the accounting treatment expected to be similar to the transitional DBCBS.

Dividends

The final dividend of 15.6 pence per ordinary share in respect of the 2016-17 financial year was paid on 28 July 2017, following shareholder approval.

The interim dividend of 7.7 pence per ordinary share in respect of the 2017-18 financial year was paid on 10 January 2018 to shareholders on the register at the close of business on 8 December 2017.

The Board is recommending a final dividend of 16.3 pence per ordinary share, payable on 31 August 2018 to shareholders on the register at the close of business on 27 July 2018, subject to shareholder approval at the AGM on 19 July 2018. This gives a total dividend for the year of 24.0 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 in line with the progressive dividend policy.

Financial risks and related hedging

The Group is exposed to commodity price and currency risk. The Group operates hedging policies which are stated in the Notes to the Annual Report and Financial Statements 2017-18. The forecast diesel and jet commodity exposures in UKPIL are set out below together with the sensitivity of 2018-19 operating profit to changes in commodity prices and fuel duty.

2018-19 Exposure	Forecast total cost £m	Fuel duty/ other costs (incl irrecoverable VAT) – not hedged 2018-19 £m	Underlying commodity exposure (incl irrecoverable VAT) 2018-19 £m	Underlying commodity volume hedged %	Residual unhedged underlying commodity exposure (incl irrecoverable VAT) £m	Impact on 2018-19 operating profit of a further 10% increase in commodity price £m	Impact on 2018-19 operating profit of a further 10% increase in fuel duty/other cost £m
Diesel	136	90	46	91	5	–	9
Jet fuel	8	2	6	90	1	–	–
Total	144	92	52	91	6	–	9

As a result of hedging, it is anticipated that the diesel and jet fuel commodity cost for 2018-19 will be £3 million lower. Without hedging, the associated cost would be £9 million higher (based upon closing fuel prices at 25 March 2018).

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 revenue, costs and operating profit.

The average exchange rate between Sterling and the Euro was £1:€1.13, representing a five per cent weakening in Sterling compared with £1:€1.19 in 2016-17. This resulted in a £9 million increase in GLS' reported operating profit before tax in 2017-18. The impact of foreign exchange transactions in the UK was not material in 2017-18. The net impact on Group operating profit before tax was £8 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 25 March 2018, all of the gross debt of £606 million was at fixed rates to maturity.

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

Property

Mount Pleasant

It was announced on 30 August 2017 that contracts had been exchanged for the sale of 6.25 acres of Royal Mail's Mount Pleasant site (comprising the Phoenix Place and Calthorpe Street plots) to Taylor Wimpey UK Ltd (part of the Taylor Wimpey plc group of companies) for a total gross consideration of £193.5 million. The consideration is made up of £190 million in cash and the fair value of parking facilities to be provided for Royal Mail of £3.5 million. The sale of the Phoenix Place plot to Taylor Wimpey UK Ltd completed in the first half of 2017-18.

As previously disclosed, significant further investment by Royal Mail is required for the works to separate the retained operational site from the development plots. These works are expected to cost around £100 million. They are planned to be completed by 2021.

A deposit of £9.5 million was paid to Royal Mail following the exchange of contracts. We have received a further £33.3 million payment in 2017-18. Cash proceeds of £72.2 million are to be paid in contractually agreed staged payments over the 2018-19 to 2020-21 financial years which, in aggregate, are expected to cover Royal Mail's outgoings on the separation and enabling works over this period. Further proceeds of £75.1 million are then due in 2024 for the balance of the consideration. We are contractually guaranteed to receive a payment of £20.8 million in 2018-19.

Completion on the Calthorpe Street plot is subject to completion of the separation and enabling works expected in 2021. Completion on the Phoenix Place plot was unconditional. A profit on disposal of £22 million, based on an apportionment of the total consideration less the book value of the plot (including an apportionment of the total cost of the separation and enabling works), was recognised in the period, following completion of the sale.

Nine Elms

It was announced on 2 June 2017 that Royal Mail had exchanged contracts for the sale of two of the seven plots at its Nine Elms site to Greystar Real Estate Partners, LLC for £101 million. A deposit of £3 million was paid into escrow following exchange of contracts. The remaining £98 million payable is conditional on Greystar Real Estate Partners, LLC receiving planning consent from the London Borough of Wandsworth.

A detailed planning application has been submitted by Greystar. Subject to the planning process and timescales, consent is expected to be granted in 2018-19. Around £30 million has been committed to be re-invested in the Nine Elms site for infrastructure works associated with these plots. The remaining plots continue to be marketed for sale.

Rathbone Place

Overage agreements were made with Great Portland Estates plc on the sale of Rathbone Place in 2011. The resulting overage payment received under these agreements was £24 million. This was recorded as a profit on disposal of property in the year.

Paddington Mail Centre

Overage agreements were made with Great Western Developments Limited on the sale of the Paddington Mail Centre in 2014. The resulting overage payment received under these agreements was £20 million. This has been recorded as a profit on disposal of property in the period, while the cash payment was received in April 2018.

Presentation of results and Alternative Performance Measures (APMs)

The Group uses certain Alternative Performance Measures (APMs) in its financial reporting 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.

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.

Reported to Adjusted results

The Group makes adjustments to results reported under IFRS to exclude specific items and the IAS 19 pension charge to cash difference adjustment (see definitions in the paragraph entitled 'Alternative performance measures'). 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 operational performance of the Company. Management has reviewed the long-term differences between reported and adjusted profit after tax. Cumulative reported profit after taxation for the six years ended 25 March 2018 was £2,890 million compared with cumulative adjusted profit after tax of £2,269 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.

Further details on specific items excluded are included in the paragraph entitled 'Specific items and pension charge to cash difference adjustment' on pages 27 to 28. A reconciliation showing the adjustments made between reported and adjusted group results can be found in the paragraph entitled 'Consolidated reported and adjusted results reconciliation' on pages 34 to 35.

Underlying change

Movements compared with prior year in volumes, revenue, costs, profits and margins are shown on an underlying basis. Underlying movements improve comparability between periods by making adjustments to the prior year to take into account differences in working days in UKPIL and movements in foreign exchange in GLS. We only adjust for items with an impact greater than £10 million. We have not adjusted for transactional foreign exchange movements in UKPIL this year as the impact of £1 million was below the threshold.

In addition, adjustments are made for non-recurring or distorting items, which by their nature may be unpredictable, such as the first year impact of acquisitions and changes in legislation such as the Apprenticeship Levy. For volumes, underlying movements are adjusted for working days in UKPIL and the first year impact of acquisitions. It also excludes political parties' election mailings in addressed letter volume movements.

The paragraph entitled 'Underlying change adjustments' on page 39 provides further details on the adjustments we have made to the prior year to calculate the underlying change.

Presentation of results

Consolidated reported and adjusted results reconciliation

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

(£m)	52 weeks ended 25 March 2018			52 weeks ended 26 March 2017		
	Reported	Specific items and pension adjustment	Adjusted	Reported	Specific items and pension adjustment	Adjusted
Revenue	10,172	–	10,172	9,776	–	9,776
Operating costs	(9,936)	(458)	(9,478)	(9,286)	(222)	(9,064)
People costs	(5,974)	(458)	(5,516)	(5,576)	(222)	(5,354)
Non-people costs	(3,962)	–	(3,962)	(3,710)	–	(3,710)
Distribution and conveyance costs	(2,356)	–	(2,356)	(2,106)	–	(2,106)
Infrastructure costs	(899)	–	(899)	(868)	–	(868)
Other operating costs	(707)	–	(707)	(736)	–	(736)
Operating profit before transformation costs	236	(458)	694	490	(222)	712
Transformation costs	(113)	–	(113)	(137)	–	(137)
Operating profit after transformation costs	123	(458)	581	353	(222)	575
Operating specific items:						
Employee Free Shares charge	(33)	(33)	–	(105)	(105)	–
Legacy/other costs	(8)	(8)	–	(18)	(18)	–
Amortisation of intangible assets in acquisitions	(16)	(16)	–	(11)	(11)	–
Operating profit	66	(515)	581	219	(356)	575

(£m)	52 weeks ended 25 March 2018			52 weeks ended 26 March 2017		
	Reported	Specific items and pension adjustment	Adjusted	Reported	Specific items and pension adjustment	Adjusted
Non-operating specific items:						
Profit on disposal of property, plant and equipment	71	71	–	14	14	–
Loss on disposal of business	–	–	–	(2)	(2)	–
Earnings before interest and tax	137	(444)	581	231	(344)	575
Finance costs	(19)	–	(19)	(18)	–	(18)
Finance income	3	–	3	2	–	2
Net pension interest (non-operating specific item)	91	91	–	120	120	–
Profit before tax	212	(353)	565	335	(224)	559
Tax charge	46	157	(111)	(62)	(59)	(121)
Profit for the period	258	(196)	454	273	(165)	438
Profit for the period attributable to:						
Equity holders of the parent Company	259	(196)	455	272	(165)	437
Non-controlling interests	(1)	–	(1)	1	–	1
Earnings per share						
Basic	25.9p	(19.6p)	45.5p	27.5p	(16.6p)	44.1p
Diluted	25.7p	(19.5p)	45.2p	27.3p	(16.5p)	43.8p

Segmental reported results

The following table presents the segmental reported results, prepared in accordance with IFRS.

(£m)	52 weeks ended 25 March 2018			52 weeks ended 26 March 2017		
	UKPIL (UK operations)	GLS (Non-UK operations)	Group	UKPIL (UK operations)	GLS (Non-UK operations)	Group
Revenue	7,615	2,557	10,172	7,658	2,118	9,776
People costs	(5,366)	(608)	(5,974)	(5,087)	(489)	(5,576)
Non-people costs	(2,204)	(1,758)	(3,962)	(2,245)	(1,465)	(3,710)
Operating profit before transformation costs	45	191	236	326	164	490
Transformation costs	(113)	–	(113)	(137)	–	(137)
Operating profit after transformation costs	(68)	191	123	189	164	353
Operating specific items	(43)	(14)	(57)	(124)	(10)	(134)
Operating profit	(111)	177	66	65	154	219
Non-operating specific items	71	–	71	11	1	12
Earnings before interest and tax	(40)	177	137	76	155	231
Net finance costs	(12)	(4)	(16)	(13)	(3)	(16)
Net pension interest (non-operating specific item)	91	–	91	120	–	120
Profit before tax	39	173	212	183	152	335
Tax charge	93	(47)	46	(20)	(42)	(62)
Profit for the period	132	126	258	163	110	273

Alternative performance measures

Reported operating profit before and after transformation costs

These measures are in accordance with IFRS and are a means by which Management can understand the financial performance of the Group, taking into account business as usual (BAU) costs e.g. people, distribution and conveyance, infrastructure and other operating costs excluding operating specific items. They are presented before and after transformation costs, to provide Management with a view of the ongoing impact of the costs of transforming the business.

Reported operating profit

This measure is in accordance with IFRS and is a means by which Management can understand the financial performance of the Group. It is based on reported profit after transformation costs (see above) including operating specific items.

Adjusted operating profit before and after transformation costs

These measures are based on reported operating profit before and after transformation costs (see above) further adjusted to exclude the volatility of the pension charge to cash difference adjustment, which Management considers to be a key adjustment in understanding the underlying profit of the Group at this level.

Adjusted operating profit

This measure is based on reported operating profit (see above) excluding the pension charge to cash difference adjustment and operating specific items, which Management considers to be key adjustments in understanding the underlying profit of the Group at this level.

These adjusted measures are reconciled to the reported results in the table in the paragraph entitled 'Consolidated reported and adjusted results reconciliation' on pages 34 to 35. Definitions of operating costs, the pension charge to cash difference adjustment, transformation costs and operating specific items are provided below.

Adjusted operating profit margin after transformation costs

This is a fundamental measure of performance that Management uses to understand the efficiency of the business in generating profit. It calculates 'adjusted operating profit after transformation costs' as a proportion of revenue in percentage terms.

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

Reported EBITDA before transformation costs is reported operating profit before transformation costs with depreciation, amortisation and share of associate company profits added back.

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

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

(£m)	52 weeks ended 25 March 2018	52 weeks ended 26 March 2017
Reported operating profit before transformation costs	236	490
Depreciation and amortisation	341	301
Share of post-tax profit from associates	–	2
Reported EBITDA before transformation costs	577	793
Pension charge to cash difference adjustment	458	222
Adjusted EBITDA before transformation costs	1,035	1,015

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 in the section entitled 'Presentation of results'.

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

These costs relate to non-people costs incurred in transporting and delivering mail by rail, road, sea and air including terminal dues and driver sub-contractor costs.

Infrastructure costs

These are costs primarily relating to the day-to-day operation of the delivery network and include depreciation and amortisation, IT and property facilities management costs.

Other operating costs

These are any operating costs which do not fall into the categories of people costs, distribution and conveyance costs or infrastructure costs including for example, Post Office Limited agency costs, consumables and training.

Transformation costs

These costs relate to the ongoing transformation of the business, including management time and costs associated with the cost avoidance programme, and other projects with the aim of making our operations more efficient or improving our customer offering. They also include voluntary redundancy and other termination costs.

Pension charge to cash difference adjustment

This adjustment represents the difference between the IFRS income statement pension charge rate of 41.1 per cent and the actual cash payments into the RMPP at 17.1 per cent. Management believes this adjustment is appropriate in order 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.

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. Management does not consider them to be reflective of year-on-year operating performance. 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.

Employee Free Shares charge

These relate to accounting charges arising from the granting of free shares to employees upon the Government's sales of its stake in the business (SIP 2013, 2014, 2015 and 2016) with no direct cash impact on the Group.

Amortisation of intangible assets in acquisitions

These notional charges, which arise as a direct consequence of IFRS business combination accounting requirements, are separately identified as Management does not consider these costs to be directly related to the trading performance of the Group.

Legacy/other costs

These costs relate either to unavoidable ongoing costs arising from historic events (industrial diseases provision) or restructuring costs (Romec integration).

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.

Profit/loss on disposal of property, plant and equipment (PP&E)

Management separately identifies recurring profit/loss on disposal of PP&E as these disposals are not part of the Group's trading activity and are driven primarily by business strategy.

Profit/loss on disposal of business

These non-recurring events are excluded on the basis that by their nature they are individually unique and therefore distort comparison of year-on-year business performance.

Free cash flow

Free cash flow (FCF) is calculated as statutory (reported) net cash flow before financing activities, adjusted to include finance costs paid and exclude net cash from the purchase/sale of financial asset investments. FCF represents the cash that the Group generates after spending the money required to maintain or expand its asset base.

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. It is 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 to show 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 25 March 2018	Reported 52 weeks ended 26 March 2017
Net cash inflow from operating activities	905	754
Adjustment for:		
Other working capital movements	3	6
Cash cost of operating specific items	12	61
Purchase of property, plant and equipment	(219)	(230)
Purchase of intangible assets (software)	(141)	(157)
Net finance costs paid	(15)	(14)
In-year trading cash inflow	545	420

Net cash investment

Net cash investment is a measure of the cash utilised by the Group in the period on investment activities netted off against cash received on the disposal of property, plant and equipment. It is a measure used by Management to monitor investment within the Group. The items making up this balance in the statutory cash flow are indicated in the section 'Condensed consolidated statement of cash flows'.

Net cash/(debt)

Net cash/(debt) is calculated by netting the value of financial liabilities (excluding derivatives) against cash and other liquid assets. It 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 cash/(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 cash/(debt) to reported balance sheet line items is shown below.

(£m)	At 25 March 2018	At 26 March 2017
Loans/bonds	(437)	(463)
Finance leases	(169)	(194)
Cash and cash equivalents	600	299
Pension escrow (RMSEPP)	20	20
Net cash/(debt)	14	(338)

Net cash/(debt) excludes £178 million (2016-17: £nil) related to the RMPP pension scheme of the total £198 million (2016-17: £20 million) pension escrow investments on the balance sheet which is not considered to fall within the definition of net cash/debt.

Adjusted effective tax rate

The adjusted effective tax rate is the adjusted tax charge or credit for the period expressed as a proportion of adjusted profit before tax. Adjusted effective tax rate is considered to be a useful measure of tax impact for the period. It approximates the tax rate on the underlying trading business through the exclusion of specific items and the pension charge to cash difference adjustment.

Underlying change adjustments

Movements in volumes, revenue, costs, profits and margins are shown on an underlying basis. We have made adjustments for working days in UKPIL (2017-18: 305.0; 2016-17: 305.6) and movements in foreign exchange in GLS (2017-18: £1:€1.13; 2016-17: £1:€1.19). We have also made adjustments for the first year impact of acquisitions and changes in legislation such as the Apprenticeship Levy.

UKPIL will report a 53-week period (310.0 working days) in 2018-19. We will present adjusted results and underlying movements on a 52-week basis. Our working week consists of 5.5 days. Therefore, the adjusted UKPIL working days for 2018-19 will be 304.5 days with an estimated revenue and profit decrease of around £15 million.

(£m)	Adjusted 52 weeks ended 25 March 18	Adjusted 52 weeks ended 26 March 17	Working days	Wage legislation	Foreign exchange	Acquisitions	Underlying 52 weeks ended 26 March 17	Underlying change
Revenue								
UKPIL	7,615	7,658	(15)	–	–	–	7,643	Flat
GLS	2,557	2,118	–	–	106	105	2,329	10%
Group	10,172	9,776	(15)	–	106	105	9,972	2%
Costs								
UKPIL								
People	(4,908)	(4,865)	–	(20)	–	–	(4,885)	Flat
Non-people costs	(2,204)	(2,245)	–	–	–	–	(2,245)	(2%)
Distribution and conveyance costs	(798)	(828)	–	–	–	–	(828)	(4%)
Infrastructure costs	(751)	(740)	–	–	–	–	(740)	1%
Other operating costs	(655)	(677)	–	–	–	–	(677)	(3%)
Operating costs before transformation costs	(7,112)	(7,110)	–	(20)	–	–	(7,130)	Flat
GLS								
Operating costs	(2,366)	(1,954)	–	–	(97)	(105)	(2,156)	10%
Group								
People	(5,516)	(5,354)	–	(20)	(24)	(49)	(5,447)	1%
Non-people costs	(3,962)	(3,710)	–	–	(73)	(56)	(3,839)	3%
Distribution and conveyance costs	(2,356)	(2,106)	–	–	(64)	(44)	(2,214)	6%
Infrastructure costs	(899)	(868)	–	–	(6)	(7)	(881)	2%
Other operating costs	(707)	(736)	–	–	(3)	(5)	(744)	(5%)
Operating costs before transformation costs	(9,478)	(9,064)	–	(20)	(97)	(105)	(9,286)	2%
Profit, margins and EPS								
UKPIL								
Operating profit before transformation costs	503	548	(15)	(20)	–	–	513	(2%)
Transformation costs	(113)	(137)	–	–	–	–	(137)	(17%)
Operating profit after transformation costs	390	411	(15)	(20)	–	–	376	4%
Margin	5.1%	5.4%					4.9%	20bps
GLS								
Operating profit	191	164	–	–	9	–	173	10%
Margin	7.5%	7.7%					7.4%	10bps
Group								
Operating profit before transformation costs	694	712	(15)	(20)	9	–	686	1%
Transformation costs	(113)	(137)	–	–	–	–	(137)	(17%)
Operating profit after transformation costs	581	575	(15)	(20)	9	–	549	6%
Margin	5.7%	5.9%					5.5%	20bps
Profit before tax	565	559	(15)	(20)	9	–	533	6%
Tax	(111)	(121)						
Profit for the period	454	438						
Profit attributable to equity holders of the parent Company	455	437						
Basic earnings per share (pence)	45.5	44.1						

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 54–99.

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 – 5 years

Principal risk	Status	How we are mitigating the risk
New Pension, Pay and Pipeline agreement 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 Pensions, Pay and Pipeline agreement, there remains a 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 Communication Workers Union (CWU) represented a fundamental change in our relationship with the CWU, and continues to promote stability in industrial relations. In February 2018, we announced the new Pensions, Pay and Pipeline agreement (the “agreement”) with the CWU. As part of the agreement, Royal Mail and the CWU have committed to a broad programme of operational change, as well as pension reform, changes to pay and terms and conditions and a vision to achieve a 35-hour working week by 2022. The agreement requires a high level of operational change in an increasingly competitive market, which 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. Under the Agenda for Growth, there is a prescribed resolution process for disputes which requires trained mediators nominated by and representing both the CWU and the business. This must be followed before any industrial action can take place. The Agenda for Growth agreement has legally binding protections for the workforce in respect of future job security and our employment model. This can be rescinded in the event of national industrial action if the appropriate dispute resolution processes have not been followed.

Principal risk	Status	How we are mitigating the risk
Pension arrangements		
 We recognise that pension benefits are important to our people and that we need to continue to provide sustainable and affordable pensions arrangements that are acceptable to our people and unions. There is a risk that we may be unable to obtain the necessary legislative changes to enable us to implement the UK's first Collective Defined Contribution (CDC) pension scheme as agreed with the CWU.	 We have closed the Royal Mail Pension Plan (RMPP) to future accrual in its previous Defined Benefit form and introduced a Defined Benefit Cash Balance Scheme from 1 April 2018. Both this transitional arrangement and the CDC scheme are expected to contain pension costs at about £400 million per annum.	We are lobbying Government to make the necessary legislative and regulatory changes required to introduce the CDC pension scheme.
Efficiency		
 Royal Mail must become more efficient and flexible in order to compete effectively in the letter and parcel markets and grow revenue. The success of our strategy relies on the effective control of costs across all areas and the delivery of efficiency benefits. We continue to operate a tight balance between achieving efficiency improvements whilst having some of the highest service specifications of any major country in Europe. This requires careful management of efficiency and Quality of Service.	 In February 2018 we announced the agreement with the CWU. As part of the agreement, Royal Mail and the CWU have committed to a broad programme of operational change, as well as pension reform, changes to pay and terms and conditions and a vision to achieve a 35-hour working week by 2022. We are continuing to see the positive impact of our cost avoidance activities across the UK business. This has involved focus on our efficiency performance in all areas, while providing quality service to our customers through our engaged workforce. Our cost avoidance programme achieved £235 million of costs avoided in 2017-18, despite the industrial relations environment. However, the negotiation of fundamental changes to our pension and other terms and conditions impacted productivity performance, which has fallen below the lower range of our two to three per cent target. It also impacted progress in some business as usual transformation initiatives. Coming out of a difficult industrial relations environment and given the scale of change underpinning the agreement, there is a risk we will be unable to make the required short-term business as usual and/or programme level cost avoidance changes in a timely way consistent with the agreement.	The agreement creates a platform for Royal Mail and CWU to work jointly together to rebuild confidence and trust, deliver change and pursue opportunities to support growth and efficiency. This includes trialling new delivery methods, a new resource scheduling system and automated hours data capture, as well as progressing towards a shorter working week dependent on progress on efficiency and change initiatives. The implementation of the agreement will be underpinned by a rigorous programme comprising the initiatives within the agreement. The agreement also includes proposals for a series of Forums that will allow us to work collaboratively with our unions to agree efficiency improvements and growth opportunities. This includes a fundamental review of the pipeline over three, five and seven years, an innovation forum as well as a forum to monitor progress to move towards a shorter working week. We exceeded our target on cost avoidance and have over 200 projects and initiatives both in and outside of the core operations, which underpin the cost avoidance target of £230 million in 2018-19. We continue to scope additional cost avoidance opportunities beyond 2018-19.

Principal risk	Status	How we are mitigating the risk
Changes in market conditions and customer behaviour The industry sectors in which we operate remain highly competitive, with customers demanding more and our competitors responding quickly to these changing demands.		
Customer expectations and Royal Mail's responsiveness to market changes		
 Changes in customer expectations, and changes in the markets in which the Group operates, could impact the demand for our products and services. There is a risk that our product offerings and customer experience may not adequately meet evolving customer expectations, or that we are unable to innovate or adapt our commercial and operational activities fast enough to respond to changes in the market. We expect the letters sector to remain in structural decline, in the medium-term, driven by e-substitution, lower GDP, the possible impact of GDPR and continuing business uncertainty.	 We expect addressed letter volumes (excluding political parties' election mailings) to continue to decline in the range of four – six per cent per annum in the medium-term. For 2018-19, we expect to be at the higher end of the range of decline for the full year due to the impact of GDPR. However, during 2018-19 the rate could move outside of this range for a period during the year. GDPR may drive risk-averse behaviour, leading to a reduction in marketing mail volumes in 2018-19. However, marketing mail does not fall within the scope of The Privacy and Electronic Communications Regulations (PECR), which affect marketing by electronic means, such as email and SMS. The parcels sector is competitive and evolving. Competition in the UK domestic and international markets is intense, with competitors offering innovative solutions that include convenient, reliable delivery and return options, and improved tracking services. The UK has one of the most developed e-commerce markets in the world. Growth available in the addressable UK parcels market has been impacted by Amazon's activities. Amazon is both a customer of and a competitor to the Group. Capacity expansion in the sector continues to exert downward pressure on prices. In the parcels business, disintermediation in online marketplaces may divert traffic to other carriers.	We have produced a guide, which highlights key aspects of the new GDPR legislation when communicating and marketing to customers, including how mail can help our customers thrive in a GDPR world. We are also undertaking intervention activity with our largest posting customers and cold data providers. During the year, we helped launch JIC MAIL (Joint Industry Committee) to offer standardised data on mails reach and frequency of mailing demonstrating more clearly to the market how consumers interact with direct mail. It is the first time that the mail industry has had independent data to indicate frequency and usage. There is a continuing requirement to invest in targeted growth and innovation to meet challenges in the marketplace, as well as reducing cost to ensure better price competitiveness. 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; and, expand our core offering to small and medium sized businesses and marketplace sellers. We target investments that will extend our value chain offer and increase our presence in faster growing areas of the parcels sector. We are investing in new equipment to respond to both our sending and receiving customers evolving needs such as timely and accurate tracking information. The agreement creates opportunities to implement initiatives such as later acceptance times. Estimated delivery window, enhanced collection and returns options are also key initiatives that are underway.

Principal risk	Status	How we are mitigating the risk
Economic and political environment  Historically, there has been a correlation between economic conditions and the level of letter and B2B 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 products or formats for sending letters and parcels. The Labour Party's 2017 manifesto included a pledge to bring a number of private companies, including Royal Mail, back into public ownership.	 The Board continues to monitor the economic environment including possible implications of Brexit on the UK economy and the Group's operations. Specific areas of focus include: - Business uncertainty, with the recent slowdown in economic activity, is possibly an indicator that business customers will look to reduce costs and compete aggressively for contracts, impacting letter volumes, in particular marketing mail. - A decline in the value of Sterling, which impacts our International business in terms of the exchange rate effect on imports and exports and through the impact of higher inflation resulting from increases in the prices of UK imported goods and services. Movements in the Sterling exchange rate could also result in higher import prices, increase terminal dues and impact domestic inflation rates leading to higher fuel and wage increases. - The terms on which the UK leaves the EU's customs union and VAT territory. Our International business is one of the largest third parties involved in the collection of tax and duties on behalf of HMRC. Changes to customs arrangements could impact processing procedures and charges for international mail, customer demand and the achievability of regulated Quality of Service standards for EU mail. Economic growth in the Eurozone has shown signs of improvement but remains fragile in some countries (notably Italy). The Board will, however, continue to monitor this position in terms of the impact on our international parcel volumes, including those handled by GLS. We are closely monitoring the development of Labour Party policy on renationalisation.	Macroeconomic risk assessments are embedded within the monthly Letters forecasting processes. The Group also has the following strategies in place: - A cost avoidance programme to respond to possible revenue headwinds. - Business initiatives that are responding to fluid competitive pressures (especially in the advertising arena). - A possible, absorbable reduction in investment in the short-term to protect the cash and indebtedness position of the business. Risks associated with Brexit are continually monitored and material risks reported to senior executives. An internal working group has been established, comprising taxation, legal and regulatory/policy experts, to work with the International business to update its Brexit scenario analysis as events unfold and new information becomes available. We are working closely with Government to put in place systems to ensure the movement of cross-border parcels continues to operate effectively. The UK Government explicitly referenced the importance of the passage of small parcels via Royal Mail in the Customs Bill White Paper. We are also engaging with Ofcom and the Department for Business, Energy, and Industrial Strategy (BEIS) on the applicability of Quality of Service targets after the UK leaves the EU. Royal Mail engages regularly with politicians and policy makers, and closely monitors the potential impact of political and policy changes on the Company. The Company runs an extensive public affairs programme of engagement with politicians and policy makers. We regularly demonstrate the significant progress that the Company has made since privatisation in 2013.
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 areas such as the deferred parcels space and B2C parcels market, GLS is well positioned to support Royal Mail Group's overall strategy. We are continuing to seek opportunities to develop a broader revenue base and growth in the UK and overseas.	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. As an example, during 2017 Royal Mail launched a third party fleet offering to the market providing maintenance solutions. The agreement includes the establishment of a forum to assess new business opportunity ideas.

Principal risk	Status	How we are mitigating the risk
Regulatory and legislative environment The business operates in a regulated environment. Changes in legal and regulatory requirements could impact our ability to meet our targets and goals.		
Absence of a sustainability framework to sustain the USO		
 USO finances are fragile. The regulatory system applies some 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 will continue to be focused on monitoring Royal Mail's efficiency. It will build a detailed delivery cost model to help inform its view on how cost might change over time under different scenarios. It will also be used to review the allocation of Royal Mail's delivery costs between parcels and letters. Ofcom is due to consult on the level of the Second Class Safeguard cap. The outcome could impact our commercial flexibility. We have been lobbying Ofcom to introduce fundamental changes to the regulatory environment. This includes a greater focus on sustainability. Ofcom 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.	We undertake extensive engagement with Ofcom across all workstreams, including the cost modelling review and Second Class Safeguard cap consultation. We will provide comprehensive, evidence-led reports setting out our position. 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 including through the prompt introduction of a proactive sustainability framework; and • a level playing field across the whole industry, including higher consumer protection standards in parcels and lifting labour standards across the delivery sector.
Competition Act investigation		
 In January 2014, Royal Mail issued Contract Change Notices (CCNs) under the terms of the access contract regime. 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. 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. Depending on the outcome of the Ofcom investigation and any appeal, Royal Mail may be fined.	 Royal Mail is refuting all of the allegations. In its annual concurrency report published on 30 April, the Competition and Markets Authority stated that Ofcom expects to make a decision in this case before summer 2018. However, Ofcom has not published a formal timetable (or provided any such timetable to Royal Mail).	• This investigation remains a key agenda item on all updates to both the Royal Mail Board and Audit and Risk Committee. We are working closely with our external advisers at every stage of this investigation and our position remains that we have been fully compliant with competition law. We have refuted in our written and oral representations all of the allegations that Ofcom has put forward, and we will continue to defend our case.
Employment legislation and regulation		
 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.	 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 concluded an agreement with the trade union about initial steps to mitigate the concern about holiday pay for part timers. Further discussions are also planned on this subject.	We continue to monitor developments in case law relating to the application of the Working Time Directive in respect of holiday pay calculations. Based on our estimates of the potential financial impact, we believe that we have made sufficient provision for any historic liabilities that may arise. We liaise with the CBI, HMRC and HM Treasury to influence employment tax developments and minimise the impacts for Royal Mail as far as possible.

Principal risk	Status	How we are mitigating the risk
Health, safety and wellbeing  The way in which we conduct our business, despite having a rigorous health and safety regime, can occasionally have a human impact. That is why the health, safety and wellbeing of our employees, contractors, agency workers and members of the public is of the utmost importance to us. We acknowledge that there is a risk that a health and safety incident or failure could result in the serious injury, ill health or death of employees, contractors, agency workers or members of the public. This risk is a key focus for us, given the potential human impact and the corporate ramifications. We are including it now in our Principal Risks to reflect its major internal significance. Such an incident may lead to criminal prosecution or fines by the enforcing authority or civil action by the injured party resulting in large financial losses and reputational damage for the Group. Similarly, inadequate arrangements for effectively managing the health and wellbeing of our employees could also lead to financial losses and reputational damage – through increased sickness absence, lower productivity, civil action or criminal prosecution.	 The business has a large number of employees including seasonal staff and agency workers. It also operates a very large fleet, employs a large number of contractors and interacts extensively with members of the public. A large proportion of our employees spend most of their time working outdoors, on foot or driving, where the environment cannot be controlled. Despite the very significant focus on our people's wellbeing, due to this wide reach and the number of people affected by the business's undertakings, the risk of serious harm to people cannot be totally mitigated. The potential fines for very large organisations (as defined by the Health and Safety Executive) have greatly increased as a result of the Sentencing Guidelines – health and safety breaches now have a much greater financial impact for the business. We acknowledge that every health and safety incident has a human impact. An integrated Safety, Health and Environment System was completed and deployed in 2017-18. We continue to work to ensure full and consistent implementation is achieved across all parts of the business.	We are reviewing our Safety, Health and Environment Management System (SHEMS) to ensure that the Standards contained within it achieve legal compliance and adequately control our key risk areas. Operational implementation of the SHEMS is monitored via an annual audit programme and a professional and independent SHE function is in place to provide advice, support and guidance on the implementation of standards. There is an annual SHE initiative and communications plan in place. This is informed by a review of compliance data, risk data, KPI performance and legislative requirements. Employees have access to health and wellbeing assistance through our Feeling First Class website, First Class Support helpline and Occupational Health provision. SHE performance is discussed and reviewed by the board and senior leaders are committed to driving full compliance to the SHE Management System.
Major breach of information security, data protection regulation and/or cyber-attack  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. A cyber security incident could also trigger material service and/or operational interruption. A major breach of data protection regulation is also considered a risk that could result in financial and reputational damage, including loss of customer confidence.	 While no material losses related to cyber security or data breaches have been identified, 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 and/or a breach of data protection regulation a principal risk.	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 continuously review our security enhancement and investment plans to reflect the changes in the threats we face. For GDPR we are undertaking activities across the Group to work towards compliance. This includes protecting us from data breaches, managing information rights and managing our marketing permissions correctly.
Attracting and retaining senior management  Our performance, operating results and future growth depend on our ability to attract and retain talent with the appropriate level of expertise.	 Voluntary turnover in senior management continues at similar levels to previous years but remains a business risk.	The Group's remuneration policy sets out that the overall remuneration package should be sufficiently competitive to attract, retain and motivate executives with the commercial experience to run a large, complex business in a highly challenging context. We operate a succession planning process and have in place talent identification and development programmes. Our succession planning enabled us to announce two major internal promotions in April 2018.

