Registered Number 04138203

Royal Mail Group Limited

Annual Report and Financial Statements

For the 52 weeks ended 25 March 2018

Contents

Strategic report

Royal Mail Group Limited (the Company) is a wholly-owned subsidiary of Royal Mail plc.

UK Parcels, International & Letters (UKPIL) is the Company's operating unit and comprises Royal Mail's core UK and international parcels and letter delivery businesses under the 'Royal Mail' and 'Parcelforce Worldwide' brands.

Royal Mail's network is unparalleled in the UK in its scale and scope. It supports the provision of services for the collection, sorting and delivery of parcels and letters by Royal Mail. This includes those services Royal Mail provides as the UK's designated Universal Service Provider. Parcelforce Worldwide is a leading provider of express parcel services. UKPIL is responsible for the design and production of the UK's stamps and philatelic products. It is also responsible for the processing of international mail under reciprocal arrangements with other overseas postal administrations.

Results and dividends

The profit after tax for the year was £105 million (2016-17: £138 million). The Company's operating loss after transformation costs was £120 million (2016-17: £102 million profit).

There is a proposal for the Directors to recommend an interim dividend of £163 million (2016-17: £156 million) to be payable to the Company's parent company, Royal Mail plc, on or before 31 August 2018.

Our strategy

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

Our strategic priorities are:

- Winning in parcels;
- Defending letters; and
- Adding value.

Enabled by:

- Strategic focus on costs and investment;
- Becoming more digitally-enabled; and
- Engaging and motivating our workforce.

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 China[1]. 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 2016[2].

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 annum[3]. 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.

Our progress

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

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.

[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.

Strategic report (continued)

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 the Company's 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.

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

- **Introduction of International Tracked email notifications service**

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**

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

Strategic report (continued)

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 2013, we have invested over £1.8 billion in our UK operations. This year, we made a net cash investment of around £361 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**

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.

Our workforce

- **Agreement with the Communication Workers Union**
- **Employee engagement ahead of 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 year, 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. 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. We know how important pension benefits are to our colleagues; We 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.

Strategic report (continued)

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 cent[4].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 cent[5]. 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 money[6].

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.

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

The new Pensions, Pay and Pipeline agreement provides a framework for the next phase of transformation of our UK business into a truly customer-focussed organisation. In this first year of the agreement we will be working with our

[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.

Strategic report (continued)

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 is targeting to deliver around £230 million costs avoided this year. This encompasses productivity improvements at 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.

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

Key Performance Indicators
The 2017-18 Corporate Balanced Scorecard includes 10 equal measures, all weighted at 10 per cent. Six of 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. Note that the Company's financial performance is measured as part of the KPIs within the Royal Mail plc Group consolidated financial statements, using IFRS numbers, but adjusted for specific and underlying items that distort the results of the Company. These financial KPIs are not therefore disclosed in these financial statements.

KPI	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% (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[7].	• **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)

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

Strategic report (continued)

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)
Customer complaints ('000)[8]	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)

[8] 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.

Strategic report (continued)

Principal risks

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 Company mitigates it.

Principal risk	Status	How the risk is being mitigated
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 Limited 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 Company 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 Company. 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.
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.

Strategic report (continued)

Principal risk	Status	How the risk is being mitigated
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.

Strategic report (continued)

Principal risk	Status	How the risk is being mitigated
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 Company 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 Company. 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.

Strategic report (continued)

Principal risk	Status	How the risk is being mitigated
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 Board continues to monitor the economic environment including possible implications of Brexit on the UK economy and the Company'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.	Macroeconomic risk assessments are embedded within the monthly Letters forecasting processes. The Company 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.

Strategic report (continued)

Principal risk	Status	How the risk is being mitigated
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 plc Board and Group 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.

Strategic report (continued)

Principal risk	Status	How the risk is being mitigated
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 Company's labour costs. Given the size of the Company's workforce, this could have an adverse effect on the Company.	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.
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 Company. 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.

Strategic report (continued)

Principal risk	Status	How the risk is being mitigated
Major breach of information security, data protection 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 Company 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 and key personnel Our performance, operating results and future growth depend on our ability to attract and retain talent with the appropriate level of expertise.	Voluntary turnover in senior management continues at similar levels to previous years but remains a business risk.	The Company'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.

Financial risk management objectives and policies

The Company's principal financial assets and liabilities comprise short-term deposits, money market liquidity investments, cash loans and finance leases. The main purpose of these financial instruments is to raise finance and manage the liquidity needs of the business' operations. The Company has various other financial instruments such as trade receivables and trade payables, which arise directly from operations and are not disclosed further in this section.

The Company enters into derivative transactions, which create derivative assets and liabilities, principally commodity price swaps and forward currency contracts. Their purpose is to manage the commodity and currency risks arising from the Company's operations and finances.

No speculative trading in financial instruments has been undertaken during the current or comparative reporting years, in line with Company policy.

The main risks arising from the Company's financial assets and liabilities are interest rate risk, foreign currency risk, commodity price risk, credit risk and liquidity risk. The Board reviews and agrees policies for managing these risks, each of which is summarised below.

Strategic report (continued)

Interest rate risk
The Company's exposure to market risk for changes in interest rates arises from the Company's loans, leases and interest-bearing financial assets. Drawings under the syndicated bank loan facilities are at floating rate. At 25 March 2018 there were no drawings (2016-17: £32 million representing a loan of US$40 million at a closing spot rate of US$1.25/£). The total interest-bearing financial assets of the Company (excluding the non-current investments) 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. These short-dated financial instruments are maturity managed to obtain the best value out of the interest yield curve.

The Company's policy is to manage its net interest expense using an appropriate mix of fixed and floating rate financial instruments, combined with external hedging of interest rate risk, as appropriate, to keep a high percentage of its gross debt fixed.

Interest on financial instruments classified as floating rate is re-priced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument.

Foreign currency transaction risk
The Company is exposed to foreign currency risk due to obligations under Euro denominated finance leases; trading with overseas postal administrations for carrying UK mail abroad and delivering foreign origin mail in the UK; and various purchase contracts denominated in foreign currency (all of these exposures are in UKPIL).

These risks are mitigated by hedging programmes managed by the Group Treasury function. Where possible, exposures are netted internally and any remaining exposure is hedged using a combination of external spot and forward contracts. Hedging will not normally be considered for exposures of less than £1 million and hedging is normally confined to 80 per cent of the forecast exposure, where forecast cash flows are highly probable.

Foreign currency translational risk
The Company's functional currency is Sterling. The Company's obligation to settle with overseas postal administrations is denominated in Special Drawing Rights (SDRs) - a basket of currencies which comprise US Dollar, Japanese Yen, Sterling and Euro. Group Treasury operates a rolling 18-month hedge programme, which is subsequently reviewed on a quarterly basis.

The Company has six active hedge programmes (commenced during the current and previous reporting years) covering obligations to settle Euro and US Dollar invoices on automation projects.

The Company entered into €27 million of Euro denominated finance leases during the year (2016-17: €30 million) which act as a hedge of the net assets of General Logistics Systems (GLS) (the overseas operations of the Royal Mail plc Group for which the Company's investment is held by its Royal Mail Investments Limited subsidiary - see Note 31 to the financial statements). The lease payables are revalued at year end exchange rates and the movement taken to equity to offset, at Royal Mail plc Group level, the movement taken to equity from the revaluation of GLS' balance sheet.

Commodity price risk
The Company 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 Company's fuel risk management strategy aims to reduce uncertainty created by the movements in the oil and foreign currency markets. The strategy uses over-the-counter derivative products (in both US Dollar commodity price and US Dollar/Sterling exchange rate) to manage these exposures.

In addition, the Company is exposed to the commodity price risk of purchasing electricity and gas. The Company's risk management strategy aims to reduce uncertainty created by the movements in the electricity and gas markets. These exposures are managed by locking into fixed price contracts with suppliers and using over-the-counter derivative products.

Credit risk
The level of credit granted to customers is based on a customer's risk profile, assessed by an independent credit referencing agent. The credit policy is applied rigidly within the regulated products area to ensure that the Company is not in breach of compliance legislation. Assessment of credit for non-regulated products is based on commercial factors, which are commensurate with the Company's appetite for risk.

With regard to credit risk arising from other financial assets of the Company, which comprise cash, cash equivalent investments, loans and receivables and certain derivative instruments, the Company invests/trades only with high-quality financial institutions. The Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Strategic report (continued)

Liquidity risk

The Company's primary objective is to ensure that it has sufficient funds available to meet its financial obligations as they fall due. This is achieved by aligning short-term investments and borrowing facilities with forecast cash flows. Typical short-term investments include money market funds and term deposits with approved counterparties. Borrowing facilities are regularly reviewed to ensure continuity of funding. The unused facilities for the Company of £1,050 million expire in 2020-22 (2016-17: £1,018 million expiring in 2020-22).

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 Company and its community role
- Manage the environmental impacts of our business and operations
- Deliver our transformation responsibly
- Operate with integrity
- Communicate our management of corporate responsibilities openly and transparently

Our CR objectives support the delivery of our business strategy. We report progress against them under the areas of customer, people, community, environment and suppliers. Further information is available in the Royal Mail plc 2017-18 Corporate Responsibility Report.

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.

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. 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.

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.

Strategic report (continued)

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 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 employees work full time, with 29 per cent part-time. Over 98.7 per cent of our 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.

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 cent.

Health and safety

The health, safety and wellbeing of our workforce is an enduring priority for us. We publish our Company-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.

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 Company.

Strategic report (continued)

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.

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 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

In 2017-18, Royal Mail was named as one of The Times Top 50 Employers for Women for the fifth consecutive year.

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

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.

Strategic report (continued)

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.

Our communities

Royal Mail seeks to be an integral, valued and trusted part of every community that our service reaches. Our main contribution to communities is our social and economic impact. We 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.

Strategic report (continued)

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.

The Risk Management Committee (RMC) and Audit and Risk Committee have overall responsibility for the oversight of risk management on behalf of the Royal Mail plc 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 CO_2e per cubic metre of items carried, compared with the previous year.

Strategic report (continued)

Carbon 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.

In 2017-18, emissions 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 CO_2e.

Reducing our use of air transport helps to lower our CO_2e emissions and reduce costs. During 2017-18, we replaced air transport with road services between Newcastle and East Midlands Airport. This has reduced associated CO_2e emissions by approximately 3,000 tonnes per annum.

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.

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.

Strategic report (continued)

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. 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 our Compliance team, or through our confidential Speak Up line.

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 principles

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.

This Strategic report was approved by the Board on 16 July 2018.

Kulbinder Dosanjh
Company Secretary
Royal Mail Group Limited
Registered Number: 04138203
Registered Office: 100 Victoria Embankment, London, EC4Y 0HQ
16 July 2018

Directors' report

The Directors present the Annual Report and Financial Statements of the Company. These financial statements relate to the 52 weeks ended 25 March 2018 (2016-17: 52 weeks ended 26 March 2017).