The Directors have assessed the viability of the Group as part of their ongoing risk management and monitoring processes. The Directors have considered their stewardship responsibilities, previous viability statements, the nature of the business and its investment and planning periods when making this assessment.

The key factors affecting the Group's prospects are:

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

Further details on these factors can be found on page 17.

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 2021 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 as 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 Group's financial forecasts include:

- Parcels revenue continues to grow in line with the addressable UK parcels market.
- Addressed letter volumes continue to decline by between four and six per cent per annum.
- No change in stated dividend policy.
- No change in capital structure given the Group has a €500 million bond which expires in 2024 and a revolving credit facility, the majority of which expires in 2022.

Assessment of viability

The key assumptions within the projections were stress-tested with reference to risks set out in the Principal Risks section on pages 40-45 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; (Principal risk: 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 (Principal risk: Economic and Political Environment) and
- (iii) increased competition in the UK parcels sector. (Principal risk: Customer expectations and Royal Mail's responsiveness to market changes)

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. Mitigating actions included:

- (i) reducing variable hours and cost of sales
- (ii) removing discretionary pay
- (iii) reducing our internal investment
- (iv) suspending our acquisition programme

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.

We are pleased to have reached a ground-breaking agreement with the CWU on pay, pensions and a number of customer-focused operational changes. The Royal Mail Pension Plan (RMPP) closed to future accrual in its previous Defined Benefit form from 31 March 2018 and Royal Mail and the CWU have committed to work towards the introduction of a Collective Defined Contribution (CDC) scheme for all employees. This will be subject to necessary legislative changes being enacted. A Defined Benefit Lump Sum Scheme will sit alongside it. Transitional pension arrangements commenced on 1 April 2018 and will continue until a CDC scheme can be established. It is anticipated that the ongoing annual cash cost of pensions to the Company will continue to be around £400 million. In making their assessment of viability, the Directors have assumed that future cash pension contributions remain around this level.

Viability Statement

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 2021.

Responsibility leader



Global sustainability leader of the Transportation industry group in the Dow Jones Sustainability Indices

FTSE4Good

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

Our performance



Industry leader in the FTSE Women on Boards Leadership Index



Gender pay report shows men and women are paid broadly the same



85%

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

Ipsos MORI Corporate Image Survey Winter 2017

9%

reduction in Road Traffic Collision Frequency rate

29%

reduction in carbon emissions since 2004-05

£60m

Won the Lifetime Achievement Award for payroll giving

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. Our CEO has overall responsibility for CR. Members of the senior leadership team take responsibility for each of the major strands of our CR agenda.

We are committed to communicating with our stakeholders openly and transparently. We welcome the UK Government's Non-Financial Reporting Directive. This aims to increase transparency around companies' responses to social and environmental issues. In line with the requirements of the Directive, this section summarises information relating to Royal Mail's position and performance in relation to social and environmental matters material to our Company. We publish a full report on the outcomes and impacts of our activities in our annual CR report. It is prepared in accordance with the Global Reporting Initiative (GRI) Standards: Comprehensive option. It is reviewed by the Board prior to being published. The CR policies and reports referred to in this chapter are available at the following address: www.royalmailgroup.com/responsibility.

We engage an external auditor to assure our key non-financial performance indicators. They cover customer, people, community investment and environment metrics. The assurance process involves data testing and a review of the key structures, systems, processes and controls for managing and recording information. This is done to ensure that the data we report

is reliable and complete. Assurance is performed in accordance with internationally recognised reporting standards – ISAE 3000 (Revised)/3410 and AA1000AS. Our 2017-18 assurance statement will be available on our website from June 2018 at www.royalmailgroup.com/responsibility/cr-reports.

Social and environmental risk management

We assess risks arising from the social and environmental issues relevant to our business at least once a year. We use our risk management framework to determine their criticality. The risks deemed most critical to the Company are set out on pages 40-45, in the Principal Risks section of this report. More information about our approach to risk management is given in the Governance section, on pages 69-73. Our non-financial key performance indicators are available on pages 18-19.

Measuring our progress

We are independently rated as a leading responsible business. In 2017, we were named global leader of the Transportation industry group in the Dow Jones Sustainability Indices. We were ahead of over 135 companies in ground-based transportation, marine and aviation industries. We have been included every year we have been eligible, since our flotation.

We were also included in the FTSE4Good Global Index again in 2017. We were ranked in the top eight per cent of companies included. This was because of our environmental, social and governance performance.

Our customers

We are proud of the role we play in connecting customers, businesses, organisations and communities, including those in remote and rural areas. Our vision is to be recognised as the best delivery company in the UK and across Europe. This means putting the customer at the heart of everything we do.

We are adapting our business to respond to fast-changing consumer expectations. We are investing in technologies that give customers more visibility over their deliveries. In the UK, we are using our PDA technology

to provide notifications of the estimated time of delivery. We have also launched new digital tools for Parcelforce Worldwide customers. They offer real-time tracking of parcels and the opportunity to specify in-flight delivery options. In Europe, GLS expanded its FlexDeliveryService. It is now available in 20 countries. This service makes it easier for online shoppers to take delivery of goods they have purchased abroad, with a wide range of delivery options to their home country.

Royal Mail is a key delivery partner for small and medium enterprises (SMEs) in the UK. We provide simple, flexible and value for money postage choices. We integrated a number of additional e-commerce platforms and online marketplaces into our Click & Drop service. They include Shopify, Magento and Not On The High Street. Click & Drop makes it easier for small retailers using these sites to purchase postage and print address labels.

Our Corporate Balanced Scorecard includes three customer service performance indicators. In 2017-18, our mean business customer satisfaction score remained stable at 78. Our consumer satisfaction score improved by one point to 73. We were disappointed to record an increase in the number of customer complaints, from 517,000 to 565,000. This was driven primarily by the growth in tracked parcels. Complaints across some of our main complaint types, such as misdeliveries and redirections, reduced during the year, as a result of ongoing initiatives. We continue to work to improve the scanning of items and ensuring that appropriate details are written on the 'Something for You' card, if a customer is not home to take delivery of a parcel.

We also ask our own people how customer-focused they think our products and services are, in our annual Employee Survey. We achieved a customer focus score of 70, an increase of one point compared with the previous year.

Scam mail

We are committed to tackling the scourge of scam mail. We will never knowingly deliver it. Scam mail is upsetting and distressing for victims and their families. Royal Mail works closely with law enforcement agencies and the National Trading Standards Scams Team to tackle this issue. Since November 2016, as a result of a range of initiatives, we have stopped over three million items of scam mail from reaching customers.

Our people

Our people are fundamental to our ability to achieve our strategic priorities. We rely on them to fulfil the Universal Service and to go the extra mile to deliver high quality customer service. Engaging our people within

a fair, rewarding and customer-focused culture is essential for our future success.

Pay, pensions and terms & conditions

Royal Mail is proud to be a responsible employer. We believe good employment conditions lead to better service standards for consumers. Around 71 per cent of our UK employees work full time, with 29 per cent part-time. Over 98.7 per cent of our UK employees are on permanent contracts. All permanent Royal Mail and Parcelforce Worldwide employees earn considerably above the Living Wage. They receive 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 turn, we continually work with our unions to agree changes to our labour model and working practices to enable our business to remain competitive.

During the year, we reached an agreement with the Communication Workers Union (CWU) on a new pensions, pay and pipeline deal. We kept colleagues informed of our negotiations with the CWU through internal communications and regular face-to-face events. We held around 1,000 town hall briefing sessions across the country. We reached over 43,000 frontline colleagues. We also briefed around 2,500 frontline managers across a series of events. See the Chief Executive Officer's review on page nine for more information about the new deal.

Engagement and culture

Engaged employees are essential to the customer-focused culture we are building. Employee engagement is one of the two people-related key performance indicators on our Corporate Balanced Scorecard. It is measured through our annual Employee Survey.

We saw an increase in our employee engagement score, from 57 points to 59. Engagement levels also play a part in employee turnover. This influences training and recruitment costs. In 2017-18, our employee turnover rate remained low at 7.2 per cent. This compares well against the average UK turnover rate of 23 per cent¹.

During 2017-18, GLS Denmark was rated as one of the country's best employers by Great Place to Work. In their summary statement, award judges praised GLS Denmark's approach to work life balance and personal development. GLS France was ranked 11 out of almost 100 freight transport and logistics

companies in a list of best French employers by business magazine, Capital.

Creating a culture of ownership

Around 91 per cent of Royal Mail employees are shareholders in the Company. Twelve per cent of the Company was gifted to eligible Royal Mail employees on, and following, privatisation. All of our eligible full-time employees received a maximum of 913 Free Shares, regardless of grade. Employees that have been with Royal Mail since privatisation have each received dividends – before tax – of over £863.

Our Save As You Earn (SAYE) scheme, which launched in 2014, matured in December 2017. More than 36,000 employees entered the scheme to be able to exercise options over 15 million shares at a 20 per cent discount. At year end, over 21,000 employees had exercised that option.

Health and safety

The health, safety and wellbeing of our workforce is an enduring priority for us. We publish our group-wide Health and Safety policy on our website. This outlines our commitment to maintaining a safe and healthy workplace.

In 2017-18, we recorded a Lost Time Accident Frequency Rate (LTAFR) of 0.54 per 100,000 hours worked. That is an increase of 9.4 per cent compared with 2016-17. Our LTAFR was impacted by an increase in falls occurring while postal staff were out on deliveries. These types of accidents accounted for 40 per cent of all lost time accidents in 2017-18, as a result of the adverse weather during the second half of the year.

Road traffic collisions are another common cause of accidents. We are working hard to reduce the number of accidents we are involved in. The Road Traffic Collision Frequency Rate is one of the measures on our Corporate Balanced Scorecard. This year, we reduced our Road Traffic Collision Frequency Rate by nine per cent. We continue to invest in driver training and road safety campaigns to promote safe driver behaviours. We increased the frequency and scope of our road safety communications to cover more key risk areas. They include driver distractions and vulnerable road users. We updated our driver training to improve awareness of our most common road accident type: slow manoeuvring. GLS conducts an annual road safety campaign,

aimed at the transport partners that deliver parcels on their behalf. It includes a recommended set of road safety measures and communications materials. They include awareness-raising posters, safety stickers for vans and items promoting GLS' '10 golden rules' of road safety for delivery drivers.

It is with great regret that we report that four people lost their lives in connection with our activities in the UK in the past year following road traffic accidents. We liaise closely with the relevant authorities. We complete our own detailed investigations to determine the root cause of each accident and identify any lessons that can be learned. Investigations are discussed at Board level and outcomes are communicated across the Group.

During the year, there was an increase in sick absence, from 4.63 per cent to 5.09 per cent. Musculoskeletal and mental health issues remain the leading causes of long-term illness among our people.

We launched a five-year mental health strategy, "Because Healthy Minds Matter". It aims to increase awareness of mental health issues; reduce the associated stigma; and provide tools and guidance to help colleagues and their loved ones in times of need.

We also launched a pilot Mental Health Ambassador programme, supported by our unions. Around 9,000 managers have completed a new, mandatory mental health e-learning course. More than 700 managers have, in addition, completed our face-to-face Mental Health First Aid Awareness training course. Around 85,000 mental health information booklets have been distributed to UK colleagues.

In May 2017, we launched a three year partnership with Action for Children, Mind and Mental Health UK as part of our strategic commitment to mental well-being. The partnership covers training, awareness-raising, communications, pro-bono support and work placements and fundraising. See page 51 for more information.

Building on work we undertook in the prior year, we also launched a range of initiatives to tackle musculoskeletal injuries. We developed new training materials for our people. We delivered an internal communications campaign to promote safe lifting techniques, especially when handling parcels. In addition, we created an e-learning

Safety metrics	2017-18	2016-17	2015-16	2014-15
Sick absence (%)	5.09	4.63	4.51	4.74
Lost Time Accident Frequency Rate	0.54	0.49	0.49	0.70
Reduction in road traffic collisions (%) ²	9	12.3	N/A	N/A

¹ Total UK turnover rate taken from www.xperthr.co.uk/survey-analysis/labour-turnover-rates-2017/162496/

² Reduction in road traffic collisions was added to the Corporate Balanced Scorecard in 2016-17.

course for managers to help manage musculoskeletal problems in the workplace.

Promoting diversity

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

Gender diversity

At our year end, 33 per cent of our Board were female. This accords with Lord Davies' recommendation of 33 per cent female Board representation by 2020. At senior management level, 31 per cent of our colleagues are women, compared with 17 per cent in operational grades. In 2017-18, Royal Mail was named as one of The Times Top 50 Employers for Women for the fifth consecutive year. In February 2018, we were named top of our industry in the FTSE Women on Boards Leadership Index. The index ranks almost 900 companies from ten different industries on their combined gender diversity and social impact score.

We are addressing the gender balance across our organisation through a number of initiatives. We launched a Managerial Cover programme for frontline manager roles. This is about providing dedicated resource to cover days off and annual leave. As well as developing the skills of existing frontline employees, the programme ensures that the operation continues to run smoothly while the permanent manager is absent. The programme is due to create around 800 new managerial roles across the country. To date, we have promoted 54 females into frontline managerial roles. We have placed a further 42 female new joiners into these positions.

This year, we are celebrating the 100th anniversary of the first women in Britain getting the right to vote through a multi-faceted internal and external communications campaign. We are inviting colleagues to nominate one hundred inspirational women to be profiled in our internal communications, to celebrate the achievements of women in our workforce. We also released a special Vote 100 stamp issue featuring images from the Suffragette movement.

Gender pay

We conduct a Company-wide pay review on an annual basis, to identify any discrepancies in salaries paid to males and females. This year, our review was conducted in accordance with the new UK gender pay gap

reporting regulations. We were pleased to find that, as in previous years, the average salaries paid to men and women are broadly the same. On a mean basis, women are paid 2.1 per cent more than men. Women are paid more on a mean basis due to the fact that we have a greater proportion of women in senior positions. On a median basis, men are paid 1.5 per cent more than women. The difference in median pay rates is because men are more likely to select work that qualifies for allowances, such as shift work during the evening or at night. Our full Gender Pay Report is available at the following address: www.royalmailgroup.com/responsibility/our-people.

Ethnic diversity

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

Supporting people with disabilities

As a Level 2 employer of the Disability Confident programme, we are committed to employing people with disabilities and supporting disabled employees during employment. Approximately 11 per cent of our employees identify themselves as having a disability. We make reasonable adjustments to the workplace to support employees who are, or become disabled. We provide training as required, for example in assistive technology and software.

This year, our Disability Steering Group reviewed our Disability Confident and Reasonable Adjustments training and toolkits to ensure they provided managers with the right guidance when supporting disabled colleagues. The review identified several changes that will be made to simplify the tools that we offer.

Inclusive workplaces

We are proud to be part of Stonewall's Diversity Champions programme. It campaigns for equality for lesbian, gay, bisexual and transgender people (LGBT). Stonewall helps us identify areas for improvement within our LGBT programme. This year, we focused on promoting transgender awareness and trans-inclusive policies and facilities. The transgender sub-group of the LGBT steering group held a Gender Intelligence workshop in London. We also launched a transgender awareness film featuring transgender Royal Mail employees from across the country. In addition, members of our LGBT&Friends Diversity Steering Group attended Pride and Sparkle events across the country, including Glasgow, Manchester, London, Isle of Wight and Cardiff.

Training and career development

We are committed to investing in our people at all levels. We aim to provide our employees with the tools, knowledge and resources to deliver our business strategy while offering fulfilling careers and opportunities for continual development.

We invested £9.8 million in training, delivering the equivalent of around 18,000 training days. More than 1,100 logistics employees attended our Fleet Management training programme. Nearly 500 colleagues were trained on new parcel sorting machinery. This will enhance our capability in the parcels market. This will enable us to offer a better service to our customers.

GLS Denmark undertook a large-scale learning and development project to make it easier to share knowledge and experience across departments. Around 300 site visits took place. Colleagues in adjacent fields are working together to share best practice.

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

Gender distribution (number of people)	UKPIL		GLS	
	Female	Male	Female	Male
Royal Mail plc Board	3	6		
Senior Management ³	730	1,619	50	301
Management	1,460	5,445	3,414	3,105
Administration	1,387	970		
Operational	20,967	105,556	1,953	9,132

³ Includes direct reports of Chief Executive's Committee members.

impact. We leverage our assets – our core business competencies, infrastructure, people and brand – to benefit good causes. Our Corporate Responsibility Policy outlines how we interact with, and manage our impacts on, the communities that we serve.

We make the seventh biggest contribution of any UK company to the UK economy. One in every 194 jobs in the UK is provided by Royal Mail. We make a significant contribution to social inclusion. That is through the vital employment and earnings that we bring to some of the UK's poorer regions.

In 2017-18, Royal Mail contributed £7.1 million directly to good causes and schemes for disadvantaged groups. That includes around £440,000 in matched giving and grant schemes to support employees' fundraising for charities and good causes. In addition, our people donated £2.7 million to hundreds of charities and good causes across the UK. Over the last 29 years, our people have given £60 million through our payroll giving scheme. We won the Lifetime Achievement award at the National Payroll Giving Excellence Awards in 2017.

We launched a new mental health charity partnership in 2017, with Action for Children, Mind and Mental Health UK. As part of our partnership with Action for Children, our lead charity partner, we are raising funds to deliver the 'Blues Programme'. Over the next three years, this aims to help around 8,000 young people aged 15-18 years. It is a six-week course delivered by specialist youth workers. It enables young people to identify situations that can trigger anxiety, fear or depression and teaches them a range of coping strategies.

We partner with the charity Missing People to distribute missing person alerts through our network of handheld scanners. For the third consecutive year, we funded the charity's Child Rescue Alert system. This allows members of the public to sign up for alerts to their mobile phones. We also funded Missing People's crisis line over the Christmas period. This provides round-the-clock support for the families of missing people.

In the Netherlands, GLS works with Heppie, a Dutch charity supporting deprived children. GLS participates in excursions and covers the costs of around 50 bus tours per year. GLS also transports equipment for the charity. In Germany, employee volunteers visited nursing homes over the festive period, decorating Christmas trees and spending time with elderly people in six cities. GLS Belgium launched a new volunteering programme, supporting employees, transport partners and delivery drivers to volunteer their time to engage with local causes.

Our environment

Managing our use of natural resources is a strategic imperative for us. Increasing our efficiency and reducing resource use helps us to control our costs and support business performance, and conserve the natural environment in which we operate. Our Environment Policy sets out our environmental impacts. This includes energy, water and waste as well as how we work with customers and suppliers on environmental issues.

We refreshed our environment strategy to help drive continuous improvement in our performance. The five-year strategy has the following key objectives:

- Embedding internal and external environment standards;
- Actively anticipating and responding to emerging environmental issues;
- Adopting existing and new technologies to help us to reduce our emissions and resource use;
- Building environmental awareness and encouraging behavioural change in our workforce; and,
- Promoting the benefits of strong environmental management with customers and through our supply chain.

We will monitor our performance against our strategy using three existing targets. They are: reducing our total carbon emissions, reducing our water consumption, and increasing waste diverted from landfill.

Climate change risks and opportunities

We welcome the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD), an industry-led taskforce founded by the Financial Stability Board. The recommendations aim to standardise climate-related financial reporting to make it easier for investors to assess the impact of climate-related risks and opportunities. They encourage companies to make disclosures on governance, risk management, strategy and metrics to support their approach to addressing the impacts of climate change.

Expectations for reporting in these areas will grow. As a first step, we have convened an internal working group to oversee the adoption of the TCFD's recommendations. We anticipate reporting further on these areas in future. This includes through our 2018 CDP submission.

Our approach to risk management is detailed on pages 69-73. The Risk Management Committee (RMC) and Audit and Risk Committee have overall responsibility for

the oversight of risk management on behalf of the Board. These committees support the establishment, communication and integration of risk management throughout the business. Climate-related risks and opportunities are assessed and managed using the Company's overarching risk management framework. In line with the TCFD's recommendations, we consider both physical and transitional risks in this assessment, amongst other types of risk.

To date, we have not identified any climate-related risks that have been assessed as reaching principal risk level. However, we recognise that climate change presents both risks and opportunities for our Company. Our main climate-related risks include price rises as a result of resource scarcity, and the financial impact of adapting our business to meet changing environmental legislation. These risks are balanced by opportunities. They are improving our energy and fuel efficiency, and reducing associated operating costs. We develop risk controls and mitigation plans for climate-related risks identified as reaching certain risk and impact levels. We also monitor emerging policy-related risks. We align our policy engagement with our overall climate strategy.

The RMC reviews business unit risk registers on a regular basis. It ensures that all risks on the Company's consolidated environmental risk register are reflected in business units' risk registers as appropriate. Where climate-related risks and opportunities are identified, individual business units are required to factor the actual and potential impacts into their strategies and financial planning as necessary.

Our public commitment to reducing our carbon emissions relates to the identified climate-related risks and opportunities. Our target is to maintain our carbon emissions at 20 per cent below the levels in 2004-05 until 2020-21. Around two-thirds of our carbon emissions are derived from our vehicles and transport. Therefore, a vital part of maintaining our performance against our carbon emissions reduction target is improving our fleet fuel efficiency. We closely monitor our fleet fuel efficiency. We take into account the volume of mail items we handle and the amount of fuel we use to deliver them. In 2017-18, we emitted 4.8 per cent less CO₂e per cubic metre of items carried, compared with the previous year.

Carbon emissions

The table below sets out our Group carbon dioxide equivalent (CO₂e) emissions. Our total UK carbon footprint decreased by four per cent compared with the previous year. On a normalised basis, emissions decreased by 4.1 per cent per £1 million revenue.

CO ₂ e Emissions ('000 tonnes)	2017-18			2016-17			2015-16		
	Total	UKPIL	GLS	Total	UKPIL	GLS	Total	UKPIL	GLS
Scope 1	451.1	436.6	14.5	458.2	444.9	13.3	473.7	458.4	15.3
Scope 2	118.1	98.3	19.8	134.4	116.3	18.1	152.2	134.1	18.2
Scope 3	83.8	83.8		87.7	87.7		88.7	88.7	
Total	653.0	618.7	34.3	680.3	648.9	31.4	714.6	681.2	33.4
Tonnes CO ₂ e per £1m revenue		81.3			84.7			88.8	
Scope 2 (market-based)	38.3	8.5	29.8	40.3	14.3	26.0	40.7	14.1	26.6

We quantify and report our organisational greenhouse gas emissions according to the Defra Environmental Reporting Guidelines 2013 and have utilised the UK Government 2017 Conversion Factors for Company Reporting in order to calculate carbon dioxide equivalent emissions from corresponding activity data. The standards classify a company's GHG emissions into three 'scopes'. Scope 1 emissions are direct emissions from sources that are owned or controlled by Royal Mail, such as the fuel used in our vehicles. Scope 2 emissions are indirect emissions from the generation of purchased energy, such as the emissions from our electricity consumption and district heating. 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 all indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions. For Royal Mail, this includes GHGs emitted through the use of third party road or air freight for the transportation of mail. Scope 3 emissions are included in UKPIL reporting only.

In 2017-18, UKPIL emissions (including Scopes 1, 2 and 3) were 29.1 per cent below those in 2004-05. This is the baseline year for our emissions reduction target. Maintaining this performance will be challenging. Parcel volumes are increasing. Demands on our vehicles and fuel consumption will continue to grow. We are pursuing energy-saving opportunities across our fleet and property portfolio. We are exploring more efficient ways of balancing the air, rail and road transport that we use to deliver mail items. We are training our employees in more energy-efficient behaviours.

Fleet emissions

As provider of the UK's Universal Service Obligation, we have a requirement to maintain a large fleet of vehicles to enable us to deliver mail to over 30 million addresses, six-days-a-week. The growth in parcels is driving up our energy demand. We recognise our responsibility to reduce emissions associated with our fleet and help improve air quality in the communities in which we operate. Our approach to reducing fleet emissions focuses on three key areas. They are: investing in new vehicles and technologies, changing driving styles, and making our transport network more efficient.

We are undertaking a number of trials and initiatives in our current fleet to drive down fuel consumption. When older vehicles come to the end of their lifecycle, they are replaced with new vehicles that meet the latest emissions standards. Our fleet also includes electric and liquefied natural gas (LNG) vehicles. This year, we purchased 100 electric vans to be used by postmen and women on their delivery rounds. We have commissioned nine electric-powered heavy goods vehicles to trial for transporting mail between distribution centres in London and the South East. Over time, we plan to increase

the number of alternative fuel or advanced technology vehicles in our fleet. Our longer-term ambition is to transition to a low carbon fleet and ensure that we are investing in a fleet that meets future legislation.

We also use telemetry systems to promote safer and more efficient driving. Around 42 per cent of our vehicle fleet is fitted with telemetry. In 2017-18, using telemetry saved us approximately 500,000 litres of diesel, equating to 1,300 tonnes of CO₂e.

Reducing our use of air transport helps to lower our CO₂e emissions and reduce costs. During 2017-18, we replaced air transport with road services between Newcastle and East Midlands Airport. This has reduced associated CO₂e emissions by approximately 3,000 tonnes per annum.

During 2017-18, GLS have added a number of alternative fuel vehicles to reduce their fleet emissions. Five electric vehicles were introduced in GLS Spain, along with 10 natural gas vehicles in Romania. GLS Italy continues to use low emission forms of transport with 64 electric vehicles and five cargo bikes in regular operation.

Buildings emissions

Reducing energy use in our buildings is another key priority. We reviewed our use of gas boilers to heat our buildings. As a result, we replaced 43 boilers with modern, energy efficient condensing boilers. These are able to recover emitted water vapour to generate more heat.

We continue to replace inefficient fluorescent lights with LED lighting. This year, we fitted LED lights at a further 30 UK sites, including Delivery Offices and staff car parks. Several GLS sites in Denmark also benefitted from new LED lighting saving approximately 75,000 kWh, the equivalent of 26.4 tCO₂e.

Improved heating controls at GLS Denmark's Taastrup depot helped to save a further 172,090 kWh of energy.

Waste and water management

We aim to minimise the amount of waste we send to landfill. In 2017-18, our target was to divert 93 per cent of our waste from landfill. In total, we diverted 99 per cent of our waste from landfill, six per cent more than our target for the year.

Water is a precious natural resource. We are committed to reducing our consumption of it. In 2017-18, our target was to reduce our water consumption by three per cent compared with the previous year. Unfortunately, we narrowly missed our target, reducing the amount of water used by one per cent.

Our suppliers

In the UK, we contribute around £2.3 billion to the economy annually procuring goods and services from around 5,000 suppliers. Royal Mail suppliers are required to comply with our Responsible Procurement Code of Conduct. The Code sets out the ethical, social and environmental standards that we expect. This includes compliance 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. Although we work extensively to address any risks and ensure our suppliers have corrective action plans in place, there are still occasional instances where suppliers fail to meet the standards we expect from them. We may, ultimately, terminate dealings with a supplier if we find that our codes are not being complied with.

Ethical principles are embedded in the Partner Code used by GLS Germany. The Code requires suppliers working with GLS to

adhere to principles relating to anti-bribery and corruption and health and safety. Further information about our approach to supply chain risk management is available in our 2017-18 Corporate Responsibility Report.

Anti-bribery and corruption

Royal Mail has a strict zero-tolerance policy on bribery and corruption. The principles of the UK Bribery Act are embedded within our Anti-bribery and Corruption Policy. This is available on our website.

Our Business Code of Conduct sets out the standards and behaviours we expect of our colleagues. This includes our zero-tolerance approach to bribery and corruption. We encourage our people to report any instances of bribes or suspected bribes to Group Compliance, or through our confidential Speak Up line. GLS' Code of Business Standards, updated in 2018, also reinforces our strict approach to any form of corruption. The Code is available to all all GLS employees. It is translated into 20 languages.

We provide our people with online and face-to-face training to support our approach to bribery and corruption, as well as annual compliance campaigns for colleagues within operations. We monitor the outcomes of this training regularly. Where knowledge gaps are identified, we adapt our training and issue internal communications to ensure that our people remain informed on our approach. Further information is available in our 2017-18 Corporate Responsibility Report.

Human rights

We are committed to upholding and respecting human rights. Our commitment is embedded in our company-wide Corporate Responsibility Policy, our Responsible Procurement Code and our Business Code of Conduct. In addition to obeying the laws, rules and regulations of every country in which we operate, we implemented and commit to respect the United Nations Universal Declaration of Human Rights and the International Labour Organization Fundamental Conventions. They cover freedom of association, the abolition of forced labour, equality and the elimination of child labour. Our risk of human rights violations is relatively low. But, we recognise that human rights violations, including forced labour and trafficking, can occur in all sectors and countries. As a responsible business, we are committed to playing our part to help eliminate it. Our Modern Slavery Act statement details the steps we take to help prevent any incidence of modern slavery both in our own business and in our supply chains. It is available at the following address: www.royalmailgroup.com.

Our taxation strategy

Our taxation strategy is published on our website, at the following address: www.royalmailgroup.com/responsibility/policies. Our taxation strategy sets out our taxation principles. There is also a detailed description of our approach. Royal Mail has a low risk appetite in relation to tax matters. We are committed to complying with all applicable tax laws. We 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 16 May 2018 and signed on its behalf by:

Moya Greene
Chief Executive Officer
16 May 2018

Stuart Simpson
Chief Finance Officer
16 May 2018

Corporate governance



"As a Board, we highly value good governance and believe that it is essential for the sustainable growth of our business."

Chairman's introduction

Dear shareholder,

On behalf of the Board, I am pleased to present this year's corporate governance report. There are considerable changes going on in the corporate governance environment, principally with the proposed introduction of a new UK Corporate Governance Code (the Code). This aims to ensure companies such as ours are focused on their stakeholders, corporate culture and diversity.

Why is good governance important to Royal Mail?

We require first-rate governance principles and practices that are adhered to and embedded throughout the organisation. Undoubtedly, a robust and well considered governance framework enables us, the Directors, to discharge our duties and oversee the Group's performance for the benefit of all of our stakeholders.

I am very conscious that governance is not just a box-ticking exercise but is required for a company to keep up with a changing business environment. During the year, we considered various developments in the corporate governance arena and how we will address some of the requirements of the revised Code to ensure its spirit is embedded in our Board behaviours.

Why is culture an important success factor for Royal Mail?

As I mentioned last year, our Board is committed to promoting a culture of uncompromising ethical standards throughout the business, based on honesty, integrity, openness and effective debate. We appreciate that a strong culture within the organisation can both protect and generate value.

I endorse our Group's cultural ethos, which is:

We are proud to work for Royal Mail. What we do matters to people. We listen. We are trusted. Each of us is respected. We go the extra mile for our customers and for each other. Everyone contributes and works together to deliver our promises, finding ways to be more successful – faster and better than before and beating our competition.

How key is stakeholder engagement to continually developing a successful Royal Mail?

As a Universal Service Provider and as we grow our business outside of the UK, our stakeholders are becoming more diverse. As a customer-led operation, effective stakeholder engagement is extremely important to us. It plays a critical part in the success and on-going sustainability of the business and helps our understanding of material issues.

See page 64 for further details on our stakeholder engagement and our various initiatives.

What have the changes been to the Board composition this year?

We have continued to refresh the Board. I discuss this on page 6 as well as in the Nomination Committee report on page 65. We recently announced changes to our Board. The Board and Moya Greene have agreed that she will retire in September 2018, after more than eight years as CEO. Rico Back will assume the role of Group Chief Executive Officer and join the Board on 1 June 2018. Sue Whalley will join the Board and take on the role of Chief Executive Officer of Post and Parcels, Royal Mail UK, at the same time.

Moya will step down as CEO on 1 June 2018. She will step down from the Board on 19 July 2018, the date of the Company's AGM, and will not be standing for re-election. Moya will remain at the Company until 14 September 2018 in order to provide advice and counsel, working closely with Rico to ensure an orderly handover.

How is diversity taken into account when considering governance at Royal Mail?

As a Board, we know how important a diverse workforce and a culture where people feel included and respected are to ensure a positive impact on business performance. I strongly believe that the business benefits from a Board and senior management team that is diverse in all aspects – not just gender – and that this facilitates better decision-making.

Our Equality and Fairness Policy ensures transparency, diversity and fairness at all stages of employment. I am proud that we employ a diverse mix of people. We are committed to ensuring that our workforce reflects the communities it serves. As a Board, we will continue to promote diversity in its broadest sense.

Read more on our Diversity Policy and initiatives on page 66 and on the skills and experience of our Board members on pages 58-60.

Compliance with the UK Corporate Governance Code 2016

Royal Mail complied in full with the provisions of the Code published in April 2016, which applied throughout the financial year ended 25 March 2018. The Code is issued by the Financial Reporting Council (FRC) and is publicly available for review at <http://www.frc.org.uk>.

How is the effectiveness of the Board and Committees evaluated?

Under my personal direction, an evaluation of the Board, its Committees and the individual Directors is carried out annually. I, together with the Chairs of the Committee, find this a very valuable tool. It allows Directors and other senior management to provide effective and constructive observations. It ensures continuous improvement in our performance as leaders of the business.

Following an internal evaluation last year, and in anticipation of a more in-depth external evaluation in the autumn of 2018 by Independent Board Evaluation, the Board carried out a lighter touch evaluation in March 2018. This was also facilitated by Independent Board Evaluation. The results of this evaluation found that our Board and each of the Committees function very well.

They continue to make an effective contribution to the leadership and progression of the Group. The findings are discussed in more detail on page 67.

What drives the Board's approach to succession planning?

Succession planning, both at Board level and within our senior management community, is vital to the stability of the Group. We have developed a clear and robust skills matrix to ensure all appointments and promotions maintain the focus on the delivery of our strategy. It is very pleasing that our succession planning recently enabled us to make two major internal promotions. Alongside Rico Back's appointment as Group Chief Executive Officer, we were delighted to welcome Sue Whalley onto the Board. We receive recommendations

for appointments to the Board from the Nomination Committee. The Nomination Committee also considers appointments to the senior executive team taking into account the challenges and opportunities facing the Company.

What is on the agenda for 2018?

The activities of the Board for 2017-18 and our objectives for 2018-19 are set out in the table below. During the reporting year, we have focused considerably on our strategy and identifying new growth opportunities. We also worked closely with our unions and employees to reach a successful conclusion to our pay and pension negotiations.