Directors and their interests

The following have served as Directors of the Company during the year ended 25 March 2018 and up to the date of approval of these financial statements, unless otherwise stated:

Stuart Simpson	Appointed 20 July 2017
Michael Jeavons	
Rico Back	Appointed 8 June 2018
Moya Greene	Resigned 8 June 2018
Matthew Lester	Resigned 20 July 2017

No Director has a beneficial interest in the share capital of the Company.

With the exception of Michael Jeavons, the Directors listed above were also Directors of Royal Mail plc, the Company's ultimate parent company for all or part of the reporting year, and as such their disclosable interests in Royal Mail plc are all declared in the financial statements of that company. Matthew Lester left the business on 31 July 2017.

Research and development

During the year the Company continued to develop products and services within the business. An indication of the nature of the activities performed are provided in the Strategic report.

Political donations

There were no political donations during the year (2016-17: £nil). The Company intends to continue its policy of not making such donations for the foreseeable future.

Audit information

The Directors confirm that, so far as they are aware, there is no relevant audit information 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.

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. The ultimate parent undertaking, Royal Mail plc, holds a Directors' and Officers' liability insurance policy covering the Directors and Officers or former Directors of its subsidiary undertakings against any liability.

Cautionary statement regarding forward-looking information

Where this report contains forward-looking statements, these are made by the Directors in good faith based on the information available to them at the time of their approval of this Annual Report. These statements should be treated with caution due to the inherent risks and uncertainties underlying any such forward-looking information. A number of important factors, including those in this document, could cause actual results to differ materially from those contained in any forward-looking statement.

Going concern

These financial statements have been prepared on a going concern basis. The Directors have reviewed business projections to consider business cash flows under different trading scenarios that could reasonably take place during the year under review. The Company's business activities, strategy, performance and principal risks are outlined on pages 2 to 22.

The Directors have assessed these against committed and undrawn funding facilities (£1,050 million at 25 March 2018) and other liquid resources available to the Company (cash at bank £18 million and financial assets investments £404 million at 25 March 2018) and the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for at least 12 months.

Auditor

The auditor is deemed to be reappointed under section 487(2) of the Companies Act 2006.

Directors' report (continued)

Strategic report
In accordance with s414c(ii) of the Companies Act, the Company has set out certain information in its Strategic report that is otherwise required to be disclosed in the Directors' report. This includes information regarding results and activities, dividends, employees and financial risk management.

Statement of Directors' responsibilities in respect of the Strategic report, the Directors' report and the financial statements

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), 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 company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the 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 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 company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are 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 company and to prevent and detect fraud and other irregularities.

By Order of the Board

Kulbinder Dosanjh
Company Secretary
Royal Mail Group Limited
Registered Number: 04138203
Registered Office: 100 Victoria Embankment, London, EC4Y 0HQ
16 July 2018

Independent Auditor's Report to the members of Royal Mail Group Limited

Opinion

We have audited the financial statements of Royal Mail Group Limited ("the company") for the 52 week period ended 25 March 2018 which comprise the Balance Sheet, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 25 March 2018 and of its profit for the 52 week period then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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 have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report 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 strategic report and directors' report;
- in our opinion the information given in those reports for the financial period is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

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, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements 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.

Directors' responsibilities

As explained more fully in their statement set out on page 24, the directors are responsible for: the preparation of the financial statements and for 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 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 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 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 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.

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

Richard Pinckard (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
18 July 2018

Income statement
for the 52 weeks ended 25 March 2018 and the 52 weeks ended 26 March 2017

	Notes	52 weeks 2018 £m	52 weeks 2017 £m
Continuing operations			
Revenue	2	**7,608**	7,651
People costs	3	**(5,230)**	(4,948)
Other operating costs[1]	4	**(2,385)**	(2,464)
Operating (loss)/profit before transformation costs		**(7)**	239
Transformation costs		**(113)**	(137)
Operating (loss)/profit after transformation costs		**(120)**	102
Operating specific items	5	**(52)**	(120)
Operating loss		**(172)**	(18)
Profit/(loss) on disposal of property, plant and equipment		**34**	(3)
Loss on disposal of business		**-**	(1)
Earnings before interest and tax		**(138)**	(22)
Income from investments	7	**71**	67
Finance costs	8	**(19)**	(20)
Finance income	8	**1**	1
Net pension interest	21	**91**	120
Profit before tax		**6**	146
Tax credit/(charge)	9	**99**	(8)
Profit for the year		**105**	138

[1] Operating costs are stated before transformation costs and operating specific items.

Statement of comprehensive income
for the 52 weeks ended 25 March 2018 and the 52 weeks ended 26 March 2017

	Notes	**52 weeks 2018 £m**	52 weeks 2017 £m
Profit for the year		**105**	138
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	21	(1,144)	113
Remeasurement gains of the defined benefit surplus	21	10	399
Tax on above items	9(d)	476	(107)
Items that may be subsequently reclassified to profit or loss:			
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	9(d)	(1)	(5)
Total other comprehensive (expense)/income for the year		**(656)**	437
Total comprehensive (expense)/income for the year		**(551)**	575

There is no statement of historical cost profits and losses as the financial statements are produced under the historic cost accounting convention.