Peter Long
Chairman
16 May 2018

Board Activities

Activity	Board objective 2017-18	What we have done	Board objectives 2018-19
Group strategy	Finalise negotiations and agreements with unions on pension and pay Continued focus on cost reduction in the UK business	Favourable agreement reached with unions and ongoing Group-wide cost avoidance objectives achieved	Oversee the delivery of the changes under the new agreement. Continue to optimise our network processes to reflect changes in customer demand and automation capability and continued cost reduction
Revenue growth opportunities	Grow in new areas through targeted and focused acquisitions as well as leveraging our existing assets	GLS acquired the Spanish express parcels delivery company Redyser Transporte and the US overnight parcel delivery company Postal Express	Develop a broader revenue base and grow in the UK and overseas
Technological developments	Refresh our approach to technology to improve operational performance	Postal Digital Assistant (PDA) was successfully completed, with the PDA Service Transformation Project now being rolled out Introduction of technological solution to ensure compliance with General Data Protection Regulation (GDPR)	Continue to deploy technology to drive efficiency and increase the pace of change throughout our operation
Digitalisation of Royal Mail	Define a digital strategy which identifies and embraces technology relevant for our future	Appointment of Non-Executive Director with significant digital experience	Increase our digital capabilities across the Group, particularly in e-commerce
Board composition	Review the Board composition and ensure there is the appropriate skill and expertise	Refreshed the Board skills matrix to facilitate the identification of suitable candidates during the appointment of new Non-Executive Directors	Ensure the smooth transition of the newly appointed Directors
Succession planning and talent pipeline	Focus on succession planning and talent pipeline	Appointed Rico Back as Group Chief Executive Officer, Stuart Simpson and Sue Whalley as Executive Directors and Keith Williams and Simon Thompson as Non-Executive Directors	Continuously review the skills matrix and succession for Board and senior management
Security, including cyber risk and data protection	Review controls around security in particular, including cyber risk and data protection	Undertook a security review. Assessed the controls around cyber risk as well as disaster recovery and business continuity plans	Continue to monitor cyber risk and assess the Group's resilience
Health and safety	Continue to prioritise health and safety in the Group	Board reviews monthly health and safety KPIs at each Board meeting Rolled out compulsory mental health training to managers	Raise awareness of the importance of health and safety across our operations

Responsibilities of the Board

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.

The Board members all have the knowledge, talent and experience to perform the duties required of a Director of the business. At the end of the year, the Board comprised the Chairman, two Executive Directors and six Non-Executive Directors. The Board reviews the independence of its Non-Executive Directors as part of its Annual Board Effectiveness review. It 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. Full biographies of each of the Directors are on pages 58-60.

Board meetings

The Board holds regular scheduled meetings throughout the year. It met eight times during the year. See the table for Board attendance on page 61.

During the year, the Non-Executive Directors and the Chairman met on six 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.

Information and support

The Board receives business and financial performance reports at each Board meeting and reports on health and safety, regulation, market dynamics and governance. The Directors receive regular updates and training on matters such as developments in corporate governance and compliance policies. The Company Secretary is responsible for ensuring the timely provision of information to the Directors. In addition, the Directors also have access to an online Directors' Reference Manual to support them in the performance of their duties.

Directors participate in a comprehensive and tailored induction programme following appointment to the Board. The Chairman and the Company Secretary are responsible for the induction. See page 67, which outlines Rita Griffin's induction.

Ongoing training is also provided to the Board. Additional training is available on request, 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 terms of appointment

Copies of the Directors' service contracts and letters of appointment are available for inspection at the Company's registered office during normal office hours and by the shareholders at each AGM.

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 considerably more time than this, supporting projects where their areas of expertise can drive specific initiatives.

The Non-Executive Directors were required to declare any of their other significant outside commitments prior to their appointment. Any new external appointments which may impact existing time commitments are considered by the Chairman and agreed by the Board.

External appointments

Peter Long's directorships (see biography on page 58) qualify as his other significant commitments for the purposes of the Companies Act 2006. These were discussed upon his appointment to the Board and during this financial year. The Board has considered the time commitment required of the Chairman's role. It believes that Peter Long continues to lead and support the Board and that he clearly provides 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.

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. During the year, Moya Greene was appointed as a Non-Executive Director of EasyJet plc. It was announced on 15 February 2018 that Moya Greene will be appointed as a Non-Executive of Rio Tinto plc in the second half of 2018. The date has now been confirmed as 17 September 2018.

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 where Directors' conflicts were appropriately authorised, 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. It 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 on an arm's length basis. Directors have an ongoing obligation to advise of any changes that would be reviewed and monitored by the Board. As at 25 March 2018, no Director had advised the Board of any related party transactions. Note 26 on page 144 sets out the Group's related party transactions.

Board Committees and governance structure

The Board has delegated authority to its Committees to carry out certain tasks. This is defined in each Committee's respective terms of reference available at royalmailgroup.com. The Committees established by the Board are shown on page 57. The minutes of each Committee meeting are made available to Directors on a timely basis. In addition, each individual Committee's Chair reports to the Board on matters discussed at Committee meetings and highlights any significant issues that require the Board's attention.

Other committees

TopCo Committee

The TopCo Committee provides overall support to the Chief Executive Officer in discharging her responsibilities both for managing the business and of 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, disclosures and any other

significant business issues. The Committee normally meets monthly and on an ad hoc basis as necessary. It is chaired by the Chief Executive Officer.

Chief Executive's Committee

The Chief Executive's Committee (CEC) 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 Board approval. The Committee meets monthly. It is chaired by the Chief Executive Officer.

Risk Management Committee

The Risk Management Committee is a committee of the CEC 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.

The Board and its Committees

The Board

Responsible for the long-term success of the Group, the Board sets the tone in building company culture. It has oversight and accountability for the wider stakeholders, it sets the objectives and strategy and monitors performance and risk management. It approves major contracts, investments, internal controls and key policies.

Nomination Committee

Reviews the balance and composition of the Board and its Committees in relation to the diversity of skills, knowledge, independence and experience. Ensures a progressive renewal of Board membership through orderly succession planning. Considers talent reviews and succession planning for senior executives.

Audit and Risk Committee

Reviews and recommends for approval by the Board all financial statements and associated disclosures. Continuously satisfies itself that internal controls and risk management processes work effectively.

Pensions Committee

Reviews the performance of the Royal Mail pension schemes. It does so alongside policy and strategy considerations and investment matters because of the significance of the Group's pension plans to its financial management and its employees.

Remuneration Committee

Determines, and recommends for the Board's approval, the framework for the remuneration of the Group's senior executives. This includes individual remuneration arrangements for the Chairman, the Executive Directors and the Company Secretary. Agrees targets for any performance-related incentive schemes.

Board roles

Chairman*	Senior Independent Director	Non-Executive Directors
Responsible for the leadership and management of the Board and for promoting high ethical standards. Ensures an effective and complementary Board, including the appropriate contribution and sufficient challenge from the Directors. Ensures the Board determines the nature and extent of the significant risks that the Company is willing to embrace in implementing its strategy. With support from the Company Secretary, promotes the highest standards in corporate governance. Maintains effective communications with shareholders and makes the Directors aware of their views.	Acts as a sounding board for the Chairman and serves as a trusted intermediary for the other Directors. Leads the annual appraisal of the Chairman's performance. Available to meet with shareholders should they have issues or concerns.	Responsible for contributing sound judgement and objectivity to the Board's deliberations and overall decision-making process, providing constructive challenge and monitoring the Executive Directors' delivery of the strategy within the Board's risk and governance structure. Satisfying themselves of the integrity of financial information and of the effectiveness of financial controls and risk management systems is another key role. Determine the appropriate level of remuneration for Executive Directors.
Chief Executive Officer*	Chief Finance Officer	Company Secretary
Responsible for the executive leadership and day-to-day management of the Company, to ensure the delivery of the strategy as agreed by the Board and in accordance with the Group's risk appetite and business plan. Promotes the Company's culture and standards.	Responsible for providing strategic financial leadership of the Company and the day-to-day management of the finance function. Develops and monitors the control systems designed to preserve Company assets and report accurate financial results.	Advises the Board members, particularly in relation to corporate governance practices, induction training and development. Ensures that Board procedures are complied with, applicable rules followed and that good information flows exist to the Board and its Committees. Communicates with shareholders as appropriate and ensures due regard is paid to their interests.

* The division of responsibilities between the Chairman and the Chief Executive Officer is available and fully documented at www.royalmailgroup.com.

Board of Directors



Peter Long N*
Chairman

Appointed to the Board

As Non-Executive Director and Chairman-designate on 18 June 2015. Became Chairman on 1 September 2015.

Skills and experience:

Peter is a respected business leader with over 20 years' experience in FTSE 100 customer-focused companies. Considerable knowledge of finance, transformation and consumer experience. Formerly Senior Independent Director for both Rentokil Initial plc and RAC plc and a Non-Executive Director for Debenhams. Also previously Chief Executive of First Choice Holidays plc, Sunworld, International Leisure Group Travel Division and TUI Travel plc.

External appointments:

Deputy Chairman of the TUI AG Supervisory Board, Executive Chairman of Countrywide plc and Non-Executive Chairman of Parques Reunidos Servicios Centrales S.A.U.



Moya Greene C*
Chief Executive Officer

Appointed to the Board*

6 September 2013

Skills and experience:

Moya has extensive leadership experience gained both in the private and public sectors. Significant knowledge of the postal and transport sectors as well as a strong track record of strategic planning, finance skills and customer experience. Formerly, President and Chief Executive Officer of Canada Post Corporation. Also held positions as Non-Executive Director of Great-West Lifeco Inc. and of Tim Hortons Inc as well as various senior positions in Bombardier and Canadian Imperial Bank of Commerce.

External appointments:

Non-Executive Director of easyJet plc and a Trustee of Tate.

*Original appointment dates to the Board of a Royal Mail parent company:

- Royal Mail Holdings plc 15 July 2010 to 1 April 2012
- Royal Mail Group Limited 1 April 2012 to 12 September 2013

Non-Executive Director of Rio Tinto (from 17 September 2018).

The Board and Moya Greene have agreed that that she will retire in September 2018. Moya will step down as Chief Executive Officer on 1 June 2018. She will step down from the Board on 19 July 2018, the date of the Company's AGM, and will not be standing for re-election.



Orna Ni-Chionna R* A N
Senior Independent Director

Appointed to the Board*

20 September 2013

Skills and experience:

Orna brings a wide range of experience in retail and strategy gained in consumer-focused businesses having previously been Senior Independent Director at HMV plc, Northern Foods plc and Bupa. Formerly, Non-Executive Director of the Bank of Ireland UK Holdings plc and Bristol & West plc. Prior to this she was a former Partner at McKinsey & Company.

External appointments:

Non-Executive Director and Chair of Remuneration Committee at Burberry Group plc, Non-Executive Director of Sage plc, Deputy Chair of the National Trust, Trustee of Sir John Soane's Museum and Chair of Client Service at Eden McCallum.

*Original appointment dates to the Board of a Royal Mail parent company:

- Royal Mail Holdings plc 1 June 2010 to 1 April 2012, Senior Independent Director on 1 April 2011
- Royal Mail Group Limited 1 April 2012 to 12 September 2013

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

**Rita Griffin** AR

Non-Executive Director

Appointed to the Board

1 December 2016

Skills and experience:

Rita has considerable experience in developing and implementing strategies and leading substantial transformation programmes, which she has gained through her career at BP group. She has held a number of leadership positions within BP plc in manufacturing, logistics, retail and functional organisations. Most recently, Non-Executive Director of BP's joint venture in China, Shanghai Secco Petrochemical Company Limited. Previously, Chief Marketing Officer, BP plc and Chief Operating Officer for several BP businesses including automotive fuels, aviation fuels, LPG, lubricants and retail.

**Paul Murray** A* N P R

Non-Executive Director

Appointed to the Board*

20 September 2013

Skills and experience:

Paul has a broad range of experience in finance and technology gained from a cross-section of industries. Previously, Non-Executive Director of Independent Oil and Gas plc, Thomson SA and Tangent Communications plc, Senior Independent Director of Taylor Nelson Sofres plc, and Group Finance Director of Carlton Communications plc and LASMO plc.

External appointments:

Non-Executive Director and Chair of the Audit and Risk Committee at Qinetiq Group plc. Non-Executive Director of Ventive Ltd and Naked Energy Ltd.

*Original appointment dates to the Board of a Royal Mail parent company:

- Royal Mail Holdings plc 1 August 2009 to 1 April 2012
- Royal Mail Group Limited 1 April 2012 to 12 September 2013

**Les Owen** P* A R

Non-Executive Director

Appointed to the Board

20 September 2013

Skills and experience:

Les is a qualified actuary with over 35 years' experience in the financial services industry. Extensive operational, financial, pensions and insurance experience. Previously Chief Executive Officer roles with AXA Asia Pacific Holdings and AXA Sun Life plc and a member of the Global AXA Group Executive Board. Held various Non-Executive Director positions at Just Retirement Group plc, CPP Group plc and the Post Office Limited as well as Chairman of Jelf Group plc.

External appointments:

Non-Executive Director of Computershare and Discovery Holdings.

*Original appointment dates to the Board of a Royal Mail parent company:

- Royal Mail Holdings plc 27 January 2012 to 1 April 2012
- Royal Mail Group Limited 1 April 2012 to 12 September 2013

Changes to the Board during the year

- Matthew Lester left the Company following the AGM on 20 July 2017.
- Stuart Simpson joined the Board on 20 July 2017.
- Simon Thompson joined the Board on 1 November 2017.
- Keith Williams joined the Board on 1 January 2018.
- Cath Keers stepped down from the Board on 28 February 2018.
- On 20 April 2018, we announced that Moya Greene is stepping down from the Board on 19 July 2018. Rico Back will assume the role of Group Chief Executive Officer and join the Board on 1 June 2018 and Sue Whalley will join the Board on 1 June 2018.

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

Board of Directors



Stuart Simpson [P](#) [C](#)
Chief Finance Officer

Appointed to the Board
20 July 2017

Skills and experience:

Stuart has significant finance, strategy and operational experience. Prior to joining Royal Mail, Stuart worked in the automotive industry for 15 years, where he held senior roles in both finance and strategy, based in the UK and internationally. He joined the Royal Mail Group in 2009, was appointed as Deputy Chief Operations Officer in January 2014 and was subsequently appointed as Director of Group Finance in July 2015.



Simon Thompson [A](#)
Non-Executive Director

Appointed to the Board
1 November 2017

Skills and experience:

Simon has an outstanding record as a global business leader with proven expertise in the digitisation of business and customer experience. He was most recently appointed Chief Product Officer of Ocado Group PLC. Over his career, Simon has held senior executive positions at Apple Inc, HSBC, lastminute.com, Wm Morrison Supermarkets plc, Motorola Inc, Honda Motor Europe Ltd.

External appointments:

Simon is a member of the Digital Advisory Board of Coca Cola European Partners.



Keith Williams [A](#)
Non-Executive Director

Appointed to the Board
1 January 2018

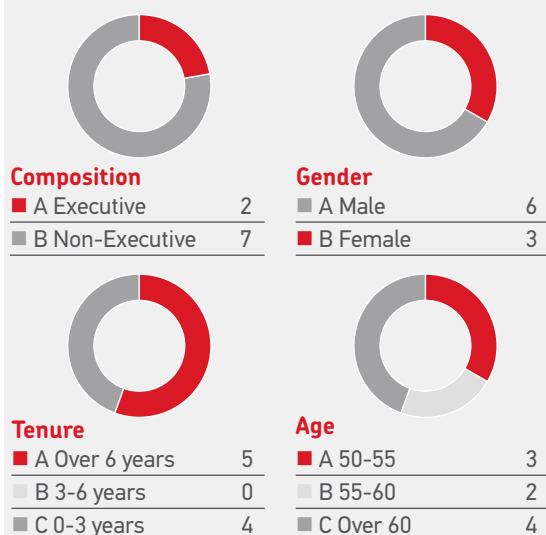
Skills and experience:

Keith is highly regarded as a business leader with extensive financial and customer service experience. Previously, he held senior executive positions in a number of major corporations including Reckitt and Coleman, Apple Computer Inc and Boots, Iberia Aerolíneas and International Consolidated Airlines Group. Worked at British Airways for nearly 20 years, was appointed Chief Executive in 2011 and Executive Chairman in 2014. Also an Executive board member and Chair of the Audit Committee for Transport for London until 2016. He is a chartered accountant.

External appointments:

Non-Executive Director and Deputy Chairman of John Lewis and Non-Executive Director and Chair of the Audit Committee at Aviva plc.

Board composition and experience matrix



Experience and skills

Strategy	9	
Customer experience	5	
Digital technology	5	
Logistics	2	
Finance	7	
Retail	5	
International	5	

Board and Committee attendance

Directors unable to attend a Board or Committee meeting always receive the relevant papers prior to the meeting with the opportunity to provide any comments to the Chairman or the relevant Committee Chair. The minutes of the meeting are also available for the Directors to review for their future reference.

	Board	Nomination Committee	Audit and Risk Committee	Pensions Committee	Remuneration Committee
Peter Long ¹	8/8	4/4			1/1
Moya Greene ²	7/8				
Matthew Lester ³	2/2			1/1	
Stuart Simpson ⁴	6/6			4/4	
Rita Griffin ⁵	8/8		5/5		4/4
Cath Keers ⁶	5/7	4/4	4/4		
Paul Murray ⁷	7/8	4/4	5/5	5/5	4/5
Orna Ni-Chionna	8/8	4/4	5/5		5/5
Les Owen	8/8		5/5	5/5	5/5
Simon Thompson ⁸	4/4		3/3		
Keith Williams ⁹	2/2		2/2		

- Peter Long stepped down from Remuneration Committee on 1 July 2017.
- Moya Greene was unable to attend the Board meeting on 23 March 2018 due to illness.
- Matthew Lester retired from the Board on 20 July 2017.
- Stuart Simpson joined the Board on 20 July 2017.
- Rita Griffin was appointed to the Remuneration Committee on 1 July 2017.
- Cath Keers stepped down from the Board on 28 February 2018. She was unable to attend the Board meeting on 17 October 2017 as this meeting was convened at short notice and Cath already had prior work commitments on that day. In addition, Cath was unable to attend the Board meeting on 22 February 2018 due to personal circumstances.
- Paul Murray was unable to attend the Board meeting on 17 October 2017 as this meeting was convened at short notice and Paul already had prior work commitments on that day. In addition, Paul was travelling at the time of the Remuneration Committee on 6 July 2017.
- Simon Thompson joined the Board on 1 November 2017.
- Keith Williams joined the Board on 1 January 2018.

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 within 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 56.

→ See 'Board of Directors' on pages 58–60.



Stuart Simpson
Chief Finance Officer

→ Member of TopCo, see page 56.

→ See 'Board of Directors' on pages 58–60.



Rico Back*
Chief Executive Officer, GLS

→ Member of TopCo, see page 56.

Current role

Rico was appointed as Chief Executive Officer of GLS in October 1999.

Previous work history

Rico has been a senior Royal Mail Group executive and CEO of the Royal Mail major European subsidiary, GLS, for 18 years. He was a founding member of German Parcel in 1989, which Royal Mail acquired in 1999. This business was subsequently rebranded as GLS and under Rico's leadership, it is now the leading ground-based deferred parcel company in continental Europe. Rico has nearly 30 years' experience as a senior executive in the international parcels industry.

*Rico Back will assume the role of Group CEO of the Company and join the Board on 1 June 2018.



Sue Whalley*
Managing Director of Royal Mail Letters and Network

→ Member of TopCo, see page 56.

Current role

Sue joined Royal Mail in 2006 and was appointed Chief Operations Officer in January 2014, and, subsequently, Managing Director of Royal Mail Letters and Network. Sue has been responsible for leading a transformation of the UK business, with specific focus on safety, quality, efficiency, culture and innovation.

Previous work history

Sue was previously the Regulation and Government Affairs Director and led the programme for privatisation at Royal Mail. Prior to that, Sue was a Consultant at McKinsey & Company for 17 years, the last six of which were as a partner in the London office.

*Sue Whalley will join the Board on 1 June 2018, when she will also assume the expanded role of Chief Executive Officer of Post and Parcels, Royal Mail UK.

Biographies

For further detail on the biographies, please see our website at www.royalmailgroup.com

**Stephen Agar**

Managing Director, Consumer and Network Access

Current role

Joined Royal Mail in 1991, 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.

**Stephen Cameron**

UK Operations Director

Current role

Joined Royal Mail in 1985, appointed UK Operations Director in March 2016.

Previous work history

Previously Deputy Chief Operations Officer alongside role as Operations Strategy Director. Successfully led the initial phase of Royal Mail's comprehensive transformation programme across UK operations.

**Maaïke de Bie**

General Counsel

Current role

Joined Royal Mail in January 2014, appointed General Counsel in April 2016.

Previous work history

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.

**Jon Millidge**

Group HR Director

Current role

Joined Royal Mail in 1985, appointed Group HR Director in February 2014. Pension Scheme Trustee of the Royal Mail Defined Contribution Plan.

Previous work history

Previously Company Secretary from May 2010 to February 2014 and prior to that was the Acting Group HR Director.

**Mick Jeavons**

Chief of Staff

Current role

Joined Royal Mail in September 1993, appointed Chief of Staff in June 2015.

Previous work history

Has performed a wide range of senior roles, most recently, Corporate Finance Director responsible for Group Investment, Procurement and the UK Finance teams.

**Phil Morris**

Group Chief Technology Officer

Current role

Joined Royal Mail in January 2012, appointed Group Chief Technology Officer in April 2017, following his interim appointment as Group Chief Information Officer in May 2016.

Previous work history

Previously IT Director for Strategy, Architecture, Security and Service. Partnership at the PA Consulting Group.

**Shane O'Riordain**

Managing Director, Corporate Affairs, Marketing, Regulation and Customer Experience

Current role

Joined Royal Mail in November 2010. Appointed to current role in 2016. Previously had responsibility for Strategy and Pricing in addition to Corporate Affairs and Regulation.

Previous work history

The Corporate Affairs Director for a range of major financial services organisations, including Flemings, Halifax, HBOS and Lloyds Banking Group. Previously a diplomat in the Irish Foreign Service.

Stakeholder engagement

Listening to and engaging with our stakeholders

Why it is important to engage

We at Royal Mail, as the Universal Service Provider, and as we grow our operations outside the UK, are very focused on the diversity of our stakeholders. The support of our stakeholders is integral to our success and the ongoing sustainability of our business. We actively seek their views on the roles and responsibilities of the Group.

Our stakeholder engagement activities are set out in detail in our Corporate Responsibility Report, which will be published in June 2018. This highlights the importance of engaging with stakeholders in the following ways:

- to earn and retain trust and respect and protect the Royal Mail brand;
- to demonstrate active and visible leadership in stakeholder engagement;
- to help provide positive outcomes for local communities; and
- to ensure the continued provision of the Universal Service in the UK.

It is important for us to understand the concerns of our stakeholders, including those who may be vulnerable because of their age, race, ethnicity, sexual orientation, gender, status in the community or any other factor. As such, we have a dedicated, regular and inclusive programme for engaging different stakeholder groups in a culturally appropriate manner through informal and formal events.

Our stakeholder engagement policy is published on our corporate website www.royalmail.com

Shareholder relations

Communication with shareholders is given high priority within the Group. We do this through a range of channels. We proactively encourage stakeholder engagement. The full Annual Report and Financial Statements with information on the Group's strategy and its implementation are made available to all our shareholders. It can be found on our website at royalmailgroup.com. We also publish on our website our first quarter and nine month trading updates and half year results. They contain timely information about the Group.

Presentations are given following the announcements of the half year and full year results. They are available to watch live and on replay on our website.

The Annual General Meeting is used to communicate with all investors. The Board encourages shareholders to attend and engage with the Board. See the case study on this page for details on our 2017 AGM.

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 it 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.

AGM

The Annual General Meeting (AGM) is normally held in July each year. It is an opportunity for shareholders to ask questions and to hear directly from the Board on the Group's performance and strategic direction. The Board members are also available after the meeting for shareholders to speak to informally.

Each resolution is proposed separately. The voting is conducted by poll and shareholders can vote for or against or withhold their vote.

At the 2017 AGM, all Directors were subject to re-election. The exception were Matthew Lester, who stepped down after the AGM, and Nick Horler, who stepped down prior to the AGM. Our 2017 AGM was well attended. All our proposed resolutions were passed, with votes in favour ranging from 91.47 per cent to 99.99 per cent. Following the meeting, the results of votes lodged for and against each resolution were announced as soon as possible to the London Stock Exchange and displayed on the Group's website.

The Group's next AGM is on Thursday 19 July 2018. Details of the business to be discussed will be found in the Notice of AGM. In accordance with the Code, this is posted to registered shareholders at least 20 working days in advance of the meeting. It will also be available on our website at royalmailgroup.com

Nomination Committee report



“As a Committee, we have the important role of ensuring that the Board of Royal Mail and its senior executives have the appropriate mix of diversity, skills and experience to make the right decisions to deliver the Group’s strategy.”

Dear shareholder,

As Chair of the Nomination Committee, I am pleased to present the Committee’s report for the year ended 25 March 2018.

During the reporting year, alongside me, the Committee members were Orna Ni-Chionna and Paul Murray. After careful consideration, it was agreed that Rita Griffin, Les Owen, Simon Thompson and Keith Williams would be appointed to the Committee with effect from 19 April 2018. The meetings of the Committee are also attended by the Group HR Director, as required, and supported by the Company Secretary. The Chief Executive Officer and other Non-Executive Directors may also be requested to attend when required. The number of Committee meetings held during 2017-18 and members’ attendance is set out on page 61. The full Terms of Reference for the Committee can be found on our website at royalmailgroup.com

The following report outlines Board and Committee changes, the Committee’s priorities during the year, progress made and the priorities for 2018-19.

Board and Committee changes

We have had an active year. There were a number of changes to the Board composition during the year.

We announced in April 2018 that Moya Greene will retire in September 2018 having served on the Board for more than eight years as Chief Executive Officer. Moya will step down from the Board on 19 July 2018, the date of the Company’s AGM. I would like to extend my sincere thanks to Moya for her tremendous contribution to the Board during a defining time for Royal Mail. We wish her the very best for the future.

Rico Back will succeed Moya and assume the role of Group Chief Executive Officer of the Company and join the Board on 1 June 2018.

I led the search for Moya’s successor in my role as Chair of the Nomination Committee. We are also delighted to appoint Sue Whalley to the Board in her role as Chief Executive Officer of Post and Parcels, Royal Mail UK, with effect from 1 June 2018.

We were delighted to appoint Simon Thompson on 1 November 2017 as a Non-Executive Director and as a member of the Audit and Risk Committee. The Board employed the executive search firm The Up Group to assist with Simon’s appointment.

On 1 January 2018, the Board was delighted to appoint Keith Williams 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 Keith’s appointment. The Company also employs Egon Zehnder for both senior executive appointments and for some executive development.

For both appointments, the Committee considered candidates against objective criteria, having due regard to the benefits of Board diversity, and, following interviews with other Directors, recommended to the Board the appointments of Simon Thompson and Keith Williams as Directors of the Company.

Cath Keers retired on 28 February 2018, having served on the Board as a Non-Executive Director for nearly eight years. Cath also stepped down as a member of the Nomination and Audit and Risk Committees at that time. I would like to thank Cath for her valued contribution. She has played a pivotal part through a tremendous period of change for the Company. We wish her well for the future.

Paul Murray will be stepping down from the Board following the AGM on 19 July 2018, having served on the Board as a Non-Executive Director for almost nine years. I would like to thank Paul for his valued contribution as a Non-Executive Director

and Chair of the Audit and Risk Committee. He has also held an important role and been essential during a period of significant change for the Company. We also wish him well for the future. Following careful consideration, and taking into account his extensive financial experience, the Committee concluded that Keith Williams will succeed Paul as the Chair of the Audit and Risk Committee and we look forward to welcoming Keith into the role.

After careful consideration, the Committee concluded that Rita Griffin should be recommended to the Board as a member of the Remuneration Committee and that I would step down from the Remuneration Committee, both with effect from 1 July 2017.

An external evaluation of the Committee was carried out in 2017-18. The evaluation concluded that the Nomination Committee operated very well. The evaluation is discussed in greater detail on page 67.

Directors’ re-election

The Committee considered the performance of each individual Director, including whether they continued to be effective and demonstrate commitment to their roles. 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
16 May 2018

Board diversity

The Board promotes diversity in its broadest sense, including education, skills, age, gender and ethnic diversity. It is our strong belief that a diverse Board with different backgrounds and viewpoints in decision-making benefits the Group's stakeholders and business performance.

This year, our Board gender diversity metric has slightly reduced. At our year-end, there was a representation of 33 per cent females on the Board. This conforms with Lord Davies' recommendation of 33 per cent female by 2020.

During the year, Simon Thompson and Keith Williams were appointed to the Board. They bring different skills and experience to complement the Board's discussions and decision-making. Simon has extensive digital transformation experience. Keith has strong financial expertise and is a respected business leader. Both have significant experience in customer-focused operations.

See the Board biographies and the skills and experience matrix on pages 58-61 for further information.

Policy

The Board has adopted a Board and Diversity Policy to ensure transparency and diversity in making appointments to the Board on the recommendation of the Nomination Committee. This Policy sets out Royal Mail's approach to diversity. It ensures transparency and diversity and fairness at all stages of employment. The Policy expresses the Group's commitment of creating an

environment in which all individuals are able to make best use of their skills, free from discrimination or harassment.

Through its Board effectiveness review, the Board assesses that it is compliant with that Policy. The principles of that Policy are embedded in the Board appointment process.

The Policy was implemented during the recruitment of both Keith Williams and Simon Thompson. During their recruitment, both the long list and short list addressed diversity in its broadest form. We also support the Hampton-Alexander Review recommendation of 33 per cent target for women in senior leadership positions by 2020. It is the Board's intention to progress towards the recommendations of the Parker Review. It proposes each FTSE 100 Board have at least one director from an ethnic minority background by 2021.

The Nomination Committee, however, does not feel that it is appropriate to set a quota on diversity nor does it believe that this is the best way of achieving a balanced Board. We instead use a robust skills matrix to ensure there is the appropriate experience among the Board members.

There is also an adopted Equality and Fairness Policy. This is our overarching policy for diversity within the Group and is approved by the Board annually. A copy of the Equality and Fairness Policy is available on our website at royalmailgroup.com

Ensuring a diverse pipeline through succession planning

The Nomination Committee 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 places a strong emphasis on increasing diversity in senior leadership. There are initiatives in place to achieve this. They include the Spingboard women's development programme, which has been helping encourage women into leadership positions since 2005.

We have a Diversity Council, which reports to the Chief Executive Committee, which monitors and progresses the Group's diversity performance. As an employer, Royal Mail has put in place many initiatives to adapt our culture and to encourage women to get into management positions. The Council looks not just at women but also colleagues from different ethnic backgrounds, parents and carers, disabled colleagues, young people and LGBT people. We know that women and ethnic minorities are underrepresented in our industry. We encourage them into our workforce by using balanced shortlisting, career development opportunities and mentoring and networking events.

Last year's priorities, actions and next year's priorities

2017-18 priorities	Progress over the year	2018-19 priorities
Review the structure, size and composition of the Board.	Identified suitable Board candidate. Recommended the appointment of Simon Thompson and Keith Williams.	Continued focus on succession planning for both Board and senior management.
Review the structure, size and composition of the Committees.	Recommended changes to the Remuneration Committee, with Rita Griffin being appointed and Peter Long stepping down.	Continued focus on diversity in the broadest sense. Ensuring the skills and experience within the Group help deliver its strategic framework.
Consider whether the Non-Executive Directors continue to be independent and effective and have demonstrated commitment to the role and thus should be recommended to the Board for re-election at the AGM.	The Committee reviewed the tenure of the Non-Executive Directors against the provisions of the Code. All Directors were considered to be fully effective. The Board supported the proposal for their re-election at the 2017 and 2018 AGMs.	Undertake a rigorous review of the independence of the longer-serving Board members.
Promoting diversity throughout the business.	Candidates proposed by the Up Group and Egon Zehnder were from diverse backgrounds, in all aspects.	Continue to promote diversity in the broadest sense at Board and senior executive levels.
Annual evaluation of the Committee's performance.	An external evaluation concluded that the Nomination Committee operated very well.	A further external evaluation is planned for autumn 2018.
Annual review of the Committee's Terms of Reference.	Detailed review of the Committee Terms of Reference.	Following a detailed review in 2016-17, it was concluded that no further changes are required in 2017-18. A further review will be undertaken towards the end of 2018 once the revised UK Corporate Governance Code has been published.

Case Study: Directors' induction programme



“My structured induction programme gave me a thorough insight into the business: its operations, its markets and its people. It was a great way of getting to know the business.”

December 2016 – Rita joined the board**Induction programme prepared and sent to Rita prior to appointment**

On appointment, full access to the online Directors' Reference Manual, which contains the following key documents:

Introduction to Royal Mail	Role of the Board and its Committees
Royal Mail Corporate Governance and Directors' Duties	Board Effectiveness Review
Appointment and Board processes	Articles of Association
Royal Mail share and dealing regulations	Corporate history and Group structure
Corporate Strategy	Code of Business Standards
Treasury Risk Management	Business Integrity and Group Policies
Capital Structure, Business Plan and	Directors' and Officers' Liability Insurance
Capital Investment and Procurement Spend	

February to July 2017**Meetings with key executives:**

Board	Executives	External Stakeholders
Chairman	Managing Director of Royal Mail Letters and Network	Lawyers
Chief Executive Officer	Chief Executive Officer (GLS)	Brokers
Chief Finance Officer	Company Secretary	Audit partner
Non-Executive Directors	Chief of Staff	
	All corporate function heads	
Briefings on the business:		
Overview of the business	Corporate history	Governance framework
Strategy and vision	Finance overview	Board evaluation
Board objectives	Regulation	Talent and succession
Key business issues/risks	Competitors	
Digital	Unions – pay and pensions	
Site and Operational visits		
Tour of the Heathrow Worldwide Distribution Centre		Depot in Milan
Visit to GLS operations in Frankfurt		Mount Pleasant Mail Centre
Nine Elms Delivery Office in London		Swindon Mail Centre
Walk with a postman		

Board evaluation

Topic	Findings of the 2016-17 evaluation	Actions taken during 2017-18	Findings of the 2017-18 evaluation
Succession planning	Board should continue to progress the Board succession plan for both Executive and Non-Executive Directors. Ensure smooth succession plan for the Executive Directors.	Board skills reviewed to ensure continued alignment with strategy. Succession planning a real focus all year. Two major internal promotions, Group Chief Executive Officer and Chief Executive Officer of Post and Parcels, Royal Mail UK.	Continue to review the skills required following strategy review and discussions to ensure an appropriate succession plan for the Board and the Executive Committee.
Business transformation/strategy	Ensure adequate time is spent on labour issues as part of the business transformation agenda for the UK business. Ensure sufficient time is given to growth opportunities in the UK.	Adequate time spent on labour issue and pensions. Continued focus on growth opportunities in the UK.	Ensure adequate time is spent on UK growth, digital transformation, ways of working, costs and efficiency.
GLS expansion	Ensure full Board support is provided to Management on the execution of this strategic priority.	Increased understanding of this key strategic priority to fully understand global opportunities.	Continue to explore global opportunities in an appropriate and meaningful way.
Digital	Explore more deeply what 'digital' means for the Royal Mail Group and its relevance for the Group's customers.	An area of continuing focus to understand the Group's position in a technology-led world.	Digital transformation continues to be a priority for 2018-19.

Committees' evaluation

Topic	Findings of the 2016-17 evaluation	Actions taken during 2017-18	Findings of the 2017-18 evaluation
Audit and Risk Committee	Provide full support to ensure the successful transition to a 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. Introduce an enhanced training programme to complement the induction programme for new Directors to widen their knowledge both from a corporate governance and regulatory perspective and to give depth to their knowledge of the Group.	Successful transition and support for the new Director of Internal Audit and Risk Management. Group assurance map discussed and developed. Continued focus on the in-depth reviews together with Committee's training programme.	Agreed to increase time spent on in-depth reviews to ensure maximum challenge. Continue with education and training programme. Review the risk register to ensure adequate time is spent on emerging risks and scenario planning.
Remuneration Committee	Ensure greater transparency by the Committee of the Senior Management Team. Review the remuneration strategy for the broader Royal Mail management. Introduce regular formal training sessions into the annual meeting cycle to understand emerging governance themes, legislation changes and other trends in remuneration matters.	Understanding of the senior management team has improved. Internal and external support to the Committee worked well. Sufficient external data and briefings were provided to the Committee on an ongoing basis.	To continue with briefings from PwC on the remuneration landscape and trends as well as increasing benchmarking data for comparisons. Continue undertaking an annual bonus review. Assess appropriate measures as part of the wider policy review.
Nomination Committee	Support the Board in delivering the Board succession plan for both the Executive and Non-Executive Directors. Responsible for reviewing the talent and succession planning across the senior leadership group.	Progress with succession for the Board and executive. Better understanding of wider talent pool.	Ensure smooth transition for change of CEO and Executive Directors Board changes. Maintain focus on talent review and succession planning for key executives. Plan for future Non-Executive Directors appointments to fill any skill gaps identified.
Pensions Committee	Continue to fully understand the broader pension developments. Ensure full awareness at Board level. Provide relevant pensions training to both the Board and the Committee. Complete the 2018 Pension Review. Determine appropriate future investment strategy for the pensions within the Group.	Good progress made with the CWU with regards pensions. Pension issues regularly discussed at Board and therefore greater understanding of broader issues.	Review terms of reference to reflect agreed future structure of Groups' pension schemes. Continue to keep Board apprised of Committee's deliberations. Review future remit of Committee.

Audit and Risk Committee report



“The Committee continues to ensure accounting treatment, risk management and control and assurance processes follow best practice.”

Dear shareholder,

As Audit and Risk Committee Chair, I am pleased to present the Committee's report for the year ended 25 March 2018.

We have two fundamental responsibilities which inform the work we do as a Committee. 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 Management are working effectively.

As required by the UK 2016 Corporate Governance Code, the Board has confirmed that I have the recent and relevant financial experience to chair this committee, and my fellow Committee members bring a wide range of financial expertise, in particular, Rita Griffin, Les Owen and Keith Williams.

This will be my last report as Chair of the Committee as I will be stepping down from the Board following the AGM on 19 July 2018. Keith Williams, who has extensive financial experience, will succeed me and I wish him well in this role.

Committee advisers

To help us with our responsibilities, the Committee receives independent assurance from the Group's Internal Audit (IA) and Risk Management (RM) Director. We also receive 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) (page 57).

We also obtain support from external experts, with the Group's actuary, Willis Towers Watson Limited, providing expert opinion and long-term assumption advice with respect to pension accounting. Aon Limited provides similar expertise

Last year's priorities, actions and next year's priorities

2017-18 priorities	Progress over the year	2018-19 priorities
Evolving practice in external reporting	Modern Slavery Act supply chain review and compliance. Early adoption of IFRS 9 'Financial Instruments'. Review of impact of IFRS 15 and IFRS 16. Greater insight into accounting treatment for pensions.	Prioritisation of cyber risk and continued focus on the Group's capability to respond to cyber or data breach incidents.
Assurance mapping across the Group	General Data Protection Regulation (GDPR) updates and compliance. Assessment of going concern, viability and covenant compliance. Review of compliance framework (including GLS) including receiving quarterly updates from Group Compliance. Review of GLS risk management arrangements to enable effective governance and oversight of risks.	Successful implementation of the GDPR Programme across the Group. Continue focus on Group-wide compliance. Continue effective oversight of the management of risks in GLS
Prioritised risk reviews	Review of principal risks, including the implications of the UK Referendum on EU Membership. Review of risk management and internal controls. Receiving regular updates from IA and RM on the results of their reviews and the strengthened risk and control self-assessment processes.	Continued prioritisation of risk reviews and internal controls, including a focus on the Group's Business Continuity Programme.
Oversight of significant financial judgements and external audit	Financial reporting, particularly information presented by Management on significant accounting judgements and policies adopted in respect of the Company's half and full year results. This includes an assessment of whether the statements were fair, balanced and understandable.	Continued oversight of significant financial judgements and external audit.

in relation to other long-term liabilities. The Committee has concluded that these companies have the required expertise and resources to provide the necessary advice.

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 has full access to these experts and, using its own actuarial and statistical experts, is able to provide further assurance to the Committee on these matters.

Committee members and meetings

The members of the Committee are all independent Non-Executive Directors, being Orna Ni Chionna, Rita Griffin, Les Owen, Simon Thompson and Keith Williams, with me as Chair. Cath Keers was a member of the Committee until she stepped down from the Board at the end of February 2018.

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 and other members of senior management and representatives from the external auditor, KPMG. The Committee is supported by the Company Secretary.

Meeting cycle and agenda items

The Committee has a meeting planner, approved once a year, which provides a framework for each meeting agenda. During 2017-18, meetings were primarily focused on the half year and full year results as required by the financial calendar. The remainder of the meetings considered internal audit and risk management matters.

The number of Committee meetings held during 2017-18 and members' attendance is set out on page 61. The full Terms of Reference for the Committee can be found on our website at royalmailgroup.com

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
16 May 2018

Audit Committee effectiveness

An external evaluation of the Committee was carried out in 2017-18. The evaluation concluded that the Audit and Risk Committee operated very well. The evaluation is discussed in greater detail on page 67.

Effectiveness of the external audit process

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 2017 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. It 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 and Non-Executive Directors, and audit partners and team members.

The results of the online questionnaire will be supplemented using meetings with key stakeholders 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 meetings will not be available until after the signing of the financial statements, the feedback from the online survey and the review of reports presented by Management and KPMG to their May 2018 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. This 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 to the extent that is 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 has been engaged to provide non-audit services. Total fees earned for non-audit services during 2017-18 were £197,000, which represented around 9 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 £129,000 in 2017-18.

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.

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. The current audit partner will be required to rotate after the 2019-20 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 2018.

Key activity in relation to the financial statements

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

Matter considered	What the Committee did
One-off matters considered due to their materiality or nature	
Ofcom investigation (Contingent liability, see note 25 on page 143) 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.	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. This investigation remains a key agenda item on all updates to the Audit and Risk Committee. We have continued to review and challenge Management's assessment of the issue with reference to the accounting standards. We concluded that it continues to be appropriate to treat this issue as a contingent liability. The Committee has reviewed and approved the wording of its disclosure.
Ongoing matters considered due to their materiality and/or the application of judgement	
Advance customer payments (£283 million, see note 19 on page 134) 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 2018, this estimate totalled £234 million (March 2017: £240 million). Although the relevant survey and extrapolation is conducted by an independent company, the level at which a stamp holding is considered to be abnormal, and therefore excluded from the estimate, is a judgement made by Management. This judgement impacts revenue, profit and net assets.	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 its own experts to review the statistical processes and assess the judgemental assumption. We concluded that the level of deferred revenue remained appropriate.
Royal Mail Defined Benefit Pension Surplus (£2,163 million, see balance sheet and note 9 on page 120) The valuation of the pension liabilities and assets relies on the estimation of long-term assumptions such as RPI/CPI and mortality and the selection of appropriate asset valuation methods. Small movements in these assumptions can lead to material impacts on the balance sheet. In view of the complexity of accounting for pension schemes, significant focus is required on the associated disclosure to ensure that it is fair, balanced and understandable.	Key long-term assumptions were prepared by the Group's actuary, Willis Towers Watson Limited, and benchmarked against prevailing economic indicators and other large pension schemes. The assumptions were reviewed and approved by the Pensions Committee (see report on page 74). 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. The auditor used its own independent actuarial experts to confirm that the assumptions used were reasonable and appropriate.
Industrial diseases claims provision (£83 million, see note 22 on page 142) 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.	To determine whether the level of provisioning in the balance sheet was reasonable, the Committee examined reports from Management and estimates of the gross provision (including the number of claims incurred but not received and the associated expected cash outflow, undiscounted) calculated by Aon Limited. The discount factor used by Aon, as advised by Management, to calculate the present value of the provision was validated against applicable bond rates. We received KPMG's comments on the assumptions and the calculation used to reach the discounted provision and concluded that the approach taken to setting the provision continued to be appropriate.
Impact of changing employment legislation (see business risks on page 44) The Group has a large workforce and changes to laws and regulations relating to employment can have a significant effect on the Group's results.	Throughout the year, the Committee received regular updates on relevant employment law cases from the General Counsel along with impact assessments of judgements on the Group. In light of the legal updates, we examined reports prepared by Management to determine whether their interpretation of the potential liabilities for the Group was appropriate. We concluded that these potential liabilities were accounted for appropriately based on the legal assessments provided by the General Counsel.
Allocation of Mount Pleasant disposal proceeds (See significant accounting policies on page 149) Contracts were exchanged on 30 August 2017 for the sale of 6.25 acres of Royal Mail's Mount Pleasant site (comprising the Phoenix Place and Calthorpe Street plots) for a total gross consideration of £193.5 million. The sale of the Phoenix Place plot has been recognised in the current accounting year, whereas the sale of the Calthorpe Street site will be recognised upon completion of certain enabling works. Management have applied judgement in allocating the transaction proceeds between the two plots on a different basis to the schedule of cash receipts agreed with the purchaser.	The Committee examined reports from Management. We received KPMG's comments on the assumptions and the calculation used to calculate the allocation of proceeds and concluded that the approach taken was appropriate.

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. 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.

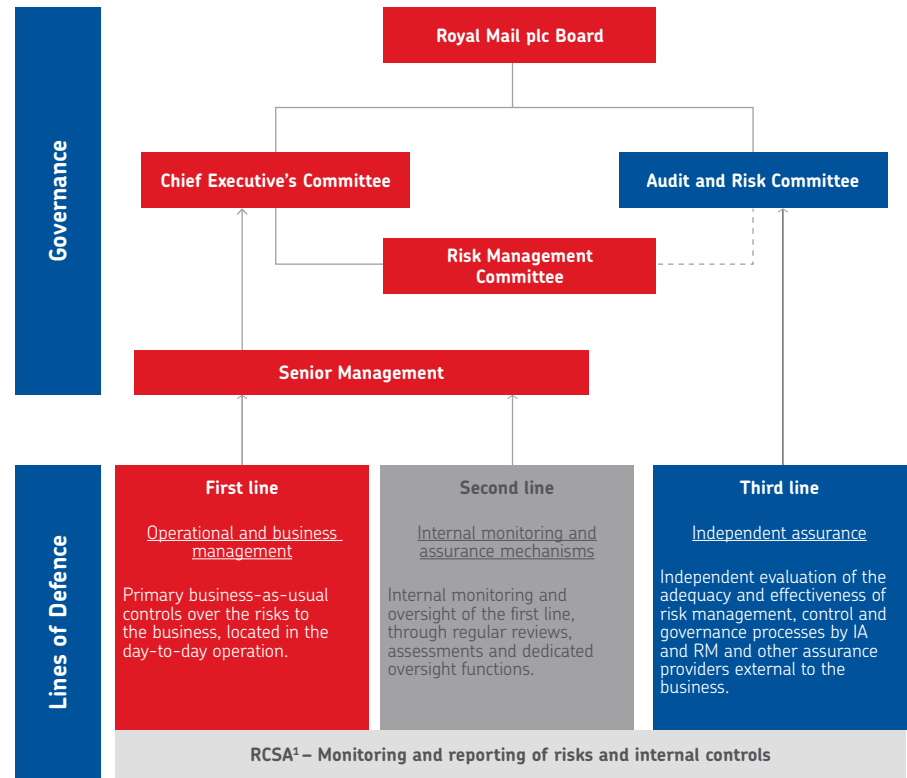
There is an ongoing process for identifying, evaluating and managing the principal risks faced by the Group in accordance with the guidance detailed by the Code. These include financial, operational and compliance risks, and risks to reputation. The process has been in place throughout the year and up 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 40-45. 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. This has also been used to support our Viability Statement on page 46.

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. It also includes 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) are also part of the framework.

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 40-45). 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: • revenue diversification; • required pace and level of cost reduction; • parcels risk management; • GDPR; • economic environment; • business continuity and disruption; and • executive talent.
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¹ Risk & Control Self-Assessment.

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, Compliance 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 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 2017-18 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 systems 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. The following activities are included:

- The external auditor performs a statutory year-end audit.
- The external auditor performs an audit of the regulatory accounts as part of the 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.

- 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 40-45.

Pensions Committee report



Dear shareholder,

As Chair of the Pensions Committee, I am pleased to present the Committee's report for the year ended 25 March 2018. Due to the significance of the Group's pension schemes to its financial management and affairs, the Pensions Committee has an important role in providing oversight and review of pension matters.

In July 2017, Matthew Lester stepped down from the Board and this Committee and we welcomed Stuart Simpson as a member. I would like to express my thanks to Matthew for his contribution. The number of Committee meetings held during the year and members' attendance is set out on page 61. The full Terms of Reference for the Committee can be found on our website at royalmailgroup.com

This has been a busy year for the Committee given the ongoing pension negotiations with the Communication Workers Union (CWU). Having announced in February 2018 that an agreement in principle had been reached over pensions, among other matters, we will now work on the successful implementation of the revised pension arrangements for our employees.

An external evaluation of the Committee was carried out in 2017-18. It concluded that the Pensions Committee operated very well. The evaluation is discussed in greater detail on page 67.

The following report goes into more detail on the revised pension arrangements. It outlines the Committee's priorities during the year, the progress we have made and our priorities for 2018-19.

Les Owen

Chair, Pensions Committee
16 May 2018

"The Committee was pleased with Management's agreement with the CWU over pensions, pay and working conditions and is confident that this is the right result for Royal Mail and our stakeholders."

Last year's priorities, actions and next year's priorities

2017-18 priorities	Progress over the year	2018-19 priorities
Conclusion of 2018 Pension Review and proposals for future pension benefits prior to being recommended to the Board for approval	Agreement reached with the CWU on future pension arrangements and approved by the Board	Successfully deliver key outputs from negotiations in relation to pensions, including investment strategy
The implementation of 2018 Pension Review outcomes and communication to members	Oversight of implementation of revised pension arrangements and member communications	Support Management's work with UK Government to introduce necessary CDC legislation and regulations
Results and implications of RMPP's 2015 valuation	Reviewed and agreed key pension assumptions	Consider results and implications of RMPP's 2018 valuation
Future investment strategy for pension schemes within the Group	Investment strategy continuously reviewed as part of the 2018 Pension Review	Ongoing Committee and Board training to ensure good understanding of broad pension developments and issues
Annual review of Committee's Terms of Reference	Carried out review of the Committee's Terms of Reference	Continue to provide recommendations on pension matters of strategic importance to Board and Audit and Risk Committee where necessary
Review and recommend to Audit and Risk Committee key assumptions relating to accounting for Royal Mail's pension liabilities	Review of interim and full year assumptions carried out	Review and recommend to Audit and Risk Committee key assumptions relating to accounting for Royal Mail's pension liabilities

Revised pension arrangements

The Committee has focused on the proposed revised pension arrangements so as to advise and support Management in their negotiations with our unions. It has also kept the Board fully advised. Royal Mail is committed to providing sustainable and affordable pension arrangements acceptable to our people and our unions; we are pleased with the agreement reached. Now, together with the CWU, the Group is lobbying Government to make the necessary legislative and regulatory changes to establish the UK's first Collective Defined Contribution scheme (CDC), providing new, innovative pension benefits for Royal Mail employees. The Committee will

continue to provide oversight as revised pension arrangements are introduced. It will ensure both the Board and the Audit and Risk Committee are kept apprised as appropriate.

Committee membership

Alongside me, the members of the Committee are Paul Murray and Stuart Simpson. Committee meetings are also attended, as required, by the Group HR Director, the Chief of Staff, the Legal Director for Pensions and Employee Benefits, the Head of Pensions Strategy and representatives from the Company's pensions advisers, Willis Towers Watson Limited. The Committee is supported by the Company Secretary.

Directors' remuneration report



Dear shareholder,

On behalf of the Board, I am pleased to present our Remuneration Report for 2017-18. As mentioned elsewhere, this year has been one of significant change for the Group: we continued on our path of growing our parcels business – in the UK and overseas – and we reached a ground-breaking agreement with the CWU, which includes important operations changes to implement more ambitious transformational change over the coming years. Since the year end, we have announced that Moya Greene will step down as Chief Executive in June and will leave the Group in

September. She has been an outstanding Chief Executive, whose impressive leadership skills and commitment to the Company have been apparent to any shareholder or stakeholder who has met her. I am delighted that the new leadership team includes two of our longest serving and most trusted senior executives, who will strive to sustain her legacy and lead the organisation through its next successful chapters.

Performance in 2017-18

We had a good year, during which our revenue exceeded £10 billion, and adjusted Group Operating Profit before transformation costs was £685 million for bonus purposes. It is testament to the dedication of our people right across the Group that they have managed to keep the operations running smoothly during severe weather conditions, the threat of industrial action and a winter flu epidemic. I am delighted that their success has been recognised by investors, as we returned to the FTSE 100 in March this year.

Many other factors have contributed to our success this year. We have continued to transform our network to handle parcels more efficiently, which is increasingly important as they become a greater proportion of our revenue. The UK parcels business delivered four per cent revenue growth in the year. Investment in GLS has enabled it to expand through acquisition and organic growth. Safety continues to be a fundamental part of how we operate across the Group, shown by a continuing reduction in the rate of road traffic collisions this year. You will see later in this report that we are enhancing our assessment of safety performance for the new financial year, to reflect its importance.

Of course, our main focus is on the future. The Pensions, Pay and Pipeline agreement

that has been reached with the CWU is core to the ongoing success of our business. The intensity of the negotiations was, in part, due to the fact that all sides are committed to providing good jobs for people in our communities, with a fair level of pay allowing them to expect a reasonable standard of living. Our aim now is to implement the agreement successfully – delivering an innovative approach to pension provision alongside new ways of working, in order to meet changing market demands.

We remain committed to our policy of treating our people fairly, as is apparent from our Gender Pay Report published in February 2018. Under the new reporting regulations we showed that, as in previous years, the average salaries of men and women are broadly the same. On a median hourly rate basis, men are paid 1.5 per cent more than women. This compares to a median pay gap of 9.7 per cent among all companies that have reported.

Board changes

In last year's report, we advised that Matthew Lester, our Chief Finance Officer (CFO), had decided to leave the business in July 2017. Stuart Simpson, who had been our Group Finance Director, stepped up into the role and joined the Board following the 2017 AGM. Stuart's remuneration package was determined in accordance with the

Remuneration Policy and was set out in last year's Report. Stuart has already made an excellent contribution to the Board and I look forward to continuing to work with him.

As I have already mentioned, the Board and Moya Greene have agreed that she will retire from the Group in September, stepping down from the Board at the AGM in July. I have worked with Moya since she joined Royal Mail in 2010. In my role as Chair of the Remuneration Committee, I have seen her firm commitment to always doing the right thing for the people in this business, whether that be on levels of pay, terms and conditions, or the investment that is needed to allow people to do their jobs to the best of their abilities. Personally, I will miss her wise counsel and superb insight into this complex organisation. I would like to take this opportunity to thank Moya for her outstanding contribution to the Group over the last eight years, which has left us in the strong position we are in today. Details of Moya's remuneration arrangements on departure are on pages 86-88.

I am very much looking forward to working with our two new Executive Directors, Rico Back and Sue Whalley. Both of these individuals are well known to the Board as they have been senior leaders in the Company for many years. Rico Back, our new Group CEO, has been with the Group for 18 years, latterly working closely with

our UK parcels team; and Sue Whalley, who will run our UK business, has been with the Group for 11 years. Sue worked closely with Moya to conclude the operational aspects of our agreement with the CWU. She will now be responsible for delivering the multitude of complex operational arrangements that were agreed, which are necessary for this business to continue to transform and grow.

As you would expect, the Committee took great care in determining the remuneration packages for these new Executive Directors. We are keenly aware of the sensitivity surrounding executive compensation and aim to balance that against our wish to attract and retain highly talented and experienced leaders so that we can do well in our increasingly competitive marketplace. We set out details of Rico and Sue's remuneration in their new roles in our announcement on 20 April 2018. This information can also be found on pages 83-84.

Remuneration outcomes in 2017-18

This year has seen strong financial performance across the Group, despite the challenges of sustained severe weather conditions in many parts of the country and a complex industrial relations environment for much of the year. These factors are reflected in the results of both our Annual Bonus and our Long-Term Incentive Plan (LTIP). Full detail on these outcomes is explained further in this report and a summary of our performance is as follows:

Annual bonus

The Corporate Balanced Scorecard accounted 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. Our performance in 2017-18 resulted in a Corporate Balanced

Scorecard outturn of just below target: strong performance in our financial metrics, safety and employee engagement was offset by misses in customer complaints, Quality of Service and productivity. We were delighted to achieve another increase in business customer satisfaction, where we are often rated as the number one delivery provider compared with our competitors.

The Committee deemed that Moya Greene had achieved the strategic objectives in full, resulting in a cash bonus of 71 per cent of salary. Stuart Simpson almost achieved the maximum against the strategic objectives resulting in a bonus award of 69 per cent of salary. The difference in achievement between Moya and Stuart is due to Stuart joining the Board part way through the performance year. As I mentioned, he has made an excellent contribution so far. Stuart's award is pro-rated to reflect the portion of the performance period that he was Group Finance Director and then CFO. Under the Deferred Share Bonus Plan (DSBP), this same value will usually be awarded in shares to each Director, to be granted in the summer and deferred for three years. This will be the case for Stuart Simpson. For Moya Greene, the Committee has decided to grant this award in cash, as she will be leaving the business. More on this particular point is provided on page 86.

Further detail about our performance against the Annual Bonus measures is given on pages 90-91.

Long-Term Incentive Plan (LTIP)

The 2015 LTIP is due to vest in July 2018, once the outcome under the Total Shareholder Return (TSR) metric is known. The performance periods for the other two metrics, Earnings per Share (EPS) and Operating Profit Margin before Transformation Costs, have been

completed, with EPS achieving a better than expected result. The detailed results of the performance known to date are shown on pages 91-92. The estimated vesting outcome of 44.3 per cent is based on the TSR performance at the end of the Financial Year, and will be finalised once the three year performance period has been completed in July 2018.

The impact of the Remuneration Policy on delivering our strategic aims

The Policy that we introduced in 2016 aims to provide balanced incentives which complement each other in pursuit of our strategic objectives. This Company will only thrive in the long term if we successfully deliver at pace each year and the measures in the Annual Bonus reflect that philosophy. We have been able to use shares in our reward schemes for four years now, since IPO. Our DSBP, introduced two years ago, also provides better alignment between strategy and reward.

The use of relative TSR as the single metric for the LTIP provides 100 per cent alignment with shareholder returns: our executives are rewarded only if shareholders are better off as a result of investing in our company.

With the implementation of the revised UK Corporate Governance Code and working towards a new Remuneration Policy to be voted on in 2019, we will continue our dialogue with our shareholders on director pay arrangements. 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
16 May 2018

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 in this Policy were intended to reward delivery at pace on the objectives required to achieve sustainable success, while maintaining appropriate flexibility in target setting from year to year. In summary, the objectives for our Remuneration Policy are to:

- Be more aligned with our fast-changing marketplace 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 (prior to the current Policy) 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 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 than prior to its introduction.

Executive 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 (Moya Greene): £547,800 (effective 1 January 2015)		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.	
CFO (Stuart Simpson): £450,000 (effective 20 July 2017)			
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 (Moya Greene): £200,000 per annum cash allowance		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 pension allowance of 17.5 per cent for newly appointed Executive Directors.	
CFO (Stuart Simpson): 17.5 per cent of salary cash allowance			

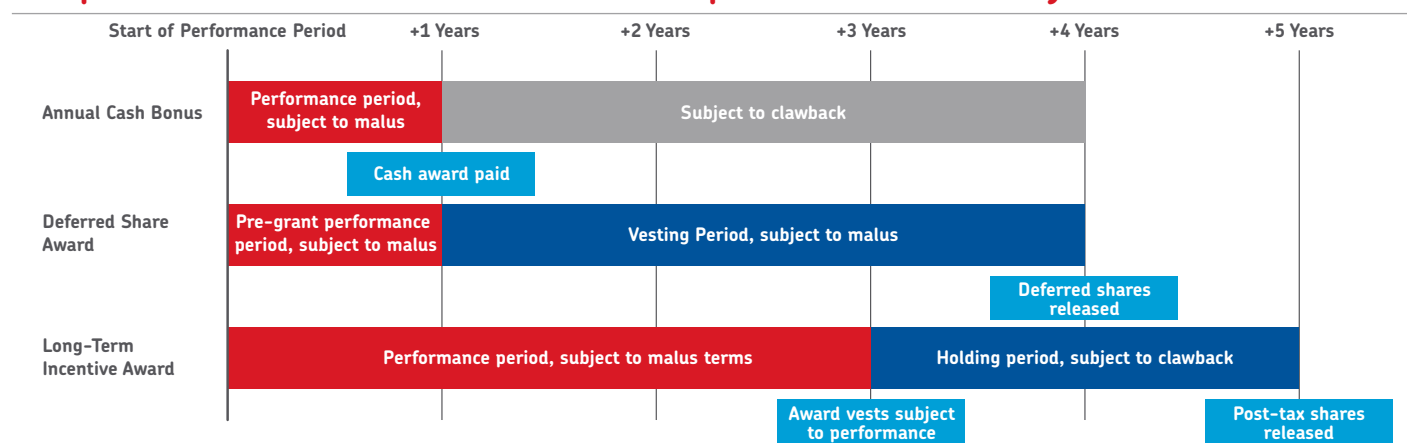
Variable remuneration

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 2018-19 year, 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; - make downward or upward movements to the amount of bonus earned resulting from the application of the performance measures, if the Committee believes that the bonus outcomes are not a fair and accurate reflection of business performance.		
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 2018 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.

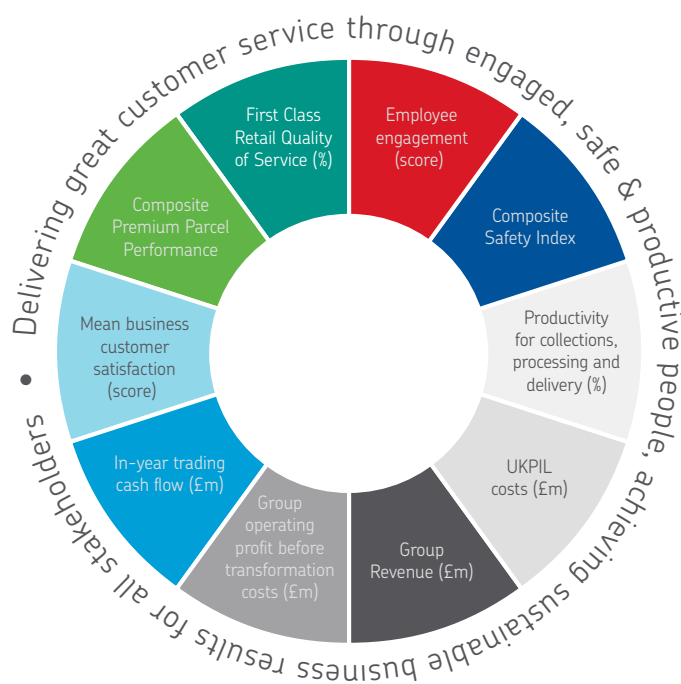
The Company will pay reasonable expenses incurred by the Non-Executive Directors and Chairman and may settle any tax incurred in relation to these.

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 overall structure of the Scorecard which continues to be made up of ten equally weighted metrics. The Committee has reviewed and made some adjustments to the Safety and Customer Complaints metrics, which will apply for the beginning of the 2018-19 performance period. The Road Traffic Collisions measure will be replaced with a composite Safety Index metric to ensure a broader focus on safety and embedding a stronger safety culture across the Group. The Customer Complaints metric will be replaced with a composite Premium Parcel Performance metric. This will measure our quality of service across the suite of our premium tracked parcel products – Special Delivery, Royal Mail Tracked 24[®]/48[®] and Tracked Returns[®].



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 2018-19 financial year:

1. Accelerate the expansion of our international business while avoiding undue risk.
2. Embed the new UK Post and Parcels system, by driving value from letters, investing in network development, implementing the deal with the CWU and progressing the Collective Defined Contribution pension arrangement.
3. Focus the Head Office functions to support the delivery of our strategy and business results, by simplifying processes and implementing transformational programmes.

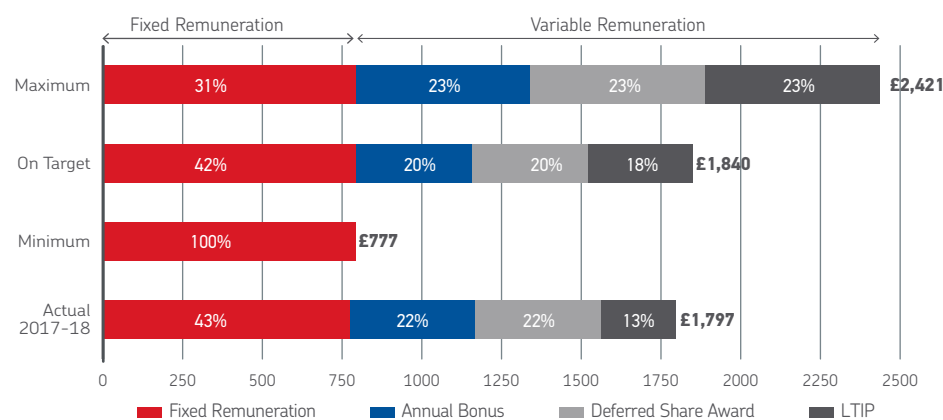
LTIP

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.

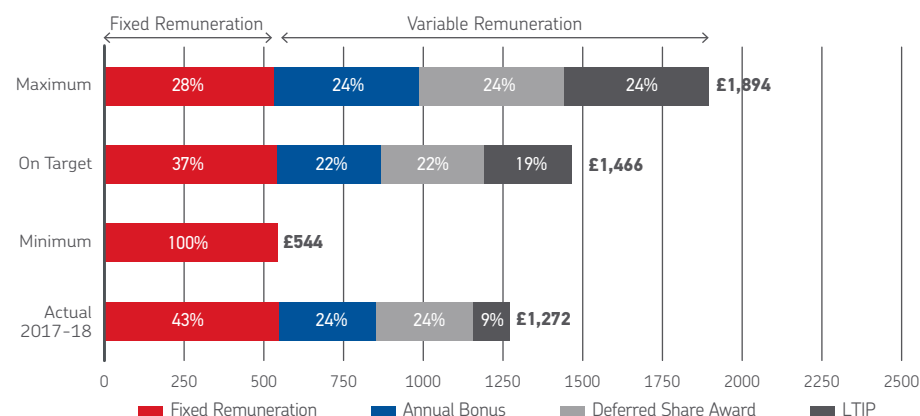
What is the remuneration opportunity under the Policy?

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. For the CFO, the Actual 2017-18 data shows the full year equivalent earnings, in order to provide a reasonable comparison to the Policy charts.

CEO (£000s)



CFO (£000s)



Assumptions

Minimum/fixed remuneration: This includes salary (CEO: £547,800, CFO: £450,000), pension allowance (CEO: £200,000, CFO: £78,750 – 17.5 per cent of salary) and benefits (CEO: £29,000, CFO: £15,000). Moya Greene has not taken all her benefits entitlement during the year.

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.

Actual 2017-18:

No assumptions have been made in relation to future share price movements or dividend reinvestments. The estimated impact of share price growth from the date of grant to the vesting for the 2015 LTIP, due to vest in July 2018, is 4 per cent of the total estimated value shown in the charts above.

How will the Policy be implemented in 2018-19?