Balance sheet
at 25 March 2018 and 26 March 2017

	Notes	At 25 March 2018 £m	At 26 March 2017 £m
Non-current assets			
Property, plant and equipment	10	**1,476**	1,224
Intangible assets	11	**513**	467
Investments in subsidiaries and associates	12	**1,078**	1,089
Financial assets - pension escrow investments	13	**198**	20
Financial assets - derivatives		**5**	4
Retirement benefit surplus - net of IFRIC 14 adjustment	21	**2,163**	3,839
Other receivables	22	**55**	56
Deferred tax assets	9	**86**	-
		5,574	6,699
Assets held for sale	23	**50**	37
Current assets			
Inventories	14	**20**	19
Trade and other receivables	15	**755**	780
Income tax receivable		**12**	15
Financial assets - derivatives		**15**	8
Cash and cash equivalents	16	**422**	148
		1,224	970
Current liabilities			
Trade and other payables	17	**(2,624)**	(2,140)
Financial liabilities - interest bearing loans and borrowings		-	(32)
Financial liabilities - obligations under finance leases	27	**(59)**	(63)
Financial liabilities - derivatives		**(3)**	(9)
Income tax payable		**(27)**	-
Provisions	20	**(52)**	(73)
Net current liabilities		**(1,541)**	(1,347)
Total assets less current liabilities		**4,083**	5,389
Non-current liabilities			
Other payables	18	**(64)**	(80)
Financial liabilities - obligations under finance leases	27	**(107)**	(128)
Financial liabilities - derivatives		**(4)**	(2)
Provisions	20	**(95)**	(100)
Deferred tax liabilities	9	-	(525)
Net assets		**3,813**	4,554
Equity			
Share capital	25	-	-
Retained earnings		**3,795**	4,538
Hedging reserve	25	**9**	7
Other reserve	25	**9**	9
Total equity		**3,813**	4,554

The financial statements were approved by the Board of Directors on 16 July 2018 and signed on its behalf by:

Stuart Simpson
Director
Royal Mail Group Limited
Registered Number 04138203
Registered Office: 100 Victoria Embankment, London, EC4Y 0HQ

Statement of changes in equity
for the 52 weeks ended 25 March 2018 and the 52 weeks ended 26 March 2017

	Notes	Share capital £m	Retained earnings £m	Hedging reserve £m	Other reserve £m	Total equity £m
At 27 March 2016		-	4,109	(25)	9	4,093
Profit for the year		-	138	-	-	138
Other comprehensive income for the year		-	405	32	-	437
Total comprehensive income for the year		-	543	32	-	575
Transactions with owners of the Company, recognised directly in equity						
Release of Post Office Limited separation provision		-	1	-	-	1
Dividend paid	26	-	(222)	-	-	(222)
Share-based payments in respect of Royal Mail plc	24					
Employee Free Shares issue[1]		-	100	-	-	100
Save As You Earn (SAYE) scheme		-	2	-	-	2
Long-Term Incentive Plan (LTIP)[2]		-	9	-	-	9
Settlement of LTIP 2013		-	(4)	-	-	(4)
At 26 March 2017		-	**4,538**	**7**	**9**	**4,554**
Profit for the year		-	**105**	-	-	**105**
Other comprehensive income for the year		-	**(658)**	**2**	-	**(656)**
Total comprehensive income for the year		-	**(553)**	**2**	-	**(551)**
Transactions with owners of the Company, recognised directly in equity						
Dividend paid	26	-	**(233)**	-	-	**(233)**
Share-based payments in respect of Royal Mail plc	24					
Employee Free Shares issue[1]		-	**35**	-	-	**35**
Save As You Earn (SAYE) scheme		-	**1**	-	-	**1**
Long-Term Incentive Plan (LTIP)[2]		-	**3**	-	-	**3**
Deferred Shares Bonus Plan (DSBP)		-	**2**	-	-	**2**
Deferred tax on share-based payments in respect of Royal Mail plc		-	**5**	-	-	**5**
Settlement of LTIP 2014		-	**(3)**	-	-	**(3)**
At 25 March 2018		-	**3,795**	**9**	**9**	**3,813**

[1] Excludes £2 million credit (2016-17: £5 million charge) for National Insurance, recognised in the income statement, included in provisions in the balance sheet.
[2] Excludes £1 million charge (2016-17: £1 million charge) for National Insurance, recognised in the income statement, included in provisions in the balance sheet.

Notes to the financial statements

1. Accounting policies

The following accounting policies apply throughout the Company.

Accounting reference date

The financial year ends on the last Sunday in March and, accordingly, these financial statements are made up to 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 July 2018. 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 taken advantage of the exemption under s400 of the Companies Act 2006 not to prepare group accounts as it is a wholly owned subsidiary of Royal Mail plc. The consolidated financial statements of Royal Mail plc are available from www.royalmailgroup.com/results.

Basis of preparation

The Company has applied FRS 101 for all years presented. The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 25 March 2018.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

(a) The requirements of paragraphs 45(b) and 46-52 of IFRS 2 *Share based Payment* (details of the number and weighted average exercise prices of share options and how the fair value of goods or services received are determined);[1]

(b) the requirements of IFRS 7 *Financial Instruments: Disclosures*;[1]

(c) the requirements of paragraphs 91-99 of IFRS 13 *Fair Value Measurement* (disclosure of valuation techniques and inputs used for fair value measurements of assets and liabilities);[1]

(d) the requirement in paragraph 38 of IAS 1 *Presentation of Financial Statements* to present comparative information in respect of:
   (i) paragraph 79(a)(iv) of IAS 1 (reconciliation of shares outstanding);
   (ii) paragraph 73(e) of IAS 16 *Property, Plant and Equipment* (reconciliation of the carrying amount at the beginning and end of the year);
   (iii) paragraph 118(e) of IAS 38 *Intangible Assets* (reconciliation of the carrying amount at the beginning and end of the year);

(e) 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*;

(f) the requirements of IAS 7 *Statement of Cash Flows*;

(g) the requirements of paragraph 17 and 18(a) of IAS 24 *Related Party Disclosures* (key management compensation and related party transaction amounts); and

(h) the requirements in IAS 24 *Related Party Disclosures* to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

[1] Exemption taken as equivalent disclosures are included in the consolidated financial statements of Royal Mail plc.

1. Accounting policies (continued)

Going concern
In assessing the going concern status of the Company, the Directors are required to look forward by a minimum of 12 months from the end of the year, 25 March 2018, to ensure that there is sufficient headroom to enable the Company to pay its creditors as they fall due.

The Directors have assessed these against committed and undrawn funding facilities (£1,050 million at 25 March 2018) and other liquid resources available to the Company (cash at bank £18 million and financial assets investments of £404 million at 25 March 2018).

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

Changes in accounting policy
The accounting policies applied in the preparation of these financial statements are consistent with those of the previous reporting year, and the adoption of new and amended accounting standards with effect from 28 March 2016 as detailed below:

New and amended accounting standards adopted in 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 Company.

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 Company's statement of comprehensive income. The Company 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 21.

Defined benefit pension plan assets are measured at fair value. Where these assets cannot be valued directly from quoted market prices, the Company 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 21.

1. Accounting policies (continued)

Provisions

Due to the nature of provisions, a significant part of their determination is based upon estimates and/or judgements concerning the future. 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 20.

Critical accounting judgements

Deferred revenue

The Company 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 17). 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 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.

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:

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 Company 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 Company, 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.

People costs

These are costs incurred in respect of the Company's employees and comprise wages and salaries, pensions and social security costs.

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.

1. Accounting policies (continued)

Operating specific items
These are recurring or non-recurring items of income or expense of a particular size and/or nature relating to the operations of the business that in Management's opinion require separate identification. These items currently include the charge for Employee Free Shares in recognition of the services provided by employees of the Company to Royal Mail plc, and impairment and legacy costs (for example, movements in the industrial diseases provision).

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.

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.

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 period end. Interim dividends are recognised as a distribution when paid.

Property, plant and equipment
Property, plant and equipment is recognised at cost, including directly attributable costs in bringing the asset into working condition for its intended use. Depreciation of property, plant and equipment is provided on a straight-line basis by reference to cost, the useful economic lives of assets and their estimated residual values. The useful lives and residual values are reviewed annually and adjustments, where applicable, are made on a prospective basis. The lives assigned to major categories of property, plant and equipment are:

Land and buildings:	
Freehold land	Not depreciated
Freehold buildings	Up to 50 years
Leasehold buildings	The shorter of the period of the lease, 50 years or the estimated remaining useful life
Plant and machinery	3-15 years
Motor vehicles and trailers	2-12 years
Fixtures and equipment	2-15 years

1. Accounting policies (continued)

Intangible assets
Intangible assets acquired separately or development costs that meet the criteria to be capitalised are initially recognised at cost and are assessed to have either a finite or indefinite useful life. Those with a finite life are amortised over their useful life and those with an indefinite life are reviewed for impairment annually or more frequently if events, or changes in circumstances, indicate that the carrying value may be impaired. An impairment loss is recognised in the income statement for the amount by which the carrying value of the intangible asset exceeds its recoverable amount, which is the higher of an asset's net realisable value and its value in use.

Amortisation of intangible assets with finite lives is charged annually to the income statement on a straight-line basis as follows:

Software	3 to 10 years

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 period in which they are incurred.

Non-current assets held for sale
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 cease being depreciated.

Impairment reviews
Unless otherwise disclosed in these accounting policies, assets are reviewed for impairment if events or changes in circumstances indicate that the carrying value may be impaired. The Company 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 exceeds its recoverable amount, which is the higher of an asset's net realisable value and its value in use.

Investments in subsidiaries and associates
Investments in subsidiaries and associates within the Company's financial statements are stated at cost less any accumulated impairment losses.

Leases
Finance leases, where substantially all the risks and rewards incidental to ownership of the leased item have passed to the Company, 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 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.

1. Accounting policies (continued)

Inventories
Inventories are valued on a weighted average cost basis and carried at the lower of cost and net realisable value. Cost includes all direct expenditure and other costs attributable in bringing inventories to their present location and condition. The principal stock balance consists of engineering spare parts.

Trade payables
Trade payables are recorded initially at fair value and subsequently measured at amortised cost. Generally this results in their recognition at their nominal value.

Financial instruments
Financial assets within the scope of 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 Company 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 Company 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.

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 Company 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.

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.

1. Accounting policies (continued)

Derivative financial instruments and hedging programmes
The Company uses derivative instruments such as foreign currency contracts in order to manage the risk profile of any underlying risk exposure of the Company, in line with the Company'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).

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 Company 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 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.

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

1. Accounting policies (continued)

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 Company 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 Company's contributions are charged to operating profit within people costs in the year to which the contributions relate.

Intercompany trading

The Company operates through business units that make use of the services of other companies within the Royal Mail Group in order to take advantage of Group synergies, with regard to the mutual dependencies that exist. The inter-company charges recognise these dependencies and are reached through negotiation between the respective companies.