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

Element	Implementation of Policy in 2018-19																																																								
Base salary	We review the salary of each Executive Director annually. Any increases in salary will be less than or equal to the general increase provided to employees. The salaries of our new Executive Directors have been set in accordance with the Remuneration Policy. The salaries for the Executive Directors for 2018-19 are: - Current Group CEO (Moya Greene) £547,800; - New Group CEO (Rico Back) £640,000*; - CFO (Stuart Simpson) £450,000; - CEO of Post and Parcels, Royal Mail UK (Sue Whalley) £450,000. *The increase in the new Group CEO's salary reflects the Remuneration Committee's desire that the fixed remuneration (base salary, cash pension allowance and benefit entitlement) is broadly the same as that of the current CEO. The higher base salary reflects the lower cash pension allowance as part of our Remuneration Policy.																																																								
Benefits	No change to benefit provision for 2018-19.																																																								
Pension Allowance	No change to pension allowance provision for 2018-19. The pension allowances for the Executive Directors for 2018-19 are: - Current CEO (Moya Greene) £200,000; - New CEO (Rico Back) £112,000 (17.5% of salary); - CFO (Stuart Simpson) £78,750 (17.5% of salary); - CEO of Post and Parcels, Royal Mail UK (Sue Whalley) £78,750 (17.5% of salary).																																																								
Annual Bonus	No change to the Annual Bonus structure for 2018-19. 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. For the 2018-19 Annual Bonus, 80 per cent of the award will be based on achievement against the Corporate Balanced 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. 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 that shareholders can fully assess the basis for any payouts under the Plan.																																																								
LTIP	No change to the LTIP for 2018-19. The Executive Directors will be eligible for an award equivalent to 100 per cent of salary. 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). The vesting schedule will measure the Group's performance over three years as follows: 50 per cent of the award will vest if TSR performance is equal to the median TSR of the companies in the comparator group; - Maximum vesting will occur if TSR is equal to, or greater than, the upper quartile TSR of the comparator group. The award is subject to straight line vesting between these two points. In the event that the underlying financial performance of the Group is not reflected in the TSR performance, the Committee would retain discretion to adjust the award.																																																								
Shareholding guidelines	200 per cent of salary for Executive Directors.																																																								
Non-Executive & Chairman Fees	The Chairman and the Executive Directors reviewed the fees paid to Non-Executive Directors. They agreed, given the increasing governance requirements requiring increased time spent on Royal Mail business, that their fees should be increased accordingly (the base fee reflects the level of commitment required by the Company for their individual Non-Executive Director profile): <table><thead><tr><th></th><th colspan="3">Annualised 2017-18 Fees</th><th colspan="3">Annualised 2018-19 Fees</th></tr><tr><th></th><th>Base Fee</th><th>Chair Fee</th><th>Total</th><th>Base Fee</th><th>Chair Fee</th><th>Total</th></tr></thead><tbody><tr><td>Rita Griffin</td><td>£50,000</td><td>–</td><td>£50,000</td><td>£62,000</td><td>–</td><td>£62,000</td></tr><tr><td>Paul Murray</td><td>£50,000</td><td>£15,000</td><td>£65,000</td><td>£64,000</td><td>£15,000</td><td>£79,000</td></tr><tr><td>Orna Ni-Chionna¹</td><td>£50,000</td><td>£25,000</td><td>£75,000</td><td>£60,000</td><td>£25,000</td><td>£85,000</td></tr><tr><td>Les Owen</td><td>£50,000</td><td>£10,000</td><td>£60,000</td><td>£62,000</td><td>£10,000</td><td>£72,000</td></tr><tr><td>Simon Thompson</td><td>£50,000</td><td>–</td><td>£50,000</td><td>£56,000</td><td>–</td><td>£56,000</td></tr><tr><td>Keith Williams</td><td>£50,000</td><td>–</td><td>£50,000</td><td>£56,000</td><td>–</td><td>£56,000</td></tr></tbody></table>		Annualised 2017-18 Fees			Annualised 2018-19 Fees				Base Fee	Chair Fee	Total	Base Fee	Chair Fee	Total	Rita Griffin	£50,000	–	£50,000	£62,000	–	£62,000	Paul Murray	£50,000	£15,000	£65,000	£64,000	£15,000	£79,000	Orna Ni-Chionna ¹	£50,000	£25,000	£75,000	£60,000	£25,000	£85,000	Les Owen	£50,000	£10,000	£60,000	£62,000	£10,000	£72,000	Simon Thompson	£50,000	–	£50,000	£56,000	–	£56,000	Keith Williams	£50,000	–	£50,000	£56,000	–	£56,000
	Annualised 2017-18 Fees			Annualised 2018-19 Fees																																																					
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Keith Williams	£50,000	–	£50,000	£56,000	–	£56,000																																																			

¹ The Chair's fees shown above for Orna Ni-Chionna also include the fee for her role as Senior Independent Director.

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 in 2016-17, the pension allowance paid to any newly appointed Executive Director is 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 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 an LTIP 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 remuneration arrangements for our new Executive Directors?

Our two new Executive Directors, as detailed below, have been appointed in line with this Policy.

Rico Back

Rico Back will assume the role of Group CEO and join the Board on 1 June 2018. The Remuneration Committee has determined the following remuneration package for him in line with the shareholder approved Policy. The table sets out the elements of the package and the Committee's rationale:

Element	Detail	Rationale
Salary	£640,000	- The objective of the Committee was that the total fixed remuneration for the new CEO would be broadly in line with the former CEO, recognising the difference in package mix with a lower pension allowance provided to the new CEO but with a higher salary. - The base salary has appropriately been set within the lower quartile of the Company's comparators (lower quartile salary in the FTSE 100 is £793,000).
Pension	17.5% of salary pension allowance.	- This is substantially lower than the pension allowance paid to the former CEO and is in line with the commitment made in the Policy that the Committee "would adopt a lower percentage for newly appointed Executive Directors, up to median FTSE100 levels." - The pension contribution level is in the lower quartile of the Company's comparators (lower quartile pension contribution in the FTSE 100 is 24%).
Benefits	In line with the Policy.	Standard Company benefits package. Note: Rico Back will continue to use appropriate scheduled commercial flights when travelling directly between Zurich and London. He will personally bear the costs for these flights and his accommodation in London.
Total Fixed Remuneration (salary, pension and benefits)	£790K	- The objective of the Committee was that the total fixed remuneration for the new CEO would be broadly in line with the former CEO, recognising the difference in package mix with a lower pension allowance provided to the new CEO but with a higher salary. - The position of the total fixed remuneration externally is appropriately within the lower quartile of the Company's comparators (lower quartile total fixed remuneration in the FTSE 100 is £921,000).
Annual Bonus	Maximum 200% of salary (see above for details of the operation of the Annual Bonus for 2018-19).	- The Committee recognises that the absolute value of bonus potential for the new CEO has been increased due to the increase in base salary. The Committee wishes to highlight that: - This level of incentive is comparable to the appropriate comparator group within the FTSE 100, i.e. the lower quartile, and will be underpinned by the performance conditions, which have been set for 2018-19 to be suitably challenging. 50% of any bonus earned will be awarded in shares, continuing the build-up and retention of a shareholding to ensure a shared ownership experience between the CEO and shareholders.

Element	Detail	Rationale
LTIP	100% of salary (see above for details of the operation of the LTIP for 2018-19).	- As with the bonus, the Committee recognises that the potential value to the new CEO has been increased due to the increase in the base salary, whilst remaining in the lower quartile of the FTSE 100 comparator group. - The requirement for the corporate strategy to deliver sustainable shareholder returns in order for any LTIP award to be earned is extremely important to ensure alignment with shareholders and other stakeholders in the Company. Therefore the increased opportunity is seen by the Committee as further strengthening that alignment.
Total Incentive Opportunity	300% of salary.	The total incentive opportunity is set by the shareholder approved Policy.
Total Target Remuneration (based on target performance for the bonus and LTIP)	£2,031,600	- The Committee believes that the total remuneration (i.e. all elements) remains at an appropriate level for the Company, taking into account its position in society and ensuring fairness with all stakeholders. - The position of the total remuneration externally is appropriately within the lower quartile of the Company's comparators (lower quartile total remuneration in the FTSE 100 is £2,787,000).
Shareholding Requirement	200% of salary	The current shareholding of the new CEO (as a percentage of his new salary) is just over 60% which is a positive start to building up the required holding.

Legacy Arrangements relating to employment as CEO of GLS Holdings

The new Group CEO is an internal candidate having headed up GLS Holdings and UK Parcels prior to his promotion. He therefore has a number of existing awards under the incentive arrangements operated by GLS. In line with the Policy set out above, these awards will continue to vest on their original terms and be disclosed in the relevant Annual Report on Remuneration when vested.

Bonus

Rico Back will be entitled to a pro-rated bonus for the part of the 2018-19 financial year during which he is CEO of GLS Holdings. For the balance of the financial year, he will have a pro-rated bonus potential based on his role as Group CEO.

Sue Whalley

Sue Whalley will assume the new role of CEO of Post and Parcels, Royal Mail UK and join the Board on 1 June 2018. The Remuneration Committee has determined the following remuneration package for her, in line with the shareholder approved Policy:

Base Salary	£450,000
Pension Allowance	17.5%
Maximum Annual Bonus	200%
Maximum LTIP	100%

The external positioning of the remuneration package is consistent with the other Executive Directors and set appropriately within the lower quartile of the FTSE 100.

In line with Royal Mail Group's other Executive Directors, Sue Whalley will be expected to retain any share-based awards until she has a shareholding equivalent to 200 per cent of salary.

Legacy Arrangements

In line with our Policy for an internally appointed Executive Director, the outstanding LTIP awards in relation to her prior service will continue on their original terms, and will be reported in the relevant Annual Report on Remuneration when vested.

Bonus

Sue Whalley will be entitled to a pro-rated bonus for the part of the 2018-19 financial year during which she carries out her current role. For the balance of the financial year, she will have a pro-rated bonus potential based on her role as CEO of Post and Parcels, Royal Mail UK.

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
Stuart Simpson	15 May 2017	12
Rico Back	20 April 2018	12
Sue Whalley	20 April 2018	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 25 March 2018 (months)
Peter Long	18 June 2015	2
Rita Griffin	1 December 2016	20
Cath Keers	20 September 2016	Retired 28 February 2018
Paul Murray	20 September 2016	18
Orna Ni-Chionna	20 September 2016	18
Les Owen	20 September 2016	18
Simon Thompson	1 November 2017	31
Keith Williams	1 January 2018	33

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, when it was in State ownership. As disclosed in the Prospectus and as has been set out in every Directors' Remuneration Report since Listing, 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 relevant 12 month period. The assessment of the annual bonus award would be made in line with normal practice for determining bonuses. We disclosed the detail of Moya Greene's contractual entitlement on 20 April 2018, when we announced her retirement. For more information, please see pages 86-88. 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.

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. Service contracts for Executive Directors do 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.

Under Stuart Simpson'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.

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

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

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

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

How did the Committee apply the Policy to Moya Greene?

In line with the Policy set out above, Moya Greene's cessation of employment qualifies for good leaver status due to her retirement with the consent of the Committee. The Remuneration Committee has, therefore, made the following determinations consistent with this status.

Ongoing remuneration

Fixed

Following Moya Greene stepping down as CEO from 1 June 2018, she will remain an employee of the Company until September 2018. During this period she will continue to receive her current salary, benefits and pension contribution. The annual rates for these fixed elements of the remuneration package are set out in the table below:

Element	Annual Rate (£)
Salary	£547,800
Pension Allowance	£200,000
Estimated Value of Benefits (variable based on benefits taken up)	£43,000

Bonus 2017-18

Moya Greene will have been employed for the full financial year and therefore qualifies for a bonus based on the level of satisfaction of the performance conditions. The Committee will apply its normal procedure in determining bonuses, with bonuses payable to all participants, including Moya, following the end of the financial year in June 2018. The bonus payment to Moya will be payable solely in cash, with no element provided in deferred bonus shares. The Committee determined to make the payment in cash to reflect the proximity of her departure to the bonus payment date and given the equity exposure already provided post her retirement from existing awards under the Company's share plans.

Bonus 2018-19

Moya Greene will be eligible to receive a bonus for the 2018-19 financial year in which she ceases employment with the Company. The terms of her bonus participation are:

- She is eligible solely to receive the cash element of the Annual Bonus Plan which has a maximum value of 100 per cent of salary;
- The Committee has not exercised its discretion for her to qualify for the element of the Annual Bonus provided in deferred shares (maximum value 100 per cent of salary). This decision was made to reflect her contractual entitlement to an element of the bonus as part of her payment for loss of office (see below). This means that the total bonus opportunity in respect of 2018-19 is in line with the normal maximum of 200 per cent of salary;
- The bonus will be pro-rated to the period of time she works during the financial year;

- The corporate scorecard performance conditions will be measured at the end of the financial year (the element of the bonus (20 per cent) which is based on individual objectives will be measured at the point of her cessation of employment);
- Any bonus payment will be made at the same time as to other Executives following the end of the financial year.

Long-Term Incentive Plan 2018-19

There will be no award to Moya Greene in respect of the 2018-19 financial year to reflect her retirement during the year. Details of the treatment of existing share awards are set out below.

Existing Share Awards

Moya Greene holds a number of existing awards under the following Company share plans:

- The Royal Mail plc Deferred Share Bonus Plan.
- The Royal Mail plc Long-Term Incentive Plan (pre and post 2016).

2017 Deferred Share Award

The performance conditions for the Deferred Share Award were satisfied at the date of grant with the only ongoing condition being continued employment at the vesting date. Dividend equivalents will be provided on vesting on the number of shares vested. In line with Policy for good leavers, the 2017 Deferred Share Award will not lapse on Moya's cessation of employment but vest on the original vesting date. The following table sets out details of the Award:

Date of Grant	Vesting Date	Number of Shares
20 June 2017	21 June 2020	99,663

2015 LTIP Award

The performance periods for the 2015 LTIP will have been completed prior to Moya's cessation of employment. In addition, Moya will be employed at the vesting date and therefore the 2015 LTIP will automatically be eligible to vest in accordance with the rules of the LTIP. Dividend equivalents will be provided on vested shares on the vesting date. The following table sets out details of the Award:

Date of Grant	Vesting Date	Number of Shares
23 July 2015	23 July 2018	105,057

See page 92 for the current estimate of the level of award vesting.

2016 & 2017 LTIP Awards

In line with the Policy, the Committee has determined that the following treatment will apply to these awards:

- The maximum number of shares capable of vesting will be pro-rated to the amount of the performance period completed on the date of Moya's cessation of employment;
- The number of shares vesting will be calculated based on the level of satisfaction of the performance conditions at the end of the original performance period;
- A two year holding period will apply to shares following vesting, or a holding period of two years following cessation, whichever is earlier;
- Dividend equivalents will be provided on vested shares on the vesting date.

The following table sets out details of the LTIP Awards:

Date of Grant	Vesting Date	Pro-rated Number of Shares Capable of Vesting (subject to performance conditions)
21 July 2016	21 July 2019	86,838
28 July 2017	28 July 2020	65,450

Payment for Loss of Office

As disclosed in our announcement on 20 April 2018, the Company is legally required to make a payment to Moya as part of her employment contract, which was approved by Government in 2010 when Royal Mail was in State ownership. This requirement was disclosed in our Prospectus and has been set out in every Directors' Remuneration Report since Listing. The payment comprises:

- 12 months' base salary (based on the annual rate applicable at the date of cessation of employment);
- 12 months' cash bonus. The Committee has determined that:
 - the reference period to calculate the bonus is the 12 month period in which the cessation occurs (2018-19); and
 - the value of the bonus should be based on the target bonus for this period.

The following table sets out the amount of this payment:

Salary	Target Bonus (67% of maximum)	Total Payment
£547,800	£367,000	£914,800

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

Although employees have not been directly consulted on the Remuneration Policy, or its application, the remuneration arrangements across the Group are taken into consideration by the Committee when making decisions about Executive remuneration. For example, pay review budgets for senior managers and executives are capped at lower rates than agreed with our trade unions for employees whose pay is collectively bargained. In addition, the different incentive and commission schemes in operation across the Group all support the delivery of the Company-wide annual bonus scorecard, through which the Executive Directors are incentivised.

Therefore although the broader workforce has not input into the Policy, its application is heavily influenced by remuneration arrangements for all employees.

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 2017-18 and 2016-17, compared with the average for all employees across the Group. The small reduction in the average salary 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. Over the last five years our frontline employees have received an increase of 15.4 per cent of salary, including an increase of five per cent effective from 1 October 2017.

	Chief Executive Officer Moya Greene			Average of All Employees		
	2017-18	2016-17	% Change	2017-18	2016-17	% Change
Salary ¹	£547,800	£547,800	0%	£28,724	£28,919	-0.7%
Benefits ²	£29,000	£43,000	-32.6%	£48	£48	0.2%
Cash Bonus	£386,800	£439,883	-12.1%	£868	£853	1.8%

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 no use of her flight benefit during the financial year, hence the decrease in value.

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 was appointed as a Non-Executive Director at easyJet plc on 19 July 2017 and received fees of £42,077 for the last reported financial year. Moya Greene will be joining the Board of Rio Tinto Ltd on 17 September 2018. Stuart Simpson held no external appointments for the last reported financial year. Matthew Lester is a Non-Executive Director at Man Group plc and received fees of £33,494 for the period from 1 April 2017 to 31 July 2017, when his employment with Royal Mail ceased. He joined the Board of Capita plc, effective 1 March 2017, and received fees of £22,308 for the period from 1 April 2017 to 31 July 2017.

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 2017-18. 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	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Chairman																
Peter Long	300	300	–	–	–	–	–	–	–	–	–	–	–	–	300	300
Executive Directors																
Moya Greene	548	548	29	43	387	440	387	440	246	230	200	200	0	0	1,797	1,901
Stuart Simpson ⁶	315	–	11	–	216	–	216	–	110	–	55	–	0	–	923	–
Matthew Lester ⁷	158	475	6	15	0	381	0	0	0	210	63	190	0	0	227	1,271
Non-Executive Directors																
Rita Griffin	57	17	–	–	–	–	–	–	–	–	–	–	–	–	57	17
Nick Horler ⁸	–	46	–	–	–	–	–	–	–	–	–	–	–	–	–	46
Cath Keers ⁹	51	50	–	–	–	–	–	–	–	–	–	–	–	–	51	50
Paul Murray	73	65	–	–	–	–	–	–	–	–	–	–	–	–	73	65
Orna Ni-Chionna	81	75	–	–	–	–	–	–	–	–	–	–	–	–	81	75
Les Owen	67	60	–	–	–	–	–	–	–	–	–	–	–	–	67	60
Simon Thompson ¹⁰	23	–	–	–	–	–	–	–	–	–	–	–	–	–	23	–
Keith Williams ¹¹	14	–	–	–	–	–	–	–	–	–	–	–	–	–	14	–
TOTAL	1,687	1,636	46	58	603	821	603	440	356	440	318	390	0	0	3,613	3,785

- There has been no change to the contractual benefits entitlement, which includes medical insurance and car allowance. Moya Greene is also entitled to two return flights to Canada. However, she has not made use of that benefit during the financial year, hence the decrease in value.
- Bonuses are determined based on the salary as at 1 January 2018 in line with the Company's Policy for all staff. Bonus payments are made in cash.
- 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. The award for Moya Greene will be made in cash, as explained on page 86. The DSBP award for Stuart Simpson reflects his period of service as an Executive Director. His full year DSBP award (including service prior to his appointment as CFO) was £285,400. As disclosed in the 2017 report, Matthew Lester did not receive a DSBP award in relation to the 2016-17 year.
- The current year figure relates to an estimated vesting of the 2015 LTIP award as shown in the 2015 LTIP Outturn section below. The 2015 LTIP is due to vest in July 2018, once the outcome under the TSR metric (which has a performance period that runs from the July 2015 grant date for three calendar years) is known. The prior year figure relates to the 2014 LTIP award. This amount has been updated since the 2017 report, as the 2014 LTIP vested after publication of the Report, which showed the estimated vesting. The share price used to estimate the value on vesting was £4.20, the actual share price on vesting was £3.98. The combination of the actual share price, and the application of dividend equivalents (as set out in the Policy) led to an increase in the value of the LTIP vesting for Moya Greene of £21,000 and for Matthew Lester of £19,000 from that set out in the 2016-17 Directors' Remuneration Report.
- 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 was paid as an allowance. 7% of salary (of a total pension allowance of 17.5% of salary) for Stuart Simpson is paid into the Royal Mail Defined Contribution Plan.
- Stuart Simpson joined the Board on 20 July 2017. All amounts for 2017-18 above are pro-rated to reflect his service as an Executive Director, with the exception of the LTIP, where the full estimated vesting amount is shown.
- Matthew Lester left RMG on 31 July 2017.
- Nick Horler retired from the Board on 28 February 2017.
- Cath Keers retired from the Board on 28 February 2018.
- Simon Thompson joined the Board on 1 November 2017.
- Keith Williams joined the Board on 1 January 2018.

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 reviewed the salaries of our Executive Directors and decided not to make an increase to Moya Greene's salary in 2017-18. This has not changed since January 2015. Stuart Simpson's salary was set on his appointment to the role of CFO. The following table compares salary increases of Executive Directors with frontline staff over the last five years:

% increase in salary	2017-18	2016-17	2015-16	2014-15	2013-14
Moya Greene¹	0%	0%	10%	0%	0%
Stuart Simpson²	–	–	–	–	–
Average frontline employee³	5%	1.6%	2.8%	3%	3%

- Over the last five years, Moya Greene has received total salary increases of 10 per cent.
- Stuart Simpson's salary was set at £450,000 on appointment as an Executive Director, in accordance with the current Remuneration Policy.
- Over the last five years our frontline employees have received an increase of 15.4 per cent of salary, including an increase of five per cent effective from 1 October 2017.

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.

Performance against the Corporate Scorecard makes up 80 per cent of the bonus for Executive Directors. The table below contains a summary of the performance metrics and achievement against these for the 2017-18 year.

Corporate Balanced Scorecard

Measure	Weighting	Threshold	Target	Max	Actual	Outcome as % of Target
Road Traffic Collisions per 1,000 vehicles reduction (%)	10%	0.0	7.0	12.0	9.0	12.0%
Employee Engagement	10%	57	58	59	59	15.0%
First Class Retail Quality of Service (%)	10%	–	93	93.2	91.7	0.0%
Mean Business Customer Satisfaction	10%	76.2	77	77.8	78	15.0%
Total Customer Complaints ('000)	10%	548.8	532.8	516.8	564.8	0.0%
Productivity for Delivery, Collections & Processing (%)	10%	2.0	2.5	3.0	1.0	0.0%
Total UKPIL Costs (£m)	10%	(7,391)	(7,246)	(7,101)	(7,112)	14.6%
Total Group Revenue (£m)	10%	9,706	10,006	10,306	10,051	10.8%
Group Operating Profit Before Transformation Costs (£m)	10%	545	645	745	685	12.0%
In-year Trading Cashflow (£m)	10%	338	388	438	444	15.0%
Scorecard Achievement (as % of target)	100%					94.4%

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. The achievement for In-Year Trading Cashflow has been adjusted to reflect the cash impact of the frontline pension and pay agreement for 2017-18.

The remaining 20 per cent of the bonus for Executive Directors is based on achievement against Strategic Objectives set by the Board.

Achievement against the Strategic Objectives for 2017-18 was assessed by the Chairman and ratified by the Remuneration Committee.

Performance was determined to be very strong due to the significant progress made against the following:

1. Apply sufficient resource focused on global parcels to enable acceleration of our rate of expansion (primarily via acquisition).

Two acquisitions were closed during the year, Postal Express in the United States and Redyser Transporte in Spain. These two acquisitions have added £29 million revenue during the financial year. GLS now provides a parcel service with full US West Coast coverage when the previous acquisition, GSO, is also considered. Such expansion in the US has helped to create a strong overnight parcels delivery network with the capability to deliver along the West Coast. This provides the ability to offer shorter delivery times than our competitors, which in turn is enabling us to win more business and benefit from growth in interstate deliveries. Further acquisitions were considered but not pursued, following due diligence. We continue to build and maintain a strong pipeline of future potential transactions.

2. Continue to drive profitable growth in GLS, our parcels business in Europe.

GLS has managed to sustain strong underlying revenue and profit progression in Europe. This has been achieved despite growing cost pressures, including the increase in the minimum wage in Germany and subcontractor cost pressures in many key markets, which have compressed margins. To drive revenue, GLS has expanded its premium business to consumer (B2C) service, FlexDeliveryService, which is now available in 20 countries. Improvements have also been made in inner city logistics, trialling micro hubs in Germany and environmentally friendly delivery methods in Italy. In February 2018, GLS acquired Redeyser Transporte. Redeyser will further strengthen GLS' position as Spain's second biggest national express parcels network, following the acquisition of ASM Transporte Urgente in June 2016.

3. Deliver the next stage of the parcels strategy in the UK, including enhancement of the customer proposition at acceptable cost through technology deployment.

There has been significant progress in continuing to improve our technology for parcels customers. Online business sales orders exceeded the previous year's busiest day by 17 per cent. In Parcelforce Worldwide (PFW), My Parcel Live and the PFW App are live and fully deployed. There have been over 45,000 downloads of the app to date. E-order capability has been launched for both account and retail customers, and 'Interconnect' international notifications have been launched for exports to 180 countries.

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.

A Joint Industry Committee has been established to further promote the value of mail. Alongside that there has been continued focus on protecting the value of mail with distinct strategies for marketing, publishing, social and transactional mail. Around 90 per cent of in scope mail now has a Mailmark®. In other revenue streams, third party vehicle maintenance has grown, reaching the break-even point. Over 28,000 vehicles have visited our workshops. Following comprehensive negotiations with the CWU, the Royal Mail Pension Plan, our legacy defined benefit pension scheme, has now closed to future accrual. An innovative cash balance pension arrangement was successfully launched in April 2018, and we have started the process of jointly lobbying Government to make the necessary legislative and regulatory changes to enable the introduction of a Collective Defined Contribution scheme.

The Chairman determined that the performance of Moya Greene against the Strategic Objectives was at maximum. This was ratified by the Remuneration Committee. When added to the outcome of the Corporate Balanced Scorecard, the total bonus as a percentage of salary was 71 per cent, giving an annual cash bonus of £386,800. This amount will also be awarded to Moya Greene on her departure in cash, following the Committee's decision to award cash rather than shares under the deferred share bonus plan, bearing in mind the proximity to her departure and the remaining value of LTIPs.

Bonus for Moya Greene (CEO)	Weighting	Target (% of salary)	Max (% of salary)	Achievement (% of target)	Outcome (% of salary)
Corporate Balanced Scorecard	80%	54%	80%	94.4%	51%
Strategic Objectives	20%	13%	20%	150%	20%
Total (as % of salary)	100%	67%	100%		71%

The CEO determined that due to Stuart Simpson joining the Board part way through the year, the performance against the Strategic Objectives was at 18 per cent (out of a maximum of 20 per cent). This was ratified by the Remuneration Committee. When added to the outcome of the Corporate Balanced Scorecard, the total bonus as a percentage of salary was 69 per cent. For the period from 20 July 2017 when he was appointed as an Executive Director, this gives an annual cash bonus of £216,100.

Bonus for Stuart Simpson (CFO)	Weighting	Target (% of salary)	Max (% of salary)	Achievement (% of target)	Outcome (% of salary)
Corporate Balanced Scorecard	80%	54%	80%	94.4%	51%
Strategic Objectives	20%	13%	20%	134%	18%
Total (as % of salary)	100%	67%	100%		69%

In line with the Remuneration Policy and subject to Committee approval, this performance outturn determines the value of the deferred share award to be granted to the CFO, equal to the value of his bonus. For this year, Stuart Simpson's total bonus was £285,400, including his award prior to joining the Board. Therefore this amount will be granted, subject to approval, under the deferred share bonus plan. This award will vest in three years.

What was the outturn of the 2015 LTIP?

The 2015 award was based on achievement against two performance conditions to be achieved by 25 March 2018 and a third condition, TSR, to be achieved by July 2018. The tables below show the performance conditions and the estimated vesting of this plan. The final outcome of the plan will depend upon the relative share price performance in the last three months of the performance period. Performance targets for the 2015 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%	'Basic EPS excluding specific items' as reported in the Annual Report and Accounts of the Company	Financial year 2017-18 ^{1,2}	40.8 pence	12.5%	44.7 pence	50%
Adjusted operating profit margin before transformation costs	35%	Adjusted operating profit margin before transformation costs as reported in the Annual Report and Accounts of the Company	Financial year 2017-18 ^{1,2}	7.2%	8.75%	8.3%	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 ³	Median	7.5%	Top Quartile	15%

1 Results include an adjustment to remove the impact of weaker sterling on UKPIL.

2 Results are adjusted to reflect a constant foreign exchange rate of £1/€1.42 in GLS.

3 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 (% of award)	Estimated 2015 LTIP Vesting (% of award)
Earnings per share (EPS)	40.8 pence	44.7 pence	43.0 pence	33.8%	
Adjusted operating profit margin before transformation costs	7.2%	8.3%	6.92%	0%	44.3%
Total Shareholder Return (TSR) versus FTSE 100 comparator group	Median	Top Quartile	Estimated 60th percentile	Estimated 10.5%	

The 2015 LTIP is due to vest in July 2018, once the outcome under the TSR metric (which has a performance period that runs from the July 2015 grant date for three calendar years) is known. For the TSR metric, the average TSR for the three months period ending 31 March 2018 is used in order to calculate the estimated vesting above. At the end of the TSR performance period, the outcome will be recalculated based on the average TSR over the three month period ending on the last day of the TSR performance period.

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

The grants made for the 2016 LTIP and the 2017 LTIP remain outstanding. The performance conditions for both LTIPs 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 25 March 2018:

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 at grant
Moya Greene	2016	LTIP shares	100%	548	50%	2018-19	107,800
	2017	LTIP shares	100%	548	50%	2019-20	138,602
Stuart Simpson	2016	LTIP shares	100%	245	50%	2018-19	48,213
	2017	LTIP shares	100%	450	50%	2019-20	113,857

It should be noted that on Matthew Lester's cessation of employment, his 2015 and 2016 LTIP awards lapsed and he was not granted a 2017 LTIP award. The pro-rated number of shares capable of vesting for Moya Greene under the 2016 and 2017 LTIPs can be found on page 87.

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 25 March 2018. There has been no change in the Directors' interests in the ordinary share capital of the Company between 25 March 2018 and 16 May 2018 except as noted in (2) and (3) below.

	Shareholding Requirement	Number of shares owned outright on 25/03/18	Number of shares owned outright on 26/03/17	Value of shares owned outright on 25/03/18 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 2015, 2016, 2017) ³
Chairman							
Peter Long	–	100,000	100,000	–	–	–	–
Executive Directors							
Moya Greene	200%	72,163	40,173	£381,887	590	£439,883	351,459
Stuart Simpson	200%	25,936	–	£137,253	590	£430,490	209,056
Matthew Lester ⁴	200%	59,468	30,591	£314,705	590	–	–
Non-Executive Directors							
Rita Griffin	–	–	–	–	–	–	–
Cath Keers	–	3,030	3,030	–	–	–	–
Paul Murray	–	15,943	15,617	–	–	–	–
Orna Ni-Chionna	–	13,953	3,313	–	–	–	–
Les Owen	–	3,030	3,030	–	–	–	–
Simon Thompson	–	–	–	–	–	–	–
Keith Williams	–	–	–	–	–	–	–

¹ Value based on closing share price on 23/03/18.

² Includes the DSBP granted in respect of the 2016–17 Annual Bonus and to be granted to Stuart Simpson in respect of his full 2017–18 Annual Bonus.

³ Shares include those which are subsequently due to vest following the end of the performance period in July 2018.

⁴ The number of shares shown for Matthew Lester is as at his date of leaving the Company, 31 July 2017, rather than 25 March 2018.

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 during the financial year?

Our Chief Finance Officer (CFO), Matthew Lester left the business in July 2017, after nearly seven years of service with the Company. As reported in the 2017 report, his 2014 LTIP award vested, but his outstanding LTIP awards lapsed in accordance with the plan rules, and he was not eligible for the award of deferred shares that formed part of the 2016–17 bonus. He did not receive any payment for loss of office.

Were any payments made to past Directors during the financial year?

No payments were made to past Directors during the year.

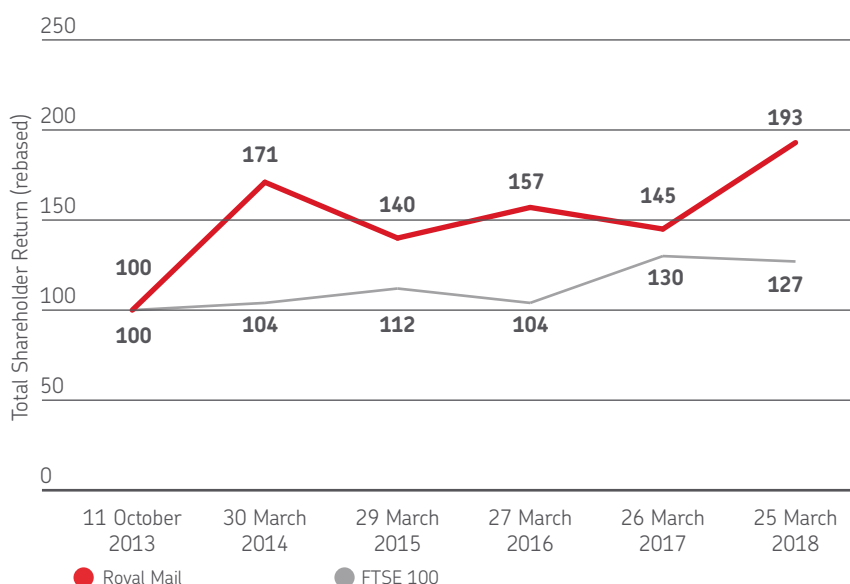
What has the pay for the CEO been over the last nine years?

The total remuneration figure for the CEO over the last nine 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	2017–18
Chief Executive Officer	Adam Crozier	Adam Crozier	Moya Greene	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	1,901	1,797
Annual Bonus awarded as % maximum	–	–	41%	74%	80%	77%	85%	82%	80%	71%
LTIP vesting as % maximum	–	100%	–	–	100%	100%	69%	59%	46%	est. 44%

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.