Foreign currencies

The functional and presentational currency of the Company is £ Sterling (£).

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.

Non-monetary items that are measured in terms of historical 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.

Provisions

Provisions are recognised when the Company 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.

1. Accounting policies (continued)

Accounting standards issued but not yet applied
The following new and amended/revised accounting standards are relevant to the Company 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 Company 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 Company.

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 Company 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 Company; 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 Company does not expect to early adopt these new or amended standards.

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 Company 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.

1. Accounting policies (continued)

As part of IFRS 15 implementation the Company 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 Company 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 Company's financial performance or position. This is due to the fact that the majority of Company's revenue contracts do not involve multiple performance obligations and occur over short timescales with revenue largely recognised at the point of delivery.

2. Revenue

Revenue, all from continuing operations, comprises the value of services provided, excluding VAT, from the Company's principal area of activity of providing a nationwide and international distribution service for letters and parcels. The Company operates wholly within the United Kingdom.

3. People costs and numbers

	52 weeks 2018 £m	52 weeks 2017 £m
Wages and salaries	**(3,707)**	(3,692)
Social security costs	**(381)**	(359)
Pension costs	**(995)**	(766)
Temporary resource	**(147)**	(131)
Total	**(5,230)**	(4,948)

People numbers, calculated on a headcount basis and including part-time employees were as follows:

	Year end employees		**Average employees**	
	At 25 March 2018	At 26 March 2017	**At 25 March 2018**	At 26 March 2017
Total employees	**138,160**	138,693	**138,002**	139,402

4. Other operating costs

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

	52 weeks 2018 £m	52 weeks 2017 £m
Distribution and conveyance costs		
Charges from overseas postal administrations	**(342)**	(356)
Fuel costs	**(137)**	(150)
Operating lease costs – vehicles	**(12)**	(10)
Infrastructure costs		
Depreciation and amortisation	**(279)**	(234)
Depreciation of property, plant and equipment	(197)	(178)
Amortisation of intangible assets (software)	(82)	(56)
Operating lease costs – property, plant and equipment	**(108)**	(104)
Intercompany property rent	**(52)**	(88)
Other operating costs		
Post Office Limited charges	**(341)**	(343)
Inventory expensed	**(35)**	(41)

4. Other operating costs (continued)

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

Regulatory body costs	52 weeks 2018 £m	52 weeks 2017 £m
Ofcom	**(3)**	(4)
Citizens Advice/Consumer Council for Northern Ireland	**(2)**	(3)
Total	**(5)**	(7)

Auditor's remuneration amounted to £285,000 (2016-17: £285,000) for the audit of the statutory financial statements. The auditor did not provide any non-audit services for the years ended 25 March 2018 and 26 March 2017.

5. Operating specific items

	52 weeks 2018 £m	52 weeks 2017 £m
Employee Free Shares charge	**(33)**	(105)
Potential industrial diseases claims (see Note 20)	**2**	(6)
Personal injury provision discount rate decrease	**-**	(2)
Impairments	**(12)**	-
Other	**(9)**	(7)
Total	**(52)**	**(120)**

6. Directors' emoluments

	52 weeks 2018 £000	52 weeks 2017 £000
Short-term employee benefits	**(2,763)**	(2,829)
Post-employment benefits	**(32)**	(10)
Share-based payments	**(819)**	(999)
Total	**(3,614)**	(3,838)

There were no Directors in the Company's defined benefit pension scheme (2016-17: none) and two Directors (2016-17: one) in the Company's defined contribution pension scheme during the year. There were no Directors (2016-17: none) in a money purchase pension scheme.

The total amount payable to the highest paid Director in respect of emoluments was £1,797,000 (2016-17: £1,880,000), which includes pension contributions of £10,000 (2016-17: £10,000) made to the Company's defined contribution pension scheme on their behalf.

7. Income from investments

	52 weeks 2018 £m	52 weeks 2017 £m
Royal Mail Investments Limited	**49**	59
Royal Mail Property and Facilities Solutions Limited	**10**	8
Royal Mail Finance Limited	**11**	-
Royal Mail Finance (No 2) Limited	**1**	-
Dividends received from subsidiaries	**71**	67

8. Net finance costs

	52 weeks 2018 £m	52 weeks 2017 £m
Interest payable on loans	-	(1)
Interest payable on finance leases	**(4)**	(4)
Net interest payable to Royal Mail Group entities	**(13)**	(13)
Other miscellaneous interest payable	**(2)**	(2)
Finance costs	**(19)**	(20)
Finance income - interest receivable on investments	**1**	1
Net finance costs	**(18)**	(19)

9. Taxation

(a) Tax gains/(losses) recognised in the year

	52 weeks 2018 £m	52 weeks 2017 £m
Tax (charge)/credit in the income statement:		
Current tax:		
Corporation tax charge for the year	**(36)**	-
Tax over provided in previous year	-	1
Total current tax (charge)/credit	**(36)**	1
Deferred tax:		
Origination and reversal of timing differences	**127**	(25)
Amounts over provided in previous year	**13**	9
Effect of change in tax rates	**(5)**	7
Total deferred tax credit/(charge)	**135**	(9)
Total tax credit/(charge)	**99**	(8)

Tax credit/(charge) on items taken to other comprehensive income:

	52 weeks 2018 £m	52 weeks 2017 £m
Deferred tax:		
In relation to the change in manner of recovery of the defined benefit surplus	**478**	-
Origination and reversal of timing differences	**(3)**	(156)
Effect of change in tax rates	-	44
Total	**475**	(112)

9. Taxation (continued)

(a) Tax gains/(losses) recognised in the year (continued)

Tax credit/(charge) on items taken directly to equity:

	52 weeks 2018 £m	52 weeks 2017 £m
Deferred tax:		
Change in estimated excess tax deductions related to share-based payments	**5**	(1)
Total	**5**	(1)

Tax gains/(losses) recognised in the year

	52 weeks 2018 £m	52 weeks 2017 £m
Current tax	**(36)**	1
Deferred tax	**615**	(122)
Total	**579**	(121)

(b) Reconciliation of the total tax charge

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 19% (2016-17: 20%). The differences are explained below:

	52 weeks 2018 £m	52 weeks 2017 £m
Profit on ordinary activities before tax	**6**	146
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19% (2016-17: 20%)	**(1)**	(29)
Expenditure disallowable for tax	**(7)**	(3)
Profit on disposal of fixed assets	**8**	-
Decision to close RMPP to future accrual	**78**	-
Adjustment in respect of prior year	**-**	10
Effect of group relief surrenders to other companies for no payment	**(3)**	(3)
Non-taxable dividend received	**13**	13
Tax reliefs and incentives (including previous years)	**12**	-
Movement in deferred tax not recognised	**4**	(3)
Effect of change in tax rates	**(5)**	7
Total tax credit/(charge) in the income statement	**99**	(8)

9. Taxation (continued)

(c) Factors that may affect future tax charges

At 25 March 2018, the Company had unrecognised deferred tax assets of £19 million (2016-17: £14 million) comprising £16 million (2016-17: £11 million) relating to tax losses of £92 million (2016-17: £64 million), that are available for offset against future profits, and £3 million (2016-17: £3 million) in relation to £15 million (2016-17: £15 million) of UK capital losses carried forward. The Company 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 Company also has temporary differences in respect of £114 million (2016-17: £118 million) of capital losses, the tax effect of which is £19 million (2016-17: £20 million) in respect of assets previously qualifying for industrial buildings allowances. Further temporary differences exist in relation to £191 million (2016-17: £111 million) of gains for which rollover relief has been claimed, the tax effect of which is £32 million (2016-17: £19 million). No tax liability would be expected to crystallise on the basis that, were the assets (into which the gains have been rolled) to be sold at their residual values, no capital gain would arise.

Changes to UK corporation tax rate

The UK corporation tax rate from 20 per cent to 19 per cent (effective from 1 April 2017) and will reduce to 17 per cent (effective 1 April 2020). In the future, this will reduce the Company'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.

(d) Net deferred tax asset/(liability)

	At 25 March 2018 £m	At 26 March 2017 £m
Deferred capital allowances	**38**	64
Pensions	**(1)**	(647)
Losses	**39**	54
Employee Shares schemes	**-**	(11)
Short-term timing differences	**11**	12
Hedging	**(2)**	(1)
Research & Development expenditure credit	**1**	4
Total	**86**	(525)

The movement on deferred tax is shown below:

	£m
Deferred tax liability at 27 March 2017	**(525)**
Total deferred tax credit recognised (see Note 9 (a))	**615**
Deferred tax credit in the income statement	135
Deferred tax credit on items taken to other comprehensive income	475
Deferred tax credited directly to equity - employee share schemes	5
Research & Development expenditure credit	**(4)**
Deferred tax asset at 25 March 2018	**86**

10. Property, plant and equipment

	Land and Buildings						
	Freehold £m	Long leasehold £m	Short leasehold £m	Motor vehicles £m	Plant and machinery £m	Fixtures and equipment £m	Total £m
Cost							
At 27 March 2017	439	105	799	639	941	271	3,194
Reclassification	(20)	1	19	-	-	-	-
Additions	64	3	16	59	20	8	170
Disposals	(8)	-	(8)	(38)	(27)	(10)	(91)
Legal entity transfer	639	143	-	-	-	-	782
Reclassification to non-current assets held for sale	(15)	-	-	-	-	-	(15)
At 25 March 2018	**1,099**	**252**	**826**	**660**	**934**	**269**	**4,040**
Depreciation							
At 27 March 2017	233	74	572	302	613	176	1,970
Depreciation	27	4	42	52	45	27	197
Disposals - external	(7)	-	(4)	(33)	(25)	(10)	(79)
Legal entity transfer	392	86	-	-	-	-	478
Reclassification to non-current assets held for sale	(2)	-	-	-	-	-	(2)
At 25 March 2018	**643**	**164**	**610**	**321**	**633**	**193**	**2,564**
Net book value							
At 25 March 2018	**456**	**88**	**216**	**339**	**301**	**76**	**1,476**
At 26 March 2017	206	31	227	337	328	95	1,224

Depreciation rates are disclosed within 'Significant accounting policies'. No depreciation is provided on land, which represents £121 million (2016-17: £12 million) of the total cost of properties.

The net book value of the Company's property, plant and equipment includes £72 million (2016-17: £91 million) in respect of assets in the course of construction. The net book value of the Company's land and buildings includes £389 million (2016-17: £407 million) in respect of building fit-out.

The £170 million (2016-17: £221 million) additions £1 million of borrowing costs capitalised at a rate of 2.5 per cent in relation to specific qualifying assets. The net book value of the Company's property, plant and equipment held under finance leases amounts to £316 million (2016-17: £322 million).

Non-current assets held for sale of £50 million at 25 March 2018 (2016-17: £37 million) relate to land and buildings which are being actively marketed with a view to a sale within 12 months. An assessment of the fair value of these properties was made at the time of their reclassification to 'held for sale' and no adjustment to the carrying amount of these properties was necessary.