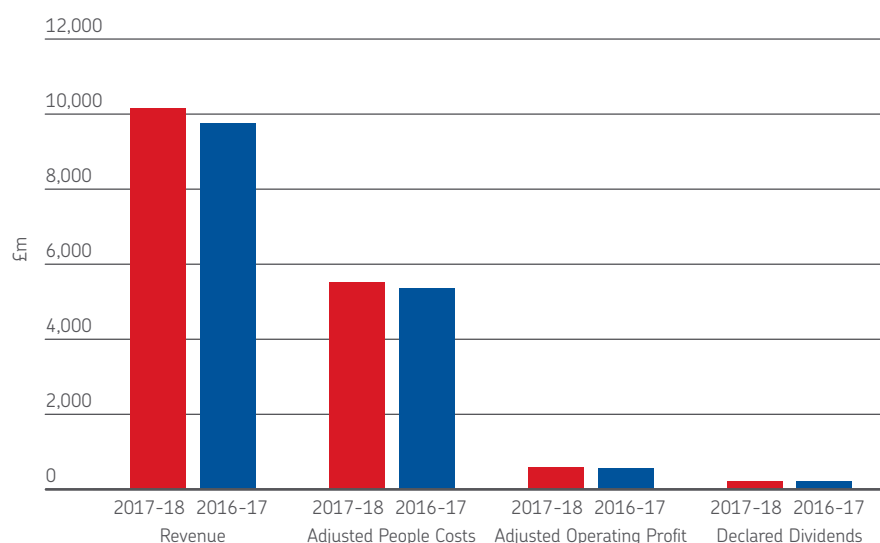


TSR over the Financial Year	FY 2013-14*	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
Royal Mail plc	71%	-18%	12%	-8%	33%
FTSE 100	4%	7%	-7%	25%	-2%

* 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 are 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
Chair		
Orna Ni-Chionna	5	5
Members		
Rita Griffin ¹	4	4
Peter Long ²	1	1
Paul Murray ³	5	4
Les Owen	5	5

¹ Rita Griffin was appointed to the Remuneration Committee on 1 July 2017.

² Peter Long stepped down from Remuneration Committee on 1 July 2017.

³ Paul Murray was travelling at the time of the Remuneration Committee on 6 July 2017 and was unable to attend the meeting.

Role of the Remuneration Committee

- to determine and recommend for the Board's approval the overall design of 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 £84,400.

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.

2017 Voting By Shareholders

The table below shows the advisory vote on the 2016-17 Remuneration Report at the AGM on 20 July 2017, and the vote on the Remuneration Policy, which was effective from the date of the 2016 AGM for up to three years.

	Votes For	% For	Votes Against	% Against	Total Votes Cast	Votes withheld (abstentions)
Approval of Remuneration Report	548,642,126	91.47%	51,145,932	8.53%	599,788,058	22,890,191
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 implementation of the Remuneration Policy last year does not require the Committee to make any changes to its implementation for the next financial year.

Approved by the Board on 16 May 2018 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 25 March 2018.

Strategic report

To enable an 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 2017-18 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 Guidance 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 54-55. It is incorporated into this Directors' Report by reference.

Shares

Final dividend

The Board recommends a final dividend of 16.3 pence per ordinary share, giving a total dividend for the year of 24.0 pence per ordinary share. The final dividend will be payable on 31 August 2018, subject to shareholder approval, to shareholders whose names appear on the register of members on 27 July 2018.

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. 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 40-45 of the Strategic Report.

Share capital

As at 25 March 2018, 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 142.

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 19 July 2018, 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 20 July 2017, 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 2018 AGM or close of business on 30 July 2018, 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 20 July 2017, 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 25 March 2018.

The Directors require express authorisation from shareholders to purchase our own shares. Accordingly, at the 2018 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 25 March 2018, a total of 513,230 (2016-17 9,582,175) shares were held by the EBT on behalf of the Company.

Substantial shareholdings

As at 25 March 2018, 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 16 May 2018, 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%

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 58-60. Details of the interests 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 75-96.

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

There were no events after the reporting period.

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 135. See the financial risks and related hedging contained on page 33 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 discussed on page 52, sets 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 Register. This contains significant current risks, including ESG risks, which are identified at an early stage 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 page 48 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 21-39. The Board has reviewed the Group's projections for the next 12 months. 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 is set out on page 46 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 70 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 65 of the Report.

By Order of the Board.

Kulbinder Dosanjh
Company Secretary
16 May 2018

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 2017-18

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, relevant, reliable 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;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

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 are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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 2017-18, when taken as a whole, are 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 58-60 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.

This responsibility statement is approved by the Board of directors and is signed on its behalf by:

Moya Greene
Chief Executive Officer

Stuart Simpson
Chief Finance Officer

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Independent auditor's report

to the members of Royal Mail plc

Opinions and conclusions arising from our audit

1. Our opinion is unmodified

We have audited the financial statements of Royal Mail plc ("the Company") for the 52 weeks ended 25 March 2018 which comprise the Consolidated income statement, Consolidated statement of comprehensive income, Consolidated and parent Company balance sheet, the Consolidated and parent Company statement of changes in equity, the Consolidated statement of cash flows and the related notes, and the Significant accounting policies on page 149.

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 25 March 2018 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the Directors on 23 July 2015. The period of total uninterrupted engagement is for the three financial years ended 25 March 2018. We have fulfilled our ethical

responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview

Materiality: £20m (2016-17: £20m)
Group financial statements as a whole 5% (2016-17: 5%) of adjusted profit before tax

Coverage 99.5% (2016-17: 100%) of Group profit before tax

Risks of material misstatement vs 2016-17

Recurring risks	Deferred revenue associated with advance customer payments arising from stamps sold	◀▶
	Valuation of pension scheme assets and liabilities	◀▶
	Industrial disease claims provision	◀▶
	Ofcom competition investigation	◀▶
	Recoverability of parent Company's investment in subsidiaries and debt due from group entities (parent Company only)	◀▶

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response	Our results
Deferred revenue associated with advance customer payments arising from stamps sold £179 million (2016-17: £184 million) <i>Refer to page 71 (Audit and Risk Committee Report), page 150 (accounting policy)</i>	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 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 re-performance: testing the survey data used in the calculation, agreeing inputs to the survey specialist's results, and re-performing the calculation of deferred revenue and comparing this to the Group's result. Benchmarking approach: comparing the approach with that adopted by other global postal service providers. Assessing transparency: considering the adequacy of the Group's disclosures in respect of the deferred revenue adjustment.	We found the estimate of deferred revenue to be acceptable (2016-17 result: acceptable).
Valuation of pension scheme assets and liabilities £3,323 million surplus (pre-IFRIC 14 adjustment), net of £7,038 million liability; (2016-17: £3,855 million surplus (pre-IFRIC 14 adjustment), net of £5,992 million liability) <i>Refer to page 71 (Audit and Risk Committee Report), page 149 (accounting policy) and page 122 (financial disclosures).</i>	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, mortality and pension increases assumptions. Significant estimates are made in valuing certain of the pension schemes assets comprising unquoted equity investments, unquoted derivatives, mutual funds and fixed income bonds. Small changes in the assumptions and estimates used to value the Group's pension obligations and 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 pension increases (following the decision to close the RMPP scheme to future accrual from 1 April 2018) with the support of our own actuarial specialists, including a comparison of key assumptions against market data. Tests of details: we obtained third party valuation confirmations directly from fund managers. We compared those confirmations with unaudited NAV statements and tested the ability of fund managers to prepare accurate valuations by validating these amounts to financial statements. Actuary's and fund managers' credentials: assessing the competence, independence and integrity of the Group's actuarial expert and third party expert fund managers. Assessing transparency: considering the adequacy of the Group's disclosures in respect of the sensitivity of the surplus to key assumptions.	We found the valuation of the pension obligation and assets to be acceptable (2016-17 result: acceptable).

2. Key audit matters: our assessment of risks of material misstatement

	The risk	Our response	Our results
Industrial disease claims provision £83 million, (2016-17: £84 million) <i>Refer to page 71 (Audit and Risk Committee Report), page 149 (accounting policy) and page 141 (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. Small changes in these judgements would have a significant effect on the financial position of the Group.	Our procedures included: 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 including 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.	We found the estimation regarding the provision for industrial diseases to be acceptable (2016-17 result: acceptable)
Ofcom competition investigation contingent liability <i>Refer to page 71 (Audit and Risk Committee Report), page 156 (accounting policy) and page 143 (financial disclosures)</i>	Dispute outcome An investigation by Ofcom is ongoing regarding alleged anti-competitive conduct. Ofcom's provisional view is that Royal Mail breached competition law by engaging in conduct that amounted to unlawful discrimination against a postal operator competing with Royal Mail's delivery service. Depending on the outcome of the Ofcom investigation and any appeal, Royal Mail may be fined. No provision is currently recognised as the outcome of the investigation is currently unknown.	Our procedures included: Enquiry with lawyers: inspecting relevant correspondence and holding discussions with the Group's in house team and external legal advisers to understand the current position of the investigation. Accounting analysis: challenging the assessment performed by the Directors to determine if the criteria for recognising a provision have been met at the period end. Assessing transparency: Considering the adequacy of the Group's disclosures in respect of the contingent liability.	We found the approach taken in considering the accounting implication of the investigation and the contingent liability disclosures to be acceptable (2016-17 disclosures: acceptable)
Recoverability of parent Company's investment in subsidiaries and debt due from group entities (Parent Company only) Investments – £2,081 million; (2016-17: £2,040 million) Debt due from group entities £434 million; (2016-17: £396 million) <i>Refer to page 160 (accounting policy) and page 161 (financial disclosures).</i>	Low risk, high value The carrying amount of the parent Company's investments in subsidiaries and debt due from Group entities represents 100 per cent (2016-17: 100 per cent) of the Company's total assets. Their recoverability is not at a high risk of significant misstatement. However, due to their materiality in the context of the parent Company financial statements, this is considered to be the area that had the greatest effect on our overall parent Company audit.	Our procedures included: Tests of detail: Compared the carrying amount of 100 per cent of investments with the relevant subsidiaries' draft balance sheet to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount and assessing whether those subsidiaries have historically been profit-making. Assessing transparency: Assessing the adequacy of the parent Company's disclosures in respect of the investment in subsidiaries and group debtor balance.	We found the carrying value of investments and the recoverability of intercompany receivables to be acceptable (2016-17 result: acceptable)

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 (2016-17: £20 million).

The materiality is based on an adjusted profit before tax measure. In 2016-17 the adjustments were to add back the IFRS 2 charge for Employee Free Shares issued, the loss on disposal of business operations and exclude the profit on disposal of property, plant and equipment. In 2017-18 a further adjustment has been made to reflect a four year average of annual pension costs due to the significant impact in the current year. The items not included in the benchmark were all subject to audit procedures by the Group team. The materiality of £20 million (2016-17: £20 million) represents 5 per cent of the adjusted profit before tax measure of £404 million (2016-17: 5 per cent; £428 million).

Materiality for the parent Company financial statements as a whole was set at £17 million (2016-17: £18 million), determined with reference to a benchmark of net assets, of which it represents 1 per cent (2016-17: 1 per cent).

We reported to the Audit and Risk Committee any corrected or uncorrected identified misstatements exceeding a profit before tax impact of £1.0 million (2016-17: £1.0 million) or a reclassification impact of £5.0 million (2016-17: £5.0 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 23 (2016-17: 23) reporting components, we subjected four (2016-17: three) to full scope audits for Group purposes. The components within the scope of our work accounted for 99.7 per cent of revenue, 99.5 per cent of profit before tax and 99.8 per cent of total assets.

The work on two (GLS and RMPFS) of the four components (2016-17: one of the three components) was performed by component auditors and the rest by the Group team.

The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team also approved the component materialities, which ranged from £6 million to £17 million (2016-17: £17 million), having regard to the mix of size and risk profile of the Group across the components.

The Group team visited the GLS component and held telephone meetings with the RMPFS component (2016-17: GLS component) at the planning, execution and finalisation stages of the audit including to assess the audit risk and strategy. The Group team attended the key clearance meetings and Audit and Risk Committees. Video and telephone conference meetings were also held regularly with the component auditors. Part of these visits and meetings included discussion of the findings reported to the Group team in more detail, and any further work required by the Group audit team was then performed by the component auditor.

4. We have nothing to report on going concern

We are required to report to you if:

- we have anything material to add or draw attention to in relation to the Directors' statement in Note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- the related statement under the Listing Rules set out on page 98 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

5. We have nothing to report on the other information in the Annual Report

The Directors are responsible for the other information presented in the Annual Report together with the Financial Statements. Our opinion on the Financial Statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and Directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the Strategic report and the Directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' Remuneration report

In our opinion the part of the Directors' Remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of principal risks and longer-term viability

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

- the Directors' confirmation within the Viability Statement on page 46 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks disclosures describing these risks and explaining how they are being managed and mitigated; and
- the Directors' explanation in the Viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they 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 of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the Viability statement. We have nothing to report in this respect.

Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements 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 section of the Annual Report describing the work of the Audit and Risk Committee does not appropriately address matters communicated by us to the Audit and Risk Committee.

We are required to report to you if the statement of Corporate Governance does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

6. We have nothing to report on the other matters on which we are required to report by exception

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.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 99, the Directors are responsible for: the preparation of the Financial Statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are

free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our sector experience and through discussion with the directors and other management (as required by auditing standards), and from inspection of the group's regulatory and legal correspondence.

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation) and taxation legislation. We considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items.

In addition we considered the impact of laws and regulations in the specific areas of health and safety, anti-bribery, employment law, competition law, postal regulation (as relevant to Royal Mail's UK regulated business), and certain aspects of company legislation recognising the financial and regulated nature of the group's activities and its legal form. With the exception of any known or possible non-compliance, and as required by auditing standards, our work in respect of these was limited to enquiry of the Directors and other management and inspection of regulatory and legal correspondence. We considered the effect of any known or possible non-compliance in these areas as part of our procedures on the

related financial statement items. Further detail in respect of competition law is set out in the key audit matter disclosures in section 2 of this report.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the Group to component audit teams of relevant laws and regulations identified at Group level, with a request to report on any indications of potential existence of non-compliance with relevant laws and regulations (irregularities) in these areas, or other areas directly identified by the component team.

As with any audit, there remained a higher risk of non-detection of non-compliance with relevant laws and regulations (irregularities), as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

8. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Richard Pinckard (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square, London, E14 5GL

16 May 2018

Consolidated income statement

For the 52 weeks ended 25 March 2018 and 52 weeks ended 26 March 2017

	Notes	Reported 52 weeks 2018 £m	Reported 52 weeks 2017 £m
Continuing operations			
Revenue	2	10,172	9,776
Operating costs ¹	3/4	(9,936)	(9,286)
People costs		(5,974)	(5,576)
Distribution and conveyance costs		(2,356)	(2,106)
Infrastructure costs		(899)	(868)
Other operating costs		(707)	(736)
Operating profit before transformation costs²		236	490
Transformation costs		(113)	(137)
Operating profit after transformation costs²		123	353
Operating specific items			
Employee Free Shares charge		(33)	(105)
Legacy/other costs		(8)	(18)
Amortisation of intangible assets in acquisitions		(16)	(11)
Operating profit		66	219
Non-operating specific items			
Profit on disposal of property, plant and equipment		71	14
Loss on disposal of business		-	(2)
Earnings before interest and tax		137	231
Finance costs	5	(19)	(18)
Finance income	5	3	2
Net pension interest (non-operating specific item)	9(c)	91	120
Profit before tax		212	335
Tax credit/(charge)	6	46	(62)
Profit for the year		258	273
Profit for the year attributable to:			
Equity holders of the parent Company		259	272
Non-controlling interests		(1)	1
Earnings per share			
Basic	7	25.9p	27.5p
Diluted	7	25.7p	27.3p

¹ Operating costs are stated before transformation costs, Employee Free Shares charge, legacy/other costs and amortisation of intangible assets in acquisitions.

² These measures of performance are both before operating specific items.

Consolidated statement of comprehensive income

For the 52 weeks ended 25 March 2018 and 52 weeks ended 26 March 2017

		Reported 52 weeks 2018 £m	Reported 52 weeks 2017 £m
	Notes		
Profit for the year		258	273
Other comprehensive (expense)/income for the year from continuing operations:			
Items that will not be subsequently reclassified to profit or loss:			
Amounts relating to pensions accounting		(658)	405
IFRIC 14 adjustment relating to defined benefit surplus	9	(1,144)	113
Remeasurement gains of the defined benefit surplus	9(c)	10	399
Deferred tax	6	476	(107)
Items that may be subsequently reclassified to profit or loss:			
Foreign exchange translation differences		(4)	18
Exchange differences on translation of foreign operations (GLS)		1	63
Net loss on hedge of a net investment (€500 million bond)		(5)	(38)
Net loss on hedge of a net investment (Euro-denominated finance lease payables)		-	(3)
Tax on above items	6	-	(4)
Designated cash flow hedges		2	32
Gains on cash flow hedges deferred into equity		11	22
(Gains)/losses on cash flow hedges released from equity to income		(7)	16
Gains on cash flow hedges released from equity to the carrying amount of non-financial assets		(1)	(1)
Tax on above items	6	(1)	(5)
Total other comprehensive (expense)/income for the year		(660)	455
Total comprehensive (expense)/income for the year		(402)	728
Total comprehensive (expense)/income for the year attributable to:			
Equity holders of the parent Company		(401)	727
Non-controlling interests		(1)	1

Consolidated balance sheet

At 25 March 2018 and 26 March 2017

	Notes	Reported at 25 March 2018 £m	Reported at 26 March 2017 £m
Non-current assets			
Property, plant and equipment	11	2,016	2,062
Goodwill	12	324	316
Intangible assets	13	608	567
Investments in associates and joint venture	14	5	7
Financial assets			
Pension escrow investments	21	198	20
Derivatives	21	5	4
Retirement benefit surplus – net of IFRIC 14 adjustment	9	2,163	3,839
Other receivables		13	13
Deferred tax assets	6	72	15
		5,404	6,843
Assets held for sale	16	50	37
Current assets			
Inventories		25	23
Trade and other receivables	17	1,160	1,117
Income tax receivable		3	7
Financial assets			
Derivatives	21	15	8
Cash and cash equivalents	18/21	600	299
		1,803	1,454
Total assets		7,257	8,334
Current liabilities			
Trade and other payables	19	(1,927)	(1,810)
Financial liabilities			
Interest-bearing loans and borrowings		(1)	(33)
Obligations under finance leases	21/24	(59)	(64)
Derivatives	21	(3)	(9)
Income tax payable		(33)	(12)
Provisions	22	(59)	(88)
		(2,082)	(2,016)
Non-current liabilities			
Financial liabilities			
Interest-bearing loans and borrowings	20/21	(436)	(430)
Obligations under finance leases	21/24	(110)	(130)
Derivatives	21	(4)	(2)
Provisions	22	(103)	(108)
Other payables		(41)	(47)
Deferred tax liabilities	6	(45)	(603)
		(739)	(1,320)
Total liabilities		(2,821)	(3,336)
Net assets		4,436	4,998
Equity			
Share capital	23	10	10
Retained earnings		4,381	4,940
Other reserves		45	47
Equity attributable to parent Company		4,436	4,997
Non-controlling interests		-	1
Total equity		4,436	4,998

The financial statements were approved and authorised for issue by the Board of Directors on 16 May 2018 and were signed on its behalf by:

Moya Greene
Chief Executive Officer

Stuart Simpson
Chief Finance Officer

Consolidated statement of changes in equity

For the 52 weeks ended 25 March 2018 and 52 weeks ended 26 March 2017

	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 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	-	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
Profit for the year	-	259	-	-	259	(1)	258
Other comprehensive income for the year	-	(658)	(4)	2	(660)	-	(660)
Total comprehensive income for the year	-	(399)	(4)	2	(401)	(1)	(402)
Transactions with owners of the Company, recognised directly in equity							
Dividend paid to equity holders of the parent Company	-	(231)	-	-	(231)	-	(231)
Share-based payments (see Note 15)							
Employee Free Shares issue ¹	-	35	-	-	35	-	35
Save As You Earn (SAYE) scheme	-	1	-	-	1	-	1
Long-Term Incentive Plan (LTIP) ²	-	3	-	-	3	-	3
Deferred Share Bonus Plan (DSBP)	-	2	-	-	2	-	2
Employee exercise of SAYE options	-	28	-	-	28	-	28
Deferred tax on share-based payments	-	5	-	-	5	-	5
Settlement of LTIP 2014	-	(3)	-	-	(3)	-	(3)
Reported at 25 March 2018	10	4,381	36	9	4,436	-	4,436

¹ Excludes £2 million credit (2016-17: £5 million charge) for National Insurance, recognised in the income statement, included in provisions on the balance sheet.

² Excludes £1 million charge (2016-17: £1 million charge) for National Insurance, recognised in the income statement, included in provisions on the balance sheet.

³ Shares required for employee share 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 25 March 2018 and 52 weeks ended 26 March 2017

	Notes	Reported 52 weeks 2018 £m	Reported 52 weeks 2017 £m
Cash flow from operating activities			
Profit before tax		212	335
Adjustment for:			
Net pension interest		(91)	(120)
Net finance costs		16	16
Profit on disposal of property, plant and equipment		(71)	(14)
Loss on disposal of business		-	2
Legacy/other costs		8	18
Amortisation of intangible assets in acquisitions		16	11
Employee Free Shares charge		33	105
Transformation costs		113	137
Operating profit before transformation costs¹		236	490
Adjustment for:			
Depreciation and amortisation	11/13	341	301
Share of post-tax loss from associates and joint venture	14	-	2
EBITDA before transformation costs¹		577	793
Working capital movements		71	(9)
Increase in inventories		(2)	(2)
Increase in receivables		(7)	(40)
Increase in payables		89	56
Net (increase)/decrease in derivative assets		(9)	2
Decrease in provisions (non-specific items)		-	(25)
Pension charge to cash difference adjustment		458	222
Share-based awards (SAYE, LTIP and DSBP) charge		6	11
Cash cost of transformation operating expenditure ²		(125)	(142)
Cash cost of operating specific items		(12)	(61)
Cash inflow from operations		975	814
Income tax paid		(75)	(60)
Research and development expenditure credit		5	-
Net cash inflow from operating activities		905	754
Cash flow from investing activities			
Finance income received		3	3
Proceeds from disposal of property (excluding London Development Portfolio), plant and equipment (non-operating specific item)		40	37
London Development Portfolio net proceeds/(costs) (non-operating specific item)		10	(34)
Disposal of business (non-operating specific item)		-	(3)
Purchase of property, plant and equipment ²		(219)	(230)
Acquisition of business interests, net of cash acquired		(16)	(122)
Purchase of intangible assets (software) ²		(141)	(157)
Payment of deferred consideration in respect of prior years' acquisitions		(2)	(4)
Net cash outflow from investing activities		(325)	(510)
Cash flow from financing activities			
Finance costs paid		(18)	(17)
Acquisition of non-controlling interests		-	(18)
Purchase of own shares		-	(53)
Employee exercise of SAYE options		28	-
Payment of capital element of obligations under finance lease contracts		(63)	(74)
Cash received on sale and leasebacks		35	41
Drawdown of loan facility		-	31
Repayment of loans and borrowings		(32)	(7)
Dividends paid to equity holders of the parent Company	8	(231)	(222)
Dividend paid to non-controlling interests		-	(8)
Net cash outflow from financing activities		(281)	(327)
Net increase/(decrease) in cash and cash equivalents		299	(83)
Effect of foreign currency exchange rates on cash and cash equivalents		2	14
Cash and cash equivalents at the beginning of the year	18	299	368
Cash and cash equivalents at the end of the year	18	600	299

¹ See APMs section on page 34 for a definition of these measures

² Items comprise total gross 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). 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 (EU). The UK is the Company's country of domicile.

The consolidated financial statements of the Company for the 52 weeks ended 25 March 2018 (2016-17: 52 weeks ended 26 March 2017) 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 25 March 2018 were authorised for issue by the Board on 16 May 2018.

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. 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 25 March 2018 (2016-17: 52 weeks ended 26 March 2017).

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 to provide 'adjusted' results. This is because Management are of the view that these APMs provide a more meaningful basis on which to analyse business performance and is 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 34.

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 (£1,050 million at 25 March 2018) and other liquid resources available to the Group (cash at bank £172 million and cash equivalent investments £404 million at 25 March 2018). Cash and cash equivalents and funding facilities available to the Group are described in further detail in Notes 18 and 20.

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 found on page 46.

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.

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 34). 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 an 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.

52 weeks 2018	Adjusted		Group £m	Specific items and pension adjustment ¹	Reported
	UKPIL (UK operations) £m	GLS (Non-UK operations) £m		£m	Group £m
Continuing operations					
Revenue	7,615	2,557	10,172	-	10,172
People costs	(4,908)	(608)	(5,516)	(458)	(5,974)
Non-people costs	(2,204)	(1,758)	(3,962)	-	(3,962)
Operating profit before transformation costs	503	191	694	(458)	236
Transformation costs	(113)	-	(113)	-	(113)
Operating profit after transformation costs	390	191	581	(458)	123
Operating specific items					
Employee Free Shares charge	-	-	-	(33)	(33)
Legacy/other costs	-	-	-	(8)	(8)
Amortisation of intangible assets in acquisitions	-	-	-	(16)	(16)
Operating profit	390	191	581	(515)	66
Non-operating specific items					
Profit on disposal of property, plant and equipment	-	-	-	71	71
Earnings before interest and tax	390	191	581	(444)	137
Finance costs	(18)	(1)	(19)	-	(19)
Finance income	1	2	3	-	3
Inter-segment interest	5	(5)	-	-	-
Net pension interest (non-operating specific item)	-	-	-	91	91
Profit before tax	378	187	565	(353)	212

¹ A £119 million credit for specific items and a £458 million charge for the pension charge to cash difference adjustment relate to UKPIL. A £14 million charge for specific items relates to GLS.

Notes to the consolidated financial statements (continued)

2. Segment information (continued)

52 weeks 2017	Adjusted			Specific items and pension adjustment ¹	Reported
	UKPIL (UK operations) £m	GLS (Non-UK operations) £m	Group £m	£m	Group £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
Finance costs	(17)	(1)	(18)	-	(18)
Finance income	1	1	2	-	2
Inter-segment interest	3	(3)	-	-	-
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.

The depreciation and amortisation 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.

	UKPIL (UK operations) £m	GLS (Non-UK Operations) £m	Total £m
52 weeks 2018			
Depreciation	(207)	(39)	(246)
Amortisation of intangible assets (mainly software) ²	(83)	(28)	(111)
Share of post-tax loss from associates and joint venture	-	-	-
Non-current assets	2,160	806	2,966

	UKPIL (UK operations) £m	GLS (Non-UK Operations) £m	Total £m
52 weeks 2017			
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

² Includes £16 million (2016-17: £11 million) 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 2018 £m	52 weeks 2017 £m
People costs (see Note 4)	(5,974)	(5,576)
Distribution and conveyance costs		
Charges from overseas postal administrations	(342)	(356)
Fuel costs	(147)	(159)
Operating lease costs – vehicles	(21)	(17)
Short-term vehicle hire	(28)	(32)
Infrastructure costs		
Depreciation and amortisation	(341)	(301)
Depreciation of property, plant and equipment (see Note 11)	(246)	(235)
Amortisation of intangible assets (see Note 13) ¹	(95)	(66)

¹ Excludes £16 million (2016-17: £11 million) amortisation of intangible assets in acquisitions, presented as an operating specific item in the income statement

Other operating costs

Post Office Limited charges	(341)	(343)
Inventory expensed	(35)	(49)
Operating lease costs – property, plant and equipment	(152)	(143)

Research and development (R&D)

During the year, the Group continued to develop products and services within the business. See the Strategic Report for more details.

Regulatory body costs

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

	52 weeks 2018 £m	52 weeks 2017 £m
Ofcom administrative charge	(3)	(4)
Citizens Advice/Consumer Council for Northern Ireland	(2)	(3)
Total	(5)	(7)

Statutory audit costs

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

	52 weeks 2018 £000	52 weeks 2017 £000
Auditor's fees	(2,146)	(2,178)
Audit of Group statutory financial statements		
Other fees to Auditor:		
Regulatory audit	(125)	(122)
Other assurance	(72)	(44)
Other non-audit services	-	(342)
Total	(2,343)	(2,686)

The 2017-18 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, £98,000 for the audit of the Royal Mail Pension Plan (2016-17: £88,000) and £31,000 for the audit of the Royal Mail Defined Contribution Plan (2016-17: £28,000).

Notes to the consolidated financial statements (continued)

4. People information

People costs account for 60 per cent (2016-17: 60 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 2018 £m	52 weeks 2017 £m
Wages and salaries	(4,506)	(4,371)
UK-based	(3,976)	(3,949)
GLS	(530)	(422)
Pensions (see Note 9)	(1,006)	(776)
Defined benefit UK	(791)	(568)
Defined contribution UK	(57)	(51)
UK defined benefit and defined contribution Pension Salary Exchange (PSE)	(151)	(151)
GLS	(7)	(6)
Social security	(462)	(429)
UK-based	(391)	(368)
GLS	(71)	(61)
Total people costs	(5,974)	(5,576)
Defined benefit pension plan rates:		
Income statement	41.1%	28.8%
Cash flow	17.1%	17.1%
Defined contribution pension plan average rate:		
Income statement and cash flow ¹	6.3%	6.0%

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 2018	52 weeks 2017	52 weeks 2018	52 weeks 2017	52 weeks 2018	52 weeks 2017	52 weeks 2018	52 weeks 2017
UKPIL	147,985	148,170	149,281	151,601	141,162	141,819	141,034	142,579
GLS – continuing operations	13,866	12,966	13,694	12,617	17,955	17,136	17,812	16,912
Total	161,851	161,136	162,975	164,218	159,117	158,955	158,846	159,491

Directors' remuneration

	52 weeks 2018 £000	52 weeks 2017 £000
Directors' remuneration ³	(3,257)	(3,345)
Amounts earned under Long-Term Incentive Plans (LTIP)	(356)	(440)
Number of Directors accruing benefits under defined benefit plans	-	-
Number of Directors accruing benefits under defined contribution plans	2	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 accounting standard IAS 19 'Employee Benefits'.

	52 weeks 2018 £m	52 weeks 2017 £m
Unwinding of discount relating to industrial diseases claims provision	(2)	(2)
Interest payable on financial liabilities	(17)	(16)
Syndicated bank loan facility		
Loans and borrowings	-	(1)
Unused facility fees	(2)	(2)
Arrangement fees	(1)	(1)
€500 million bond – 2.375% Senior Fixed Rate Notes due July 2024	(11)	(11)
Finance leases	(4)	(4)
Capitalisation of borrowing costs on specific qualifying assets	3	4
Other finance costs	(2)	(1)
Finance costs	(19)	(18)
Finance income – interest receivable on financial assets	3	2
Net finance costs	(16)	(16)

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 2018 £m	52 weeks 2017 £m
Tax (charged)/credited in the income statement		
Current income tax:		
Current UK income tax charge	(45)	(16)
Foreign tax	(51)	(45)
Current income tax charge	(96)	(61)
Amounts overprovided in previous years	-	1
Total current income tax charge	(96)	(60)
Deferred income tax:		
Effect of change in tax rates	(4)	9
Relating to origination and reversal of temporary differences	133	(20)
Amounts overprovided in previous years	13	9
Total deferred income tax credit/(charge)	142	(2)
Tax credit/(charge) in the consolidated income statement	46	(62)
Tax credited/(charged) to other comprehensive income		
Current tax:		
Tax credit on foreign currency translation	-	1
Deferred tax:		
Tax charge in relation to remeasurement gains of the defined benefit pension surplus	(2)	(42)
Tax credit/(charge) in relation to the change in manner of recovery of the defined benefit pension surplus	478	(65)
Tax charge on revaluation of cash flow hedges	(1)	(5)
Tax charge on foreign currency translation	-	(5)
Total deferred income tax credit/(charge)	475	(117)
Total credit/(charge) in the consolidated statement of other comprehensive income	475	(116)

Notes to the consolidated financial statements (continued)

6. Taxation (continued)

In addition to the amount charged to the income statement and other comprehensive income, the following amount relating to tax has been recognised directly in equity:

	52 weeks 2018 £m	52 weeks 2017 £m
Deferred tax:		
Change in estimated excess tax deductions related to share-based payments	5	-
Total deferred income tax credit recognised directly in equity	5	-

Reconciliation of the total tax credit/(charge)

A reconciliation of the tax credit/(charge) in the income statement and the UK rate of corporation tax applied to accounting profit for the 52 weeks ended 25 March 2018 and 52 weeks ended 26 March 2017 is shown below.

	52 weeks 2018 £m	52 weeks 2017 £m
Profit before tax	212	335
At UK statutory rate of corporation tax of 19% (2016-17: 20%)	(40)	(67)
Effect of higher taxes on overseas earnings	(7)	(9)
Tax overprovided in previous years	-	10
Non-deductible expenses	(7)	(5)
Tax effect of property disposals	17	5
Release of deferred tax liability resulting from closure of Royal Mail Pension Plan to future accrual	78	-
Uncertain current tax positions	(2)	-
Tax reliefs and incentives (including previous years)	12	-
Net increase in tax charge resulting from non-recognition of deferred tax assets and liabilities	(1)	(5)
Effect of change in tax rates	(4)	9
Tax credit/(charge) in the income statement	46	(62)

Tax on specific items and pension adjustment

	52 weeks 2018 £m	52 weeks 2017 £m
Continuing operations	157	59
Total tax credit on specific items and pension adjustment	157	59

The tax credit on specific items of £157 million (2016-17: £59 million) comprises tax at statutory rates on certain specific items and the pension adjustment of £81 million credit (2016-17: £48 million credit), plus certain tax-only adjustments of £76 million credit (2016-17: £11 million credit). The tax-only adjustments comprise: the impact of the closure of the RMPP to future accrual from 31 March 2018 of £78 million credit (2016-17: £nil million); the impact of property transactions of £2 million credit (2016-17: £2 million credit); and the impact of changes in tax law of £4 million charge (2016-17: £9 million credit).

Effective tax rate

The Group reported tax in the income statement was a credit of £46 million on a reported profit of £212 million. This arises mainly due to the one-off deferred tax credit of £78 million related to the closure of the RMPP to future accrual after 31 March 2018.

GLS pays tax in a number of territories. The majority of its profits in the reporting year to 25 March 2018 were 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 they are not sufficiently certain of their 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.

Notes to the consolidated financial statements (continued)

6. Taxation (continued)

Deferred tax

Deferred tax by balance sheet category 52 weeks 2018	At 27 March 2017 £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 25 March 2018 £m
Liabilities							
Accelerated capital allowances	(16)	13	-	-	-	-	(3)
Pensions temporary differences	(647)	170	476	-	-	-	(1)
Employee share schemes	(11)	5	-	5	-	-	(1)
Intangible assets	(36)	(9)	-	-	(3)	-	(48)
Hedging derivatives temporary differences	(1)	-	(1)	-	-	-	(2)
Deferred tax liabilities	(711)	179	475	5	(3)	-	(55)
Assets							
Deferred capital allowances	37	(23)	-	-	-	-	14
Provisions and other	20	(1)	-	-	-	-	19
Losses available for offset against future taxable income	62	(14)	-	-	-	-	48
R&D expenditure credit	4	1	-	-	-	(4)	1
Deferred tax assets	123	(37)	-	-	-	(4)	82
Net deferred tax asset	(588)	142	475	5	(3)	(4)	27

Deferred tax by balance sheet category 52 weeks 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)	-	-	-	(16)
Pensions temporary differences	(565)	25	(107)	-	-	-	(647)
Employee share schemes	(25)	15	-	(1)	-	-	(11)
Intangible assets	(33)	17	(3)	-	(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 - balance sheet presentation	At 25 March 2018 £m	At 26 March 2017 £m
Liabilities		
GLS group	(45)	(50)
Net UK position	-	(553)
Deferred tax liabilities	(45)	(603)
Assets		
GLS group	11	15
Net UK position	61	-
Deferred tax assets	72	15
Net deferred tax asset/(liability)	27	(588)

Notes to the consolidated financial statements (continued)

6. Taxation (continued)

The deferred tax position shows a decreased overall liability in the reporting year to 25 March 2018. This decrease in the liability is primarily as a result of the closure of the RMPP to future accrual after 31 March 2018.

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 intangible assets in GLS Germany, for which the Group has already taken tax deductions, and intangible assets in relation to acquisitions in Spain and the US.

At 25 March 2018, the Group had unrecognised deferred tax assets of £83 million (2016-17: £73 million) comprising £78 million (2016-17: £68 million) relating to tax losses of £300 million (2016-17: £259 million), mainly in GLS, that are available for offset against future profits if generated in the relevant GLS companies, and £5 million (2016-17: £5 million) in relation to £29 million (2016-17: £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 £202 million (2016-17: £211 million) of capital losses, the tax effect of which is £34 million (2016-17: £36 million) in respect of assets previously qualifying for industrial buildings allowances. Further temporary differences exist in relation to £406 million (2016-17: £212 million) of gains for which rollover relief has been claimed, the tax effect of which is £69 million (2016-17: £36 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

The UK corporation tax rate reduced from 20 per cent to 19 per cent on 1 April 2017 and it will reduce to 17 per cent on 1 April 2020. In the 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 2018			52 weeks 2017		
	Specific items and pension adjustment ¹		Adjusted	Specific items and pension adjustment ¹		Adjusted
	Reported	adjustment ¹		Reported	adjustment ¹	
Attributable to equity holders of the parent Company						
Profit for the year (£million)	259	(196)	455	272	(165)	437
Weighted average number of shares issued (million)	999	n/a	999	990	n/a	990
Basic earnings per share (pence)	25.9	n/a	45.5	27.5	n/a	44.1
Diluted earnings per share (pence)	25.7	n/a	45.2	27.3	n/a	43.8

¹ Further details of the specific items and pension adjustment total can be found in the Financial Review on page 27.

The diluted earnings per share for the year ended 25 March 2018 is based on a weighted average number of shares of 1,005,852,049 (2016-17: 996,593,330) to take account of the potential issue of 5,762,572 ordinary shares resulting from the Long-Term Incentive Plans (LTIP) for certain senior management, 133,961 ordinary shares resulting from the Deferred Share Bonus Plans (DSBP) for certain senior management and 468,746 ordinary shares resulting from the Save As You Earn (SAYE) scheme (see Note 15).

The 513,230 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.

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 2018 Pence per share	52 weeks 2017 Pence per share	52 weeks 2018 £m	52 weeks 2017 £m
Dividends on ordinary shares				
Final dividends paid	15.6	15.1	154	149
Interim dividends paid	7.7	7.4	77	73
Total dividends paid	23.3	22.5	231	222

In addition to the above dividends paid, the Directors are proposing a final dividend for the year ending 25 March 2018 of 16.3 pence per share, equivalent to £163 million. This dividend will be paid to shareholders on 31 August 2018 subject to approval at the AGM to be held on 19 July 2018.

9. Retirement benefit plans

This Note explains the pension plans in the Group and sets out the accounting, surplus valuation, key assumptions and sensitivities in accordance with IAS19 'Employee Benefits'. In applying IAS 19, the Group has recognised a pension asset of £2,163 million at 25 March 2018, compared with £3,839 million at 26 March 2017.

Summary pension information

	52 weeks 2018 £m	52 weeks 2017 £m
Ongoing UK pension service costs		
UK defined benefit plan (including administration costs) ¹	(791)	(568)
UK defined contribution plan	(57)	(51)
UK defined benefit and defined contribution plans' Pension Salary Exchange (PSE) employer contributions	(151)	(151)
Total UK ongoing pension service costs	(999)	(770)
GLS defined contribution type plan costs	(7)	(6)
Total Group ongoing pension service costs	(1,006)	(776)
Cash flows relating to ongoing pension service costs		
UK defined benefit plan employer contributions ²	(321)	(336)
Defined contribution plans' employer contributions	(64)	(57)
UK defined benefit and defined contribution plans' PSE employer contributions	(151)	(151)
Total Group cash flows relating to ongoing pension service costs	(536)	(544)
RMSEPP deficit correction payments	(10)	(10)
Pension related accruals (timing difference)	(2)	-
Pension charge to cash difference adjustment	(458)	(222)
	At 25 March 2018 '000	At 26 March 2017 '000
UK pension plans – active members		
UK defined benefit plan	83	88
UK defined contribution plan	47	45
Total	130	133

¹ These pension service costs are charged to the income statement. They represent the cost (as a percentage of pensionable payroll – 41.1 per cent (2016-17: 28.8 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 £7 million (2016-17: £5 million) continue to be included within the Group's ongoing UK pension service costs.

² 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 in respect of the RMPP. This includes payments into RMPP pension escrow investments. The contribution rate is set following each actuarial funding valuation, usually every three years. These actuarial funding 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)

In the period, the Group operated the following plans.

UK Defined Contribution plan

Royal Mail Group Limited, the Company's main operating subsidiary, operates the Royal Mail Defined Contribution Plan (RMDCP). This plan 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 £82 million in 2016-17 to £93 million (including £36 million PSE costs). This is mainly due to the continued increase in plan membership and an increase in the average employer's contribution rate from 6.0 per cent in 2016-17 to 6.3 per cent in 2017-18.

UK Defined Benefit plans

Royal Mail Pension Plan (RMPP)

The RMPP is funded by the payment of contributions to separate trustee administered funds. RMPP includes sections A, B and C, each with different terms and conditions. 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. They provide day-to-day plan management, advise the Trustee on its responsibilities and ensure 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 invests the member and employer contributions in a mix of equities, bonds, property and other investments including derivatives. It holds the contributions and investments on behalf of the members; and
- keeping members informed – the Trustee sends active members an annual benefit illustration together with a summary of the RMPP's annual report and accounts.

Royal Mail Senior Executives Pension Plan (RMSEPP)

Royal Mail Group Limited also contributes to a smaller defined benefit plan for executives: RMSEPP. This closed in December 2012 to future accrual, therefore the Group makes no regular future service contributions. Under the February 2013 Funding Agreement with the Trustee, the Group agreed to make deficit correction payments of £10 million per annum until at least the date on which the 2018 valuation is completed. Deficit correction payments in 2017-18 were £10 million (2016-17: £10 million). The Group has now agreed a new Funding Agreement dated 27 March 2018. Consistent with that, a new Schedule of Contributions was agreed for the period 29 March 2018 to 31 March 2025. No further deficit payments will be paid in respect of the period after 31 March 2018. Payments of £1 million per annum will be paid for the period 1 April 2018 to 31 March 2025 in respect of the continued provision of death-in-service lump sum benefits and expenses of administering the Plan.

In April 2016, the RMSEPP Trustee purchased a 'buy-in' policy of insurance in respect of pensions in payment to 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). The fair value is deemed to be the present value of the related obligation. The buy-in policy valued at £148 million is included as a pension asset and a pension liability at 25 March 2018.

A liability of £2 million (2016-17: £2 million) has been recognised for future payment of pension benefits to a past Director.

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. It therefore made the decision to close the RMPP³ to future accrual in its current form on 31 March 2018.

On 8 May 2017, after the 2016-17 balance sheet date, agreement was reached between the Company and the RMPP Trustee on the March 2015 actuarial funding valuation and a revised Schedule of Contributions. In accordance with this Schedule of Contributions, the service contribution rate for 2017-18 remained at 17.1 per cent. The March 2015 valuation continued to show the plan in surplus and therefore no deficit correction payments were required.

An agreement has been made with the Pension Trustee to ringfence certain employer contributions in an escrow arrangement in order to give the Trustee and the Company more flexibility over how these assets are best used for the benefit of members in future.

³ The decision was made to close Sections B and C of the RMPP to future defined benefit pension accrual. Section A of the Plan which has a small number of active members remains open to future accrual.

Notes to the consolidated financial statements (continued)

9. Retirement benefit plans (continued)

One week of RMPP service contributions was paid during 2018-19 up to when the scheme closed on 31 March 2018. This payment was paid at 17.1 per cent in accordance with the 8 May 2017 Schedule of Contributions. As the March 2015 valuation continued to show the scheme in surplus, no deficit correction payments are expected to be made.

Future pension arrangements

A new Defined Benefit Cash Balance Scheme (DBCBS) has been put in place from 1 April 2018. This is a transitional arrangement until the proposed Collective Defined Contribution (CDC) scheme can be established. Improvements to the RMDCP are also being made. Further details can be found in the Financial Review.

The Company signed a new Schedule of Contributions on 27 March 2018. This covers the period of five years from the date of certification of the schedule i.e. until March 2023. In accordance with this schedule, the Company is required to make payments totalling 15.6 per cent per annum in respect of DBCBS.

In 2018-19 the Company expects to contribute around £400 million in respect of all UK pension schemes. This amount comprises £350 million in respect of RMPP, RMSEPP and DBCBS and £50 million in respect of RMDCP. Employees are expected to contribute around £135 million, including through PSE.

Accounting and actuarial funding surplus position (RMPP and RMSEPP)

In addition to the accounting valuations calculated in accordance with IAS 19, actuarial funding valuations are carried out every three years by actuaries commissioned by trustees for purposes of calculating contributions and funding requirements. The main difference between the accounting and actuarial funding valuations is that different rates are used to discount the projected scheme liabilities. The accounting valuation uses yields on high quality corporate bonds. The actuarial funding valuation uses gilt yields. The combined plans' assets and liabilities on an accounting (IAS 19) basis and on an actuarial funding basis (based on an approximate update of the principles and assumptions relevant to the 2015 actuarial funding valuation) are shown below.

	Accounting (IAS 19)		Actuarial funding	
	At 25 March 2018 £m	At 26 March 2017 £m	At 31 March 2018 £m	At 31 March 2017 £m
Fair value of plans' assets (9(b) below) ⁴	10,361	9,847	10,461	10,066
Present value of plans' liabilities	(7,038)	(5,992)	(10,318)	(8,984)
Surplus in plans (pre IFRIC 14 adjustment)	3,323	3,855	143	1,082
IFRIC 14 adjustment	(1,160)	(16)	n/a	n/a
Surplus in plans	2,163	3,839	143	1,082

⁴ Difference between accounting and actuarial funding asset fair values arises from the different year end dates used for the valuation of the assets under both methods.

There is no element of the present value of the plans' liabilities above that arises from plans that are wholly unfunded.

The Directors do not believe that the current excess of plans' assets over the liabilities on an accounting basis will result in an excess of pension assets on an actuarial funding basis. However, the Directors are required to account for the plans based on their legal right to benefit from a surplus, using long-term actuarial funding assumptions current at the reporting date, as required by IFRS. As the Group has a legal right to benefit from a surplus, under IAS 19 and IFRIC 14, it must recognise the economic benefit assumed to arise from either a reduction to its future contributions or a refund of the surplus. This is a technical adjustment made on an accounting basis. There is no cash benefit from the surplus.

The legal right to benefit from a surplus has not changed as a result of the Company's decision to close the RMPP from 31 March 2018. However, after that date, any surplus will no longer be assumed to be recoverable as a reduction to future employer contributions. Therefore, at 25 March 2018 only one week of economic benefit is recoverable as a reduction to future employer contributions. The remaining surplus is assumed to be available as a refund. This surplus is presented net of an IFRIC 14 adjustment of £1,134 million (2016-17: £nil million) on the balance sheet, which represents the taxation that would be withheld on the surplus amount.

Included in the IAS 19 figures in the table above is an RMSEPP surplus at 25 March 2018 of £73 million (pre IFRIC 14) (2016-17: £47 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.

Notes to the consolidated financial statements (continued)

9. Retirement benefit plans (continued)

The following disclosures relate to the major assumptions, sensitivities, assets and liabilities in the RMPP and RMSEPP and DBCBS assumptions.

a) Major long-term assumptions used for accounting (IAS 19) purposes – RMPP, RMSEPP and DBCBS

IAS 19 assumptions will be derived separately for the legacy RMPP and DBCBS, in particular taking into account the different weighted durations of the future benefit payments. RMSEPP will continue in line with legacy RMPP benefits.

The major assumptions used to calculate the accounting position of the pension plans are as follows:

	At 25 March 2018	At 26 March 2017
Retail Price Index (RPI)	3.1%	3.2%
Consumer Price Index (CPI)	2.1%	2.2%
Discount rate ⁵		
– nominal	2.4%	2.5%
– real (nominal less RPI)	(0.7%)	(0.7%)
Rate of increase in pensionable salaries ⁶	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 ⁶	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 ⁶	RPI-0.1%	RPI-0.1%
Rate of pension increases – DBCBS benefits	CPI+2.0%	–
Life expectancy from age 60 – for a current 40/60 year old male RMPP member	28/26 years	28/26 years
Life expectancy from age 60 – for a current 40/60 year old female RMPP member	31/29 years	31/29 years

⁵ The discount rate reflects the long average duration of the RMPP of around 30 years. Whilst DBCBS benefits have a significantly shorter average duration (11 ½ years), the same discount rate is justified.

⁶ 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 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	240
Increase in inflation rate (both RPI and CPI simultaneously) of 0.1% p.a.	180
Decrease in discount rate of 0.1% p.a.	180
Increase in CPI assumption (assuming RPI remains constant) of 0.1% p.a.	35

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 (2016-17: 30 years).

Notes to the consolidated financial statements (continued)

9. Retirement benefit plans (continued)

b) RMPP and RMSEPP assets

	At 25 March 2018			At 26 March 2017		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Equities						
UK	15	106	121	22	126	148
Overseas	411	25	436	561	27	588
Bonds						
Fixed interest – UK	336	12	348	306	11	317
– Overseas	600	67	667	938	14	952
Index linked – UK	175	148	323	26	151	177
Pooled investments						
Managed funds	1,149	–	1,149	1,018	–	1,018
Unit Trusts	6,682	–	6,682	6,004	–	6,004
Property (UK)	28	271	299	26	317	343
Cash and cash equivalents	426	–	426	320	–	320
Other	2	–	2	5	–	5
Derivatives	(92)	–	(92)	(25)	–	(25)
Total plans' assets	9,732	629	10,361	9,201	646	9,847

There were no open equity futures or options derivatives within this portfolio at 25 March 2018 (2016-17: £1 million). £6 billion (2016-17: £5 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 £84,000 at 25 March 2018 (2016-17: £21,000).

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. Investments are inevitably exposed to risks. The 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, from time to time) 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 seeks to balance these requirements.

RMPP's liabilities and assets are impacted by movements in interest rates and inflation. In order to reduce the risk of movements in these rates driving the RMPP into a funding deficit, the RMPP Trustee has hedged the funding liabilities which it was estimated would be built up by March 2018. It has done this predominantly through investment in index-linked gilts and derivatives (interest rate and inflation rate swaps and Gilt repurchase agreements) held in Unit Trust pooled investments providing economic exposure to gilts and swap rates.

The change in value of the liability-hedging assets is predominantly reflected in the Unit Trust values above, which have increased from £6,004 million at 26 March 2017 to £6,682 million at 25 March 2018.

The notional value covered by the inflation 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 25 March 2018 was £2.4 billion (2016-17: £2.3 billion). The notional value covered by the interest rate swaps at 25 March 2018 was £3.2 billion (2016-17: £1.9 billion).

The equity exposure of RMPP has been reduced by means of a short Total Return Swap (TRS). This is 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 reduce downside risk whilst broadly maintaining the existing expected returns. The TRS have a market value as at 25 March 2018 of £21 million (2016-17: £(17) million) included in the derivative values above. The TRS economically offset £257 million as at 25 March 2018 (2016-17: £260 million) of the Plan's global equity market 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 £175 million (2016-17: £26 million) and the buy-in annuity policy of £148 million at 25 March 2018 (2016-17: £151 million) to match its liabilities. In order to increase the level of interest rate and inflation hedging, RMSEPP has borrowed £115 million (2016-17: £nil million) of the UK Government Bonds it holds via Gilt repurchase agreements. These are included in the derivative values above.

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	
	At 25 March 2018	At 26 March 2017	At 25 March 2018	At 26 March 2017	At 25 March 2018	At 26 March 2017
	£m	£m	£m	£m	£m	£m
Retirement benefit surplus (pre IFRIC 14 adjustment) at 27 March 2017 and 28 March 2016	9,847	7,374	(5,992)	(3,815)	3,855	3,559
Amounts included in the income statement						
Ongoing UK defined benefit pension plan and administration costs (included in people costs)	(7)	(5)	(899)	(683)	(906)	(688)
Pension interest income/(cost) ⁷	251	265	(160)	(145)	91	120
Total included in profit before tax	244	260	(1,059)	(828)	(815)	(568)
Amounts included in other comprehensive income – remeasurement gains/(losses)						
Actuarial (loss)/gain arising from:						
Financial assumptions	-	-	(53)	(1,711)	(53)	(1,711)
Demographic assumptions	-	-	-	243	-	243
Experience assumptions	-	-	1	76	1	76
Return on plans' assets (excluding interest income)	62	1,791	-	-	62	1,791
Total remeasurement gains/(losses) of the defined benefit surplus	62	1,791	(52)	(1,392)	10	399
Other						
Employer contributions ⁸	272	476	-	-	272	476
Employee contributions	5	6	(5)	(6)	-	-
Benefits paid	(70)	(55)	70	55	-	-
Curtailment costs	-	-	(3)	(5)	(3)	(5)
Movement in pension-related accruals	1	(5)	3	(1)	4	(6)
Total other movements	208	422	65	43	273	465
Retirement benefit surplus (pre IFRIC 14 adjustment) at 25 March 2018 and 26 March 2017	10,361	9,847	(7,038)	(5,992)	3,323	3,855
IFRIC 14 adjustment	n/a	n/a	n/a	n/a	(1,160)	(16)
Retirement benefit surplus (net of IFRIC 14 adjustment) at 25 March 2018 and 26 March 2017	n/a	n/a	n/a	n/a	2,163	3,839

In addition to the above items which affect the net defined benefit surplus, estimated curtailment costs of £nil million (2016-17: £4 million) have been provided for in transformation costs in the income statement, along with the associated redundancy costs.

⁷ Pension interest income results from applying the plans' discount rate at 26 March 2017 to the plans' assets at that date. Similarly, the pension interest cost results from applying the plans' discount rate as at 26 March 2017 to the plans' liabilities at that date.

⁸ Excludes payments into pension escrow investments of £178 million (2016-17: £nil million).

Notes to the consolidated financial statements (continued)

10. Acquisition of businesses

This Note provides details of the Group's business acquisitions which relate to the acquisitions by GLS of Postal Express in the United States of America and Redyser Transporte (Redyser) in Spain.

Acquisitions made in the year for a total consideration of £16 million in respect of Postal Express and Redyser 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 2018
	Total £m
Tangible assets acquired	3
Intangible assets recognised on acquisition	12
Trade and other receivables	13
Cash and cash equivalents	-
Goodwill recognised on acquisition	11
Total assets acquired	39
Trade and other payables	(16)
Interest bearing loans and borrowings	(3)
Tax liabilities	(4)
Net assets acquired	16
Cash paid during the year	16
Deferred consideration	-
Total consideration	16

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 £11 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 £29 million and the combined loss is £5 million. If these combinations had taken place at the beginning of the financial year, revenue generated would have been £64 million and the combined loss would have been £4 million. The profitability of these entities was impacted by higher operating costs as a result of integration activity.

There are no 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					Fixtures and equipment	Total
	Freehold £m	Long leasehold £m	Short leasehold £m	Plant and machinery £m	Motor vehicles £m	£m	£m
Cost							
At 27 March 2017	1,743	287	799	1,129	702	393	5,053
Exchange rate movements	3	-	-	2	-	3	8
Reclassification	(23)	2	19	1	1	-	-
Additions	93	4	17	45	62	18	239
Disposals	(26)	(1)	(8)	(27)	(42)	(14)	(118)
Acquisition of business	-	-	-	2	1	-	3
Reclassification to non-current assets held for sale	(23)	-	-	-	-	-	(23)
At 25 March 2018	1,767	292	827	1,152	724	400	5,162
Depreciation and impairment							
At 27 March 2017	894	186	572	736	339	264	2,991
Exchange rate movements	1	-	-	2	1	1	5
Reclassification	(1)	-	-	1	-	-	-
Depreciation (see Note 3)	44	6	42	57	58	39	246
Disposals	(8)	(1)	(3)	(26)	(37)	(13)	(88)
Reclassification to non-current assets held for sale	(8)	-	-	-	-	-	(8)
At 25 March 2018	922	191	611	770	361	291	3,146
Net book value							
At 25 March 2018	845	101	216	382	363	109	2,016
At 26 March 2017	849	101	227	393	363	129	2,062
Net book value comprises:							
Owned assets	845	88	213	298	142	109	1,698
Finance leased assets	-	13	3	84	221	-	318
At 25 March 2018	845	101	216	382	363	109	2,016

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 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

Depreciation rates are disclosed within 'Significant accounting policies'. No depreciation is provided on land, which represents £223 million (2016-17: £211 million) of the total cost of properties.

The net book value of the Group's property, plant and equipment includes £122 million (2016-17: £149 million) in respect of assets in the course of construction. The net book value of the Group's land and buildings includes £389 million (2016-17: £407 million) in respect of building fit-out.

The £239 million (2016-17: £276 million) additions include £1 million (2016-17: £nil million) borrowing costs capitalised at a rate of 2.5 per cent 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 including its business acquisitions in the year.

	2018 £m	2017 £m
Cost		
At 27 March 2017 and 28 March 2016	703	559
Exchange rate movements	1	57
Acquisition of businesses	11	90
Disposal of businesses	-	(1)
Reclassification of goodwill in respect of prior year acquisition	-	(2)
At 25 March 2018 and 26 March 2017	715	703
Impairment		
At 27 March 2017 and 28 March 2016	387	353
Exchange rate movements	4	34
At 25 March 2018 and 26 March 2017	391	387
Net book value:		
At 25 March 2018 and 26 March 2017	324	316
At 26 March 2017 and 27 March 2016	316	206

The carrying value of goodwill of £324 million (2016-17: £316 million) at the balance sheet date includes £261 million (2016-17: £251 million) in relation to GLS' European network (cash generating unit – CGU). The carrying value of the GLS European network, excluding interest-bearing and tax-related assets and liabilities, is £719 million (2016-17: £642 million). The operating profit before transformation costs is £193 million (2016-17: £164 million) for the year.

The carrying value of the GLS European network of £719 million represents a multiple of 3.7 (2016-17: 3.9) of operating profit before transformation costs. The recoverable amount of this CGU, being its net realisable value (i.e. 'fair value less costs to sell') for the purposes of the impairment review, has been assessed with reference to EBITDA earnings multiples for quoted entities in a similar sector of 7.3 (fair value hierarchy level 2 input). On this basis, the CGU's 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 59 per cent to 3.0 to reduce the net realisable value to below the carrying value.

A further £46 million (2016-17: £48 million) of goodwill relates to the GLS US network. This is a second GLS CGU comprising Golden State Overnight Delivery Services Inc. (GSO) and Postal Express. An internal assessment by GLS management has determined that the recoverable amount of the US network, including goodwill of £46 million (2016-17: £48 million), exceeds the carrying value of this CGU.

The recoverable amount of GLS' US network is based on 'value in use', using five-year forecast cash flows, including terminal growth rates of two per cent and a pre-tax discount rate of 12.5 per cent, including a risk premium for the US. The forecast cash flows would need to reduce by more than 30 per cent to reduce the value in use to below the carrying value.

The remaining goodwill of £17 million (2016-17: £17 million) arising from an aggregation of goodwill on business acquisitions, each being a separate CGU 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 (one to eleven years).

	2018					2017				
	Master franchise licences £m	Customer listings £m	Software £m	Brands £m	Total £m	Master franchise licences £m	Customer listings £m	Software £m	Brands £m	Total £m
Cost										
At 27 March 2017 and 28 March 2016	21	72	807	14	914	21	36	670	-	727
Exchange rate movements	-	(1)	(1)	(1)	(3)	-	7	5	-	12
Additions	-	-	143	-	143	-	3	126	-	129
Disposals	-	-	(6)	-	(6)	-	-	(12)	-	(12)
Acquisition of business	-	5	2	5	12	-	26	16	14	56
Reclassification of goodwill in respect of prior year acquisition	-	-	-	-	-	-	-	2	-	2
At 25 March 2018 and 26 March 2017	21	76	945	18	1,060	21	72	807	14	914
Amortisation and impairment										
At 27 March 2017 and 28 March 2016	21	43	279	4	347	21	32	223	-	276
Exchange rate movements	-	-	-	-	-	-	4	2	-	6
Amortisation (see Note 3)	-	5	100	6	111	-	7	66	4	77
Disposals	-	-	(6)	-	(6)	-	-	(12)	-	(12)
At 25 March 2018 and 26 March 2017	21	48	373	10	452	21	43	279	4	347
Net book value:										
At 25 March 2018 and 26 March 2017	-	28	572	8	608	-	29	528	10	567
At 26 March 2017 and 27 March 2016	-	29	528	10	567	-	4	447	-	451

The intangible assets detailed above have finite lives and are being written down on a straight-line basis. The £143 million (2016-17: £129 million) additions include £2 million (2016-17: £4 million) borrowing costs capitalised at a rate of 2.5 per cent in relation to specific qualifying assets.

The Group holds individually material intangible assets totalling £233 million (2016-17: £192 million). These assets relate to various IT initiatives taking place across the business. They have an average remaining useful life of eight years (2016-17: seven 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 25 March 2018 (2016-17: 26 March 2017), information provided by each of the respective companies is analysed and an estimate of profit/loss accrued as appropriate.

	Principal activities	Country of incorporation	Reporting date	% ownership 2018	% ownership 2017
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	21.1	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. It is therefore 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

	2018 £m	2017 £m
Cost		
At 27 March 2017 and 28 March 2016	7	8
Share of loss after tax for the year from continuing operations ¹	-	(1)
Impairment ²	(2)	-
At 25 March 2018 and 26 March 2017	5	7

Movements in interest in joint venture

	2018 £m	2017 £m
Cost		
At 27 March 2017 and 28 March 2016	-	1
Share of loss after tax for the year from continuing operations ¹	-	(1)
At 25 March 2018 and 26 March 2017	-	-

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 share of loss after tax is included within 'Other operating costs' in the income statement.

² The impairment is included within 'Legacy/other 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), Deferred Shares Bonus Plan (DSBP), 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 therefore been consolidated within these financial statements.

2013 and 2014 SIP

613 shares were awarded in October 2013 to each eligible full-time employee. A further 116 shares were allocated to eligible full-time employees in April 2014. Part-time eligible employees were allocated a pro-rata number of shares in 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. This was 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.

A charge to the income statement of £33 million (including a net £2 million National Insurance credit) has been made for the year ended 25 March 2018 for all four SIP allocations (see page 27 of Financial Review).

Notes to the consolidated financial statements (continued)

15. Share-based payments (continued)

A reconciliation of the ordinary shares held in the SIP at 25 March 2018 is shown below.

	Number of shares
Total shares remaining in SIP at 27 March 2017	93,760,834
Shares sold/transferred out of SIP during the reporting year (fully vested)	(6,643,092)
Shares transferred out of SIP during the reporting year ('good leavers') ¹	(5,200,562)
Total shares remaining in SIP at 25 March 2018	81,917,180

¹ 'Good leavers' refers to former employees whose shares vested under specific circumstances, in accordance with the rules of the scheme.

Of the total shares remaining in the scheme, 79,457,694 have been allocated to current employees. The remaining 2,459,486 shares are unallocated and have arisen as a result of forfeitures.

Award of shares under the Long-Term Incentive Plan (LTIP)

An LTIP award was granted to senior management on 28 March 2015 (2015 LTIP). This award is equity-settled with the fair value of the shares awarded, being set at the grant date market value of 511.0 pence. The maximum shares that have the potential to vest under this scheme are 2,487,477.

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 the 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 2,530,857.

2017 LTIP

LTIP awards were granted to senior management on 28 July 2017 and 11 December 2017 (together the 2017 LTIP). The vesting period of three years from 1 April 2017, and the 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 203.0 pence and 283.0 pence, respectively. The maximum shares that have the potential to vest under the 2017 LTIP are 2,416,818.

A charge to the income statement of £4 million (including £1 million National Insurance) has been made for the year ended 25 March 2018 in relation to all LTIP schemes (2016-17: £10 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 75.

Deferred Shares Bonus Plan (DSBP)

DSBP awards were granted to senior management on 20 June 2017 (2016 DSBP). The vesting period is three years from 1 April 2017. This award is equity-settled with the fair value of the shares awarded, being set at the grant date market value of 441.4 pence. The maximum shares that have the potential to vest under the scheme are 595,813.

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 £1 million has been made for the year ended 25 March 2018 (2016-17: £2 million) in relation to the SAYE scheme. The fair values of the options have been calculated using the Black-Scholes share option pricing model.

The table below shows the movements in share options during the reporting year.

	Number of options
Balance at the beginning of the reporting year	12,871,610
Options exercised	(8,968,438)
Options expired	(381,677)
Options forfeited	(749,015)
Balance at the end of the reporting year	2,772,480

For SAYE options exercised during the year (by 'good leavers'), the weighted average share price at the date of exercise was 433.3 pence. The weighted average exercise price for each of the above categories of share options is 360 pence.

As a result of reaching the end of the contribution period and scheme rules in relation to 'good leavers', 2,748,990 (2016-17: 130,360) share options were exercisable at 25 March 2018 at a weighted average exercise price of 360 pence.

Notes to the consolidated financial statements (continued)

16. Assets 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 25 March 2018, 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 25 March 2018 £m	At 26 March 2017 £m
Property assets held for sale	50	37
Total	50	37

Property assets held for sale

Non-current assets held for sale of £50 million (2016-17: £37 million) relate to land and buildings in UKPIL which are being actively marketed with a view to a sale within 12 months. The carrying value relates primarily to the remaining plots at the Nine Elms site and the in-year increase represents expenditure to enhance the site. An assessment of the fair value of the 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 loss allowance for bad and doubtful debts that the Group has provided for in the financial statements.

	At 25 March 2018 £m	At 26 March 2017 £m
Trade receivables	999	979
Accrued income	37	36
Prepayments	124	102
Total	1,160	1,117

Movements in the loss allowance for bad and doubtful debts are shown below. The early adoption of IFRS 9 has had no material impact on the opening loss allowance.

	2018 £m	2017 £m
At 27 March 2017 and 28 March 2016	(35)	(26)
Receivables provided for during the year	(24)	(14)
Release of allowance	9	6
Utilisation of allowance	19	5
Acquisition of business	(5)	(5)
Exchange difference on foreign denominated allowance	-	(1)
At 25 March 2018 and 26 March 2017	(36)	(35)

The amount of trade receivables that were past due but not impaired are shown below.

	At 25 March 2018 £m	At 26 March 2017 £m
Not yet overdue	883	890
Past due not more than one month	88	71
Past due more than one month and not more than two months	16	9
Past due more than two months	12	9
Total	999	979

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 25 March 2018 and at 26 March 2017 are as follows:

	At 25 March 2018 £m	At 26 March 2017 £m
Cash at bank and in hand	172	144
Client cash	24	22
Cash equivalent investments: Short-term bank and local authority deposits and money market fund investments	404	133
Total cash and cash equivalents	600	299

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 25 March 2018 £m	At 26 March 2017 £m
Trade payables and accruals	(1,449)	(1,317)
Advance customer payments (mainly for stamps held, not yet used by customers)	(283)	(289)
Social security	(104)	(100)
Client creditors	(32)	(31)
Capital expenditure payables	(48)	(60)
Other	(11)	(13)
Total	(1,927)	(1,810)

The fair value of trade and other payables is not materially different from the carrying value.

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 25 March 2018				Basis of interest rate chargeable	Average maturity date of loan drawn down Year	Average maturity date of loan facility Year
	Loans and borrowings £m	Further committed facility £m	Total facility £m	Average interest rate of loan drawn down %			
Syndicated bank loan facilities	-	1,050	1,050	n/a	LIBOR plus 0.55%	n/a	2022
€500 million bond – 2.375% Senior Fixed Rate Notes	435	-	435	2.5	Fixed at 2.5%	2024	2024
Loans in overseas subsidiaries	2	-	2	1.4	Fixed at 1.4%	2020	2020
Total	437	1,050	1,487	2.4		2024	2022

	At 26 March 2017				Basis of interest rate chargeable	Average maturity date of loan drawn down Year	Average maturity date of loan facility Year
	Loans and borrowings £m	Further committed facility £m	Total facility £m	Average interest rate of loan drawn down %			
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

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/€1.145. 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 £5 million (2016-17: £38 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.

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 25 March 2018 is 0.2:1 (2016-17: 0.6:1). The Group's ratio of EBITDA to interest (excluding certain arrangement fees) at 25 March 2018 is 38.6:1 (2016-17: 53.1:1). 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, were £1,050 million of which £952 million are maturing in March 2022 with the remaining £98 million maturing in March 2020 (2016-17: £1,018 million of which £923 million are maturing in March 2022 and £95 million maturing in March 2020).

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) Movement in liabilities arising from financing activities – A reconciliation of the opening and closing balances of liabilities arising from financing activities.

c) 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.

d) 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.

e) 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.

f) 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.

g) 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.

h) 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 25 March 2018	At 25 March 2018	At 26 March 2017	At 26 March 2017
	Level	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	Classification	£m	£m	£m	£m
Financial assets					
Cash		196	196	166	166
Cash equivalent investments		404	404	133	133
Money market funds	Amortised cost	206	206	133	133
Short-term deposits – bank	Amortised cost	198	198	-	-
Cash and cash equivalents		600	600	299	299
Pension escrow investments – money market funds	Amortised cost	198	198	20	20
Derivative assets (current)	2	15	15	8	8
Derivative assets (non-current)	2	5	5	4	4
Total financial assets		818	818	331	331

The following table shows the classification, carrying amount and fair value of the Group's financial liabilities.

		At 25 March 2018	At 25 March 2018	At 26 March 2017	At 26 March 2017
	Level	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	Classification	£m	£m	£m	£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)	(1)	(1)
Obligations under finance leases (current)	Amortised cost	(59)	(59)	(64)	(64)
€500 million bond	Amortised cost	(435)	(474)	(430)	(464)
Loans in overseas subsidiaries (non-current loans and borrowings)	Amortised cost	(1)	(1)		
Obligations under finance leases (non-current)	Amortised cost	(110)	(116)	(130)	(137)
Derivative liabilities (current)	2	(3)	(3)	(9)	(9)
Derivative liabilities (non-current)	2	(4)	(4)	(2)	(2)
Total financial liabilities		(613)	(658)	(668)	(709)
Net total financial assets/(liabilities)		205	160	(337)	(378)

As a result of the early adoption of IFRS 9, money market funds, short term deposits and the pension escrow money market funds have been classified as 'Amortised cost'. They were previously classified as 'Loans and receivables'. There was no change in their carrying or fair value on transition.

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.

Notes to the consolidated financial statements (continued)

21. Financial assets and liabilities and risk management (continued)

b) Movement in liabilities arising from financing activities

The following table reconciles the opening and closing balances of liabilities arising from financing activities.

	Interest bearing loans and borrowings (current) £m	Interest bearing loans and borrowings (non-current) £m	Obligations under finance leases (current) £m	Obligations under finance leases (non-current) £m	Total £m
At 27 March 2017	(33)	(430)	(64)	(130)	(657)
Movements through income statement					
Interest payable on financial liabilities	(3)	(11)	-	(4)	(18)
Movements through cash flow					
Finance costs paid	3	11	-	4	18
Repayment of loans and borrowings	32	-	-	-	32
Payment of capital element of finance lease contracts	-	-	63	-	63
Cash received on sale and leasebacks	-	-	-	(35)	(35)
Other movements					
Non-cash increase in finance lease	-	-	-	(2)	(2)
Reclassification between categories	(1)	1	(58)	58	-
Effect of business combinations	(1)	(2)	-	-	(3)
Effect of foreign currency exchange rates	2	(5)	-	(1)	(4)
At 25 March 2018	(1)	(436)	(59)	(110)	(606)

c) Foreign currency risk management

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. 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. 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. Hedging is normally confined to 80 per cent of the forecast exposure, where forecast cash flows are highly probable.

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 25 March 2018	At 26 March 2017
Capital programmes	€/£ exchange rate movements	91%	96%
Overseas postal administrations	SDR/£ exchange rate movements	21%	40%

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 €31 million of Euro-denominated finance leases during the year (2016-17: €30 million). This similarly acts 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 £5 million (2016-17: £38 million) and foreign exchange losses on the lease payables of £1 million (2016-17: £4 million) were deferred into equity. There was no hedge ineffectiveness in the current or prior reporting years.

Notes to the consolidated financial statements (continued)

21. Financial assets and liabilities and risk management (continued)

The net total financial assets and 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 €78 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 25 March 2018	521	19	(381)	46	205
Net total financial assets/(liabilities) at 26 March 2017	27	(21)	(385)	42	(337)

d) Commodity price risk management

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.

e) Interest rate risk management

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 25 March 2018, there was no external hedge of interest rate risk (2016-17: 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.

	Average effective interest rate %	At 25 March 2018				Total £m
		Within 1 year £m	1-2 years £m	2-5 years £m	More than 5 years £m	
Fixed rate						
Cash equivalent investments – bank deposits	0.6	70	-	-	-	70
Financial liabilities						
Loans in overseas subsidiaries	1.4	(1)	(1)	-	-	(2)
€500 million bond	2.5	-	-	-	(435)	(435)
Obligations under finance leases	2.7	(59)	(27)	(69)	(14)	(169)
Total		10	(28)	(69)	(449)	(536)
Floating rate						
Cash at bank	0.2	73	-	-	-	73
Cash equivalent investments – money market funds	0.4	206	-	-	-	206
Cash equivalent investments – bank deposits	0.5	128	-	-	-	128
Financial assets						
Pension escrow investments – money market funds (non-current)	0.4	-	-	-	198	198
Total		407	-	-	198	605
Non-interest bearing						
Cash at bank or in hand		123	-	-	-	123
Derivative assets		15	4	1	-	20
Derivative liabilities		(3)	(4)	-	-	(7)
Total		135	-	1	-	136
Total financial assets		615	4	1	198	818
Total financial liabilities		(63)	(32)	(69)	(449)	(613)
Net total financial assets/(liabilities)		552	(28)	(68)	(251)	205

Notes to the consolidated financial statements (continued)

21. Financial assets and liabilities and risk management (continued)

	At 26 March 2017					Total £m
	Average effective interest rate %	Within 1 year £m	1-2 years £m	2-5 years £m	More than 5 years £m	
Fixed rate						
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						
RMSEPP pension escrow – money market funds (non-current)	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)

Drawings under the syndicated bank loan facilities are at fixed rate to maturity (which must be 6 months or less). There are no balances outstanding at 25 March 2018 (2016-17: £32 million). The total interest-bearing financial assets of the Group (excluding the RMPP and RMSEPP pension escrow investments) of £477 million (2016-17: £211 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 four days (2016-17: an average maturity of one day). These short-dated financial instruments are maturity-managed to obtain the best value out of the interest yield curve.

Obligations under finance leases are either unsecured or secured on the leased assets. The average interest rate is 2.7 per cent (2016-17: 2.8 per cent). The average maturity date is more than five years (2016-17: more than five years).

The RMPP pension escrow investment of £178 million (2016-17: £nil million) represents a money market fund investment, established with the agreement of the Pension Trustee for the benefit of members.

The RMSEPP pension escrow investment of £20 million (2016-17: £20 million) 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 and updated in 2018. The next scheduled review point in the agreement is in 2025 and the investment is therefore disclosed as maturing in more than five years.

f) Liquidity risk management

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 £1,050 million expire in 2020-22 (2016-17: £1,018 million expiring in 2020-22).

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 25 March 2018 market forward exchange rates. For derivatives that are settled gross, these cash flows represent the undiscounted gross payment due and do not reflect the accompanying inflow. For derivatives that are settled net, these cash flows represent the undiscounted forecast outflow.

Notes to the consolidated financial statements (continued)

21. Financial assets and liabilities and risk management (continued)

	At 25 March 2018					
	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)	11	62	73	91	3	167
More than one year (non-current)	537	231	768	-	4	772
More than one year but not more than two years	11	32	43	-	4	47
More than two years but not more than five years	34	77	111	-	-	111
More than five years	492	122	614	-	-	614
Total	548	293	841	91	7	939
Less interest	(76)	(122)	(198)	n/a	n/a	n/a
Less exchange rate adjustment	(35)	(2)	(37)	n/a	n/a	n/a
Net total	437	169	606	n/a	n/a	n/a

	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

g) Credit risk management

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, commensurate with the Group's appetite for risk. An analysis of aged debt is included within Note 17.

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 25 March 2018, 73 per cent of financial assets (2016-17: 95 per cent) were held with AA or above rated counterparties.

GLS operates a decentralised credit management model, with each country 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.

h) 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 (2016-17: £nil million risk). Further details of the Group's exposure to commodity price risk can be found in the Financial Review.

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 £3 million (2016-17: £4 million). However, changes in exchange rates could also cause other impacts on operating profit including a change in import/export volumes.

Notes to the consolidated financial statements (continued)

21. Financial assets and liabilities and risk management (continued)

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 all currencies at 25 March 2018 would have been to reduce the Group net assets by £24 million (2016-17: £19 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 27 March 2017	(13)	(113)	(70)	(196)
Arising during the year:				
Charged in transformation costs and operating specific items	(44)	(6)	-	(50)
Released in operating specific items	-	8	-	8
Charged in other operating costs	-	-	(27)	(27)
Unused amounts released	-	-	15	15
Utilised in the year	56	6	27	89
Foreign exchange rate adjustment	-	1	-	1
Unwinding of discount – industrial diseases claims	-	(2)	-	(2)
At 25 March 2018	(1)	(106)	(55)	(162)
Disclosed as:				
Current	(1)	(13)	(45)	(59)
Non-current	-	(93)	(10)	(103)
At 25 March 2018	(1)	(106)	(55)	(162)
Disclosed as:				
Current	(13)	(21)	(54)	(88)
Non-current	-	(92)	(16)	(108)
At 26 March 2017	(13)	(113)	(70)	(196)

Transformation costs

Transformation costs provisions comprise £1 million (2016-17: £13 million) in respect of redundancy schemes.

Specific items and Other provisions

Below is a summary of the ageing profile of Specific items and Other provisions.

	At 25 March 2018					At 26 March 2017				
	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)	(74)	(83)	(3)	(3)	(3)	(75)	(84)
German property tax	-	(5)	-	-	(5)	(4)	-	-	-	(4)
Employee Free Shares – NI	(5)	(1)	-	-	(6)	(11)	-	(2)	-	(13)
Legacy property costs	-	-	(1)	(6)	(7)	-	-	(1)	(8)	(9)
Other	(5)	-	-	-	(5)	(3)	-	-	-	(3)
Total	(13)	(9)	(4)	(80)	(106)	(21)	(3)	(6)	(83)	(113)
Other										
Property onerous lease and decommissioning obligations	(12)	-	(5)	-	(17)	(15)	-	(6)	-	(21)
Litigation claims	(31)	-	(1)	-	(32)	(36)	(2)	(2)	-	(40)
LTIP – NI	-	(2)	-	-	(2)	-	-	(2)	-	(2)
Operational transformation	-	-	-	-	-	(1)	-	-	-	(1)
Other	(2)	(2)	-	-	(4)	(2)	(4)	-	-	(6)
Total	(45)	(4)	(6)	-	(55)	(54)	(6)	(10)	-	(70)

Notes to the consolidated financial statements (continued)

22. Provisions (continued)

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.

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 25 March 2018 £m	At 26 March 2017 £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 513,230 (2016-17: 9,582,175) 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.

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 25 March 2018 £m	At 26 March 2017 £m	At 25 March 2018 £m	At 26 March 2017 £m	At 25 March 2018 £m	At 26 March 2017 £m	At 25 March 2018 £m	At 26 March 2017 £m
Within one year	(135)	(130)	(23)	(21)	(4)	(5)	(162)	(156)
Between one and five years	(395)	(369)	(64)	(61)	(5)	(10)	(464)	(440)
Beyond five years	(457)	(445)	(15)	(26)	-	-	(472)	(471)
Total	(987)	(944)	(102)	(108)	(9)	(15)	(1,098)	(1,067)

Existing leases for UK land and buildings have an average term of 17 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 10 years. Vehicle leases generally have a term of between one and seven years, depending on the asset class, with the average term being six years. The existing leases have an average term remaining of five years. The majority of the IT commitments relate to three contracts, with an average term remaining of two years.

Notes to the consolidated financial statements (continued)

24. Commitments (continued)

Finance lease commitments

	At 25 March 2018		At 26 March 2017	
	Minimum lease payments £m	Present value of minimum lease payments £m	Minimum lease payments £m	Present value of minimum lease payments £m
Within one year	(62)	(59)	(67)	(64)
Between one and five years	(109)	(96)	(129)	(118)
Beyond five years	(122)	(14)	(106)	(12)
Total minimum lease payments	(293)	(169)	(302)	(194)
Less future finance charges	122	-	107	-
Less exchange rate impact	2	-	1	-
Total	(169)	(169)	(194)	(194)

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 five years, depending on the class of vehicle, with the average term being three years. Property leases have a term of between nine and 109 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 £62 million (2016-17: £27 million) for property, plant and equipment, £14 million (2016-17: £16 million) for vehicles and £11 million (2016-17: £4 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 continues to defend itself.

In its annual concurrency report published on 30 April the Competition and Markets Authority stated that Ofcom expects to make a decision in this case before Summer 2018. However, Ofcom has not published a formal timetable (or provided any such timetable to Royal Mail).

The Group continues to maintain that it has not infringed competition law and its representations to Ofcom have been made on that basis.

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 2018 £m	52 weeks 2017 £m
Sales/recharges to:		
RMPP (administration and investment service recharge)	5	5
Purchases/recharges from:		
Associate undertaking (Quadrant Catering Limited)	(7)	(8)
Amounts owed to:		
Associate undertaking (Quadrant Catering Limited)	(1)	(1)

Notes to the consolidated financial statements (continued)

26. Related party information (continued)

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 2018 £000	52 weeks 2017 £000
Short-term employee benefits	(14,592)	(11,174)
Post-employment benefits	(70)	(44)
Other long-term benefits	(551)	(734)
Share-based payments	(3,679)	(4,102)
Total	(18,892)	(16,054)

In July 2017, the Group made a payment of €6.6 million to Mr Rico Back as consideration for the termination of his contract of employment (and all rights and obligations contained within it) with GLS and its replacement with a new GLS contract. The original contract dated back to 2000 when the Post Office, then in State ownership, acquired German Parcel. It gave Mr Back certain management control rights relating to the governance of what subsequently became GLS, in order to retain its entrepreneurial focus. They included right of veto on decisions and membership of GLS' management board. In addition, Mr Back was only required to give the Company three months' notice and there were substantial payments for termination of his employment in certain circumstances. This arrangement was rooted in the fact that Mr Back was a shareholder in German Parcel, and its Managing Director, at the time of its acquisition by the Post Office. The Board came to the conclusion that some of the provisions of the original contract were increasingly inappropriate and needed to be removed. The growing importance of GLS for Royal Mail Group and our greater investment to accelerate its growth makes it important that it is integrated more closely with the rest of the Group, while maintaining its overall entrepreneurial focus and ethos. In addition, as part of the buyout, Mr Back's fixed pay was rebased downwards.

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 62) 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 25 March 2018 unless otherwise indicated.

Company	Principal activities	Country of incorporation	% equity interest 2018	% equity interest 2017
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
RM Property and Facilities Solutions Limited (formerly Romec Limited)	Facilities management	United Kingdom	100	100

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 27).

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.

Notes to the consolidated financial statements (continued)

27. 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 25 March 2018 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		
Traunuferstrasse 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 District, 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
Kokholm 13, 6000 Kolding, Denmark		
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

¹ 100% of the equity contribution. No shares are issued by EBP.

Notes to the consolidated financial statements (continued)

27. 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 Beteiligungs GmbH	€7,720,507.41 Ordinary shares	100.000
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 shares	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	-
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 ²	-	-
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 Branch of GLS Belgium. No shares are issued or held.

Notes to the consolidated financial statements (continued)

27. Related undertakings of Royal Mail plc (continued)

Company Name	Share Class	% held by Group
Portugal		
Rua da Bica, No. 10, 2669-608 Venda do Pinheiro, Portugal		
General Logistics Systems Portugal Lda	€200,000.00 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.	€99,600.00 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		
General Logistics Systems Spain S.A	€ 9,758,136 Share capital	100.000
Pologono Industrial Cabezo Cortado calle Practicante Pedro Pardo, no. 2 31.010 Espinardo (Murcia), Spain		
Redyser Transporte, S.L	€207,585 Share capital	100.000
Cargociclos Barcelona, S.L	€43,832 Share capital	100.000
Phonored Soluciones, S.L	€3,020 Share capital	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 ³	£1.00 Ordinary shares	100.000
Consignia (Customer Management) Limited ³	£1.00 Ordinary shares	100.000
Consignia Limited ³	£1.00 Ordinary shares	100.000
DGMH Clayton Limited ³	£1.00 Ordinary shares	100.000
Envision Licensing Limited ³	£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 ³	£1.00 Ordinary shares	100.000
Nine Elms Parkside Estate Management Limited	£1.00 Ordinary shares	100.000
Parcelforce Limited	£1.00 Ordinary shares	100.000
Phatware Limited ³	£1.00 Ordinary shares	100.000
POSG Limited ³	£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 ³	£1.00 Ordinary shares	100.000
Royal Mail Finance Limited ³	£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 ³	£1.00 Ordinary shares	100.000
Storefeeder Ltd	£1.00 Ordinary shares	100.000
Viacode Limited ³	£1.00 Ordinary shares	100.000
Century House, 19 High Street, Marlow, Buckinghamshire, SL7 1AU, United Kingdom		
NetDespatch Ltd	£0.001 Ordinary-A shares	61.000
	£0.001 Ordinary-B shares	14.377

³ In liquidation

Notes to the consolidated financial statements (continued)

27. 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)	£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. Holding 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
3400 Capital Blvd SE 101, Tumwater, WA 98501, USA		
Postal Express, Inc.	428.57 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	21.050
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		
Mittelweg 162, 20148 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 26 March 2017, and the adoption of new and amended accounting standards with effect from 27 March 2017 as detailed below:

New and amended accounting standards adopted in 2017-18

IFRS 9 'Financial Instruments' (early adoption)

IAS 7 (Amended) 'Disclosure Initiative'

IAS 12 (Amended) 'Recognition of Deferred Tax Assets for Unrealised Losses'

Annual improvements 2014-2016

The adoption of these amendments to the standards has not had a material impact on the financial performance or position of the Group.

The early adoption of IFRS 9 has been made in accordance with all transitional provisions and disclosure requirements of the standard. The adoption of IFRS 9 has had no impact on the current or prior year financial statements or earnings per share. The principal impacts of the new standard are a change in policy for the recognition of trade receivable bad debt provisions and a change in the way that financial assets are classified. Further details of these changes can be found in the relevant policy sections.

Key sources of estimation uncertainty and critical accounting judgements

The preparation of consolidated financial statements necessarily requires Management to make certain estimates and judgements 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 there is thought to be a significant risk of a material adjustment to the consolidated financial statements within the next financial year as a result of the estimation uncertainty are disclosed below.

Sources of estimation uncertainty

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.

Defined benefit pension plan assets are measured at fair value. Where these assets cannot be valued directly from quoted market prices, the Group applies judgement in selecting an appropriate valuation method, after discussion with an expert fund manager. The assumptions used in valuing unquoted investments are affected by current market conditions and trends, which could result in changes to the fair value after the measurement date. Details of the carrying value of the unquoted pension plan asset classes can be found in Note 9.

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. Any income statement movements arising from changes in accounting estimates are disclosed as an operating specific item. The carrying value of this provision is included within Note 22.

Significant accounting policies (continued)

Critical accounting judgements

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 class of stamp per household. The impact of applying alternative capping values on the year end public stamp deferred revenue balance is shown in the table below.

Public stamp holdings value (£m)	Capped			Uncapped
	30	As reported 99	300	
At 25 March 2018	154	179	188	188
At 26 March 2017	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.

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.

Allocation of costs for sale of Mount Pleasant

Contracts were exchanged on 30 August 2017 for the sale of 6.25 acres of Royal Mail's Mount Pleasant site (comprising the Phoenix Place and Calthorpe Street plots) for a total gross consideration of £193.5 million. The consideration is made up of £190 million in cash and the fair value of the parking facilities provided to Royal Mail of £3.5 million. The sale of the Phoenix Place plot has been recognised in the current accounting year whereas the sale of the Calthorpe Street site will be recognised upon completion of certain enabling works.

Management have applied judgement in allocating the transaction proceeds between the two plots on a different basis to the schedule of cash receipts agreed with the purchaser. This is to more accurately reflect the commercial substance of the transaction, which is that some of the proceeds of the Phoenix Place sale would be used to fund the Calthorpe Street enabling works. The allocation of total contract proceeds has been carried out according to the relative fair value method described in IFRIC 15 'Agreements for the Construction of Real Estate'. In applying this method proceeds which can be directly attributed to funding completion of the enabling works have been allocated to the Calthorpe Street plot proceeds, with the remaining proceeds being allocated proportionately according to the final residential development area of the two sites.

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, but the responsibility to fulfil the service still lies with the Group, 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.

Significant accounting policies (continued)

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, including management time and costs associated with the cost avoidance programme, and other projects with the aim of making our operations more efficient or improving our customer offering. They also include voluntary redundancy and other termination costs.

Operating specific items

These are recurring or non-recurring items of income or expense of a particular size and/or nature relating to the operations of the business that, in Management's opinion, require separate identification. Management does not consider them to be reflective of year-on-year operating performance. 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.

Employee Free Shares charge

These relate to accounting charges arising from the granting of free shares to employees upon the Government's sales of its stake in the business (SIP 2013, 2014, 2015 and 2016) with no direct cash impact on the Group.

Amortisation of intangible assets in acquisitions

These notional charges, which arise as a direct consequence of IFRS business combination accounting requirements, are separately identified as Management does not consider these costs to be directly related to the trading performance of the Group.

Legacy/other costs

These costs relate either to unavoidable ongoing costs arising from historic events (industrial diseases provision) or restructuring costs (Romec integration).

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.

Profit/loss on disposal of property, plant and equipment (PP&E)

Management separately identifies recurring profit/loss on disposal of PP&E as these disposals are not part of the Group's trading activity and are driven primarily by business strategy.

Profit/loss on disposal of business

These non-recurring events are excluded on the basis that by their nature they are individually unique and therefore distort comparison of year-on-year business performance.

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. Share-based payments awarded as part of the Deferred Share Bonus Plan (DSBP) is a deferred share award, granted to Executive Directors 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. 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 model where appropriate.

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. No expense is recognised for awards that do not ultimately vest. At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and Management's best estimate of the achievement or otherwise of service conditions and of the number of equity instruments that will ultimately vest. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity. The social security contributions payable in connection with the grant of shares is considered an integral part of the grant itself, and the charge is treated as a cash-settled transaction.

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 against internal forecasts of future profits against which those assets may be utilised and increased or reduced to the extent that it is probable that sufficient taxable profit will be available to allow them to be utilised.

Where tax returns remain subject to audit with the relevant tax authorities in the various jurisdictions in which the Group operates, a provision is made for uncertain tax items where the agreed amount could differ materially from management's estimates. Any such provisions are included within the relevant current and deferred tax carrying amount.

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 charged or credited 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 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.

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 a finite useful life, with key strategic assets generally having the longest lives. Those with a finite life are amortised over their useful life, but are reviewed for impairment annually or more frequently if events, or changes in circumstances, indicate that the carrying value may be impaired. An impairment loss is recognised in the income statement for the amount by which the carrying value of the intangible asset exceeds its recoverable amount, which is the higher of an asset's net realisable value and its value in use.

Amortisation of intangible assets with finite lives is charged annually to the income statement on a straight-line basis as follows:

Customer listings	3 to 10 years
Software	3 to 10 years
Brands	1 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 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.

Significant accounting policies (continued)

Non-current assets held for sale and discontinued operations

Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction, rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Following their classification as held for sale, the assets (including those in a disposal group) cease 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.

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. This allowance is calculated by first creating an allowance for identified trade receivables where collection of the full amount is no longer probable and then applying lifetime expected credit loss (ECL) rates to the remaining unprovided balance. ECL rates have been set by ageing category based on historic loss rates with adjustments made to reflect forward-looking information where material. Movements in the loss allowance are recognised in the income statement within other operating costs. At the point that a debt is considered unrecoverable, it is written off against the allowance for trade receivables. Subsequent recoveries of amounts previously written off are credited against other 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 31.

Financial instruments

Financial assets within the scope of IFRS 9 'Financial Instruments' 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); amortised cost; or fair value through other comprehensive income (FVOCI) as appropriate. Financial liabilities within the scope of IFRS 9 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 financial assets and liabilities measured at amortised cost and derivative assets and liabilities measured at FVTPL if they are not part of an effective hedge designation.

Significant accounting policies (continued)

The subsequent measurement of financial instruments depends on their classification as follows:

Financial assets measured at amortised cost

Non-derivative financial assets which are held for the purpose of collecting contractual cash flows, including interest, are classified as financial assets measured at amortised cost. These assets are carried at amortised cost with finance income recognised in the income statement using the effective interest rate method. Any gains or losses are recognised in the income statement when the assets are derecognised or impaired.

Financial liabilities measured at amortised cost

All non-derivative financial liabilities are classified as financial liabilities measured at amortised cost. These liabilities are measured at amortised cost with finance costs recognised in the income statement using the effective interest method. Any gains or losses are recognised in the income statement when the liabilities are derecognised or impaired.

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 financial assets at amortised cost.

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 Pension Trustee in 2013 and a money market fund investment established with the agreement of the Trustee for the benefit of members.

Financial assets – other investments

Other investments comprise short-term deposits (other investments) with banks with an original maturity of three months or more. Short-term deposits are classified as financial assets at amortised cost.

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 creditors are measured at amortised cost in Euro and converted to Sterling at the closing Sterling/Euro exchange rate.

Derivative financial instruments and hedging programmes

The Group uses derivative instruments such as foreign currency contracts in order to manage the risk profile of any underlying risk exposure of the Group, in line with the Group's treasury management policies. Such derivative financial instruments are initially stated at fair value. For the purpose of hedge accounting, hedges are classified as cash flow hedges where they hedge exposure to variability in cash flows that is attributable either to a particular risk associated with a recognised asset or liability, or to a highly probable forecast transaction.

In relation to cash flow hedges to hedge the interest rate, foreign exchange or commodity price risk of firm commitments that meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to relate to an effective hedge is recognised directly in equity and the ineffective portion is recognised in the income statement.

When the hedged firm commitment results in the recognition of a non-financial asset or non-financial liability, then at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in equity are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability. For all other cash flow hedges, the gains or losses that are recognised in equity are transferred to the income statement in the same reporting year in which the hedged firm commitment affects the net profit/loss, for example when the hedged transaction actually occurs.

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. 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'.

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).

Significant accounting policies (continued)

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.

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 Level 2 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 (Fair value levels 1 and 2). Unlisted securities and other pooled investment vehicles are valued at the Trustee's valuation using published prices, the latest information from investment managers, or at cost less any necessary provisions for impairment. Direct property held is valued using the latest external RICS surveyor valuations (under "Red Book" guidelines) adjusted for any capex spend and impairments since that valuation. 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 less taxation expense, in line with IFRIC 14. The Group considers this taxation to be a tax, other than income tax and the pension surplus is presented net of this tax on the balance sheet.

Full actuarial/cash funding 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.

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 subsidiaries 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

Significant accounting policies (continued)

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 19 (Amended) 'Plan Amendment, Curtailment or Settlement'*

IAS 28 (Amended) 'Long-term Interests in Associates and Joint Ventures'*

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 (Amended) 'Prepayment features with negative compensation'

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'

IFRS 17 'Insurance Contracts'*

IFRIC 22 'Foreign Currency Transactions and Advance Consideration'*

IFRIC 23 'Uncertainty over Income Tax Treatments'*

Annual Improvements 2015-2017*

* Not yet endorsed by the EU

With the exception of IFRS 16, 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. Of these accounting standards, IFRS 16 and IFRS 15 are explained in more detail below as they are considered of particular relevance to the Group.

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. The approach to lessor accounting remains largely unchanged.

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.

Although the impact is yet to be fully quantified, the adoption of the standard will result in a material: increase in property, plant and equipment and corresponding lease liability balances; decrease in operating costs; increase in finance costs; increase in cash flows from financing activities; and decrease in cash flows from operating activities.

A project has been established to assess the impact of IFRS 16 on the financial performance and position of the Group and to steer all aspects of IFRS 16 implementation. The project is sponsored by Group Finance and has a steering committee in place to provide governance and oversight. The main objectives of the project are to: identify all leases within the Group; collect the required data for each lease; determine appropriate discount rates to apply to each lease; make required policy decisions (including the application of any practical expedients to be taken and the transition approach to be adopted); and update existing lease accounting policies in compliance with the standard. In addition, a review of the current lease accounting systems in place across the Group is ongoing, with a view to identifying and implementing any required changes in advance of the transition date.

Currently, unless specified otherwise, the Group does not expect to early adopt these new or amended standards.

Significant accounting policies (continued)

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 and will be adopted by the Group in the 2018-19 reporting period. 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.

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, and further information on deferred revenue movements.

As part of IFRS 15 implementation the Group has carried out a review of current revenue recognition policies by principal revenue stream to determine whether the existing policies in place meet the five-step revenue recognition model. In particular the implementation work has focussed on existing areas of revenue recognition judgement for the Group such as deferred revenue and incentive scheme accounting, and on ensuring processes are in place to meet the new disclosure requirements.

Whilst the impact of this new standard is being continually reviewed, its adoption is unlikely to have a material impact on the Group's financial performance or position. This is due to the fact that the majority of revenue contracts within the Group do not involve multiple performance obligations and occur over short timescales with revenue largely recognised at the point of delivery.

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 25 March 2018 and 52 weeks ended 26 March 2017

	Share capital £m	Retained earnings £m	Total equity £m
At 28 March 2016	10	1,930	1,940
Profit for the year	-	218	218
Purchase of own shares	-	(53)	(53)
Share-based payments	-	111	111
Dividend paid	-	(222)	(222)
At 26 March 2017	10	1,984	1,994
Profit for the year	-	230	230
Employee exercise of SAYE options	-	28	28
Share-based payments	-	41	41
Dividend paid	-	(231)	(231)
At 25 March 2018	10	2,052	2,062

Balance sheet

At 25 March 2018 and 26 March 2017

Registered number: 08680755

	Notes	At 25 March 2018 £m	At 26 March 2017 £m
Non-current assets			
Investment in subsidiary	6	2,081	2,040
Total non-current assets		2,081	2,040
Current assets			
Trade and other receivables	7	434	396
Current liabilities			
Trade and other payables		(18)	(12)
Provisions	8	-	-
Net current assets		416	384
Interest bearing loans and borrowings	9	(435)	(430)
Net assets		2,062	1,994
Equity			
Share capital	10	10	10
Retained earnings		2,052	1,984
Total equity		2,062	1,994

The balance sheet was approved and authorised for issue by the Board of Directors on 16 May 2017 and signed on its behalf by:

Stuart Simpson
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 the 52 weeks ended 25 March 2018 (2016-17: 52 weeks ended 26 March 2017).

Authorisation of financial statements and statement of compliance with FRS 101

The financial statements of the Company for the year ended 25 March 2018 were authorised for issue by the board of Directors on 16 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 (2015-16 Cycle) issued in July 2016 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 25 March 2018.

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 £230 million (2016-17: £218 million) is primarily the net sum of: the £233 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 £5 million and a loss of £5 million (2016-17: both £38 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 25 March 2018 £m	At 26 March 2017 £m
At 27 March 2017 and 28 March 2016	2,040	1,929
Investment in subsidiary – charge for Employee Free Shares/LTIP/DSBP/SAYE ¹	41	111
At 25 March 2018 and 26 March 2017	2,081	2,040

¹ Excludes £1 million credit (2016-17: £6 million charge) 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 25 March 2018 £m	At 26 March 2017 £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 513,230 (2016-17: 9,582,175) 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)

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				
	2018 £m	2017 £m	2016 £m	2015 £m	2014 £m
Income statement – Reported					
Revenue	10,172	9,776	9,251	9,328	9,456
Operating profit before transformation costs	236	490	485	611	671
Transformation costs	(113)	(137)	(191)	(145)	(241)
Operating profit after transformation costs	123	353	294	466	430
Operating specific items	(57)	(134)	(156)	(248)	1,213
Non-operating specific items	71	12	29	133	21
Earnings before interest and tax	137	231	167	351	1,664
Finance income – net pension interest (non-operating specific item)	91	120	113	75	69
Finance costs	(16)	(16)	(13)	(26)	(67)
Profit before tax	212	335	267	400	1,666
Tax credit/(charge) (specific items and other)	46	(62)	(45)	(72)	(386)
Profit after tax	258	273	222	328	1,280

	Financial reporting year (52 weeks) ended March				
	2018 £m	2017 £m	2016 £m	2015 £m	2014 £m
Income statement – Adjusted					
Revenue	10,172	9,776	9,251	9,328	9,456
Operating profit before transformation costs	694	712	742	740	729
Transformation costs	(113)	(137)	(191)	(145)	(241)
Operating profit after transformation costs	581	575	551	595	488
Finance costs	(16)	(16)	(13)	(26)	(67)
Profit before tax	565	559	538	569	421
Tax	(111)	(121)	(118)	(138)	(110)
Profit after tax	454	438	420	431	311

Group five year summary (unaudited) (continued)

	At March financial reporting year end date				
	2018 £m	2017 £m	2016 £m	2015 £m	2014 £m
Balance sheet					
Property, plant and equipment	2,016	2,062	2,002	1,935	1,992
Intangible assets	608	567	451	300	195
RMPP escrow investments	178	-	-	-	-
Inventories	25	23	21	20	22
Trade and other receivables	1,176	1,137	1,038	960	939
Trade and other payables	(1,968)	(1,857)	(1,741)	(1,708)	(1,683)
Other net assets/(liabilities)	30	26	(18)	(33)	(23)
Provisions	(162)	(196)	(247)	(253)	(268)
Goodwill	324	316	206	182	197
Investments in associates	5	7	9	5	4
Net operating assets and investments in associates	2,232	2,085	1,721	1,408	1,375
Cash and cash equivalents	600	299	368	287	366
RMSEPP escrow investments	20	20	20	20	20
Loans and borrowings	(437)	(463)	(392)	(366)	(600)
Other net financial liabilities	(169)	(194)	(220)	(216)	(341)
Net cash/(debt)	14	(338)	(224)	(275)	(555)
Deferred tax assets/(liabilities)	27	(588)	(460)	(504)	(175)
Net assets before pension surplus	2,273	1,159	1,037	629	645
Pension surplus	2,163	3,839	3,430	3,367	1,889
Net assets	4,436	4,998	4,467	3,996	2,534
	Financial reporting year (52 weeks) ended March				
	2018	2017	2016	2015	2014
People numbers – year end headcount					
UKPIL	141,162	141,819	142,544	146,109	152,440
GLS	17,955	17,136	13,991	14,409	13,811
Group total	159,117	158,955	156,535	160,518	166,251

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

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Company number 08680755

Company Secretary

Kulbinder Dosanjh

Registrar

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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 – 17 July 2018

Annual General Meeting – 19 July 2018

Ex-dividend date – 26 July 2018

Record date – 27 July 2018

Payment date – 31 August 2018

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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