11. Intangible assets

	At 25 March 2018 £m
Cost	
At 27 March 2017	**716**
Additions	**128**
Disposals	**(6)**
At 25 March 2018	**838**
Amortisation and impairment	
At 27 March 2017	**249**
Amortisation	**82**
Disposals	**(6)**
At 25 March 2018	**325**
Net book value	
At 25 March 2018	**513**
At 26 March 2017	467

The intangible assets outlined above relate to software, have finite lives and are being written down on a straight-line basis. The £128 million (2016-17: £116 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.

12. Investments in subsidiaries and associates

	Subsidiaries £m	Associates £m	Total £m
Cost			
At 27 March 2017	1,082	28	1,110
Additions	1	-	1
Liquidations	(10)	-	(10)
At 25 March 2018	**1,073**	**28**	**1,101**
Impairment			
At 27 March 2017	-	21	21
Impairment	-	2	2
At 25 March 2018	**-**	**23**	**23**
Net book value			
At 25 March 2018	**1,073**	**5**	**1,078**
At 26 March 2017	1,082	7	1,089

Additions comprise £1m additional investment in NetDespatch Limited.

During the year Royal Mail Finance Limited, Royal Mail Finance (No 2) Limited and Post Office Services Group Limited were liquidated with the cost of the investments in these subsidiaries being expensed to the income statement. As a result of these *liquidations, £12 million of dividends were received by the Company in the year. See note 7 for further details.*

Details of the Company's subsidiaries and associates are provided in Note 31.

13. Financial assets – pension escrow investments

The pension escrow investment of £198 million at 25 March 2018 (2016-17: £20 million) comprises RMPP pension escrow investments of £178 million (2016-17: £nil million) and RMSEPP pension escrow investments of £20 million (2016-17: £20 million).

14. Inventories

	At 25 March 2018 £m	At 26 March 2017 £m
Supplies, equipment and materials	**17**	16
Merchandise	**3**	3
Total	**20**	19

The difference between purchase price and replacement cost of the stocks is not material.

15. Trade and other receivables

	At 25 March 2018 £m	At 26 March 2017 £m
Trade receivables	**589**	633
Prepayments and accrued income	**126**	102
Interest	**1**	1
Amounts owed by Royal Mail Group entities	**39**	44
Total	**755**	780

16. Cash and cash equivalents

	At 25 March 2018 £m	At 26 March 2017 £m
Cash at bank and in hand	**18**	15
Cash equivalent investments: Short-term bank and local authority deposits and money market fund investments	**404**	133
Total cash and cash equivalents	**422**	148

17. Trade and other payables

	At 25 March 2018 £m	At 26 March 2017 £m
Trade payables and accruals	**(963)**	(902)
Advance customer payments (mainly for stamps held, not yet used by customers)	**(283)**	(289)
Social security	**(72)**	(71)
Amounts due to Royal Mail Group entities	**(1,262)**	(816)
Capital expenditure payables	**(43)**	(60)
Other	**(1)**	(2)
Total	**(2,624)**	(2,140)

18. Non-current other payables

	At 25 March 2018 £m	At 26 March 2017 £m
Amounts due to Royal Mail Group entities	**(28)**	(45)
Other	**(36)**	(35)
Total	**(64)**	(80)

19. Loan facilities

There is no security in place under the syndicated bank loan facilities. These syndicated bank loans 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, net debt and EBITDA. It is not anticipated that the Company 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, expire as follows:

	At 25 March 2018 £m	At 26 March 2017 £m
Expiring in one year or less	**-**	-
Expiring in more than one year but not more than two years	**98**	-
Expiring in more than two years	**952**	1,018
Total	**1,050**	1,018

20. Provisions

	Transformation costs £m	**Specific items £m**	**Other £m**	**Total £m**
At 27 March 2017	**(13)**	**(106)**	**(54)**	**(173)**
Arising during the year:				
- charged in transformation costs and operating specific items	**(44)**	**(5)**	**-**	**(49)**
- released in operating specific items	**-**	**7**	**-**	**7**
- charged in other operating costs	**-**	**-**	**(25)**	**(25)**
Unused amounts released	**-**	**-**	**8**	**8**
Utilised in the year	**56**	**6**	**25**	**87**
Unwinding of discount – industrial diseases claims	**-**	**(2)**	**-**	**(2)**
At 25 March 2018	**(1)**	**(100)**	**(46)**	**(147)**
Disclosed as:				
Current	**(1)**	**(12)**	**(39)**	**(52)**
Non-current	**-**	**(88)**	**(7)**	**(95)**
At 25 March 2018	**(1)**	**(100)**	**(46)**	**(147)**
Disclosed as:				
Current	(13)	(14)	(46)	(73)
Non-current	-	(92)	(8)	(100)
At 26 March 2017	(13)	(106)	(54)	(173)

Transformation provisions

Transformation cost provisions comprise £1 million (2016-17: £13 million) in respect of redundancy schemes.

Specific items

The specific items provisions of £100 million (2016-17: £106 million) include £83 million (2016-17: £84 million) for potential industrial diseases claims relating to both current and former employees of the Company.

The Company's liability in respect of former employees arose in 2010 as a result of a Court of Appeal judgement that held the Company 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 Company has derived its current provision by using estimates and ranges calculated by its actuary, which are based on current experience of claims, and an assessment of potential future claims, the majority of which are expected to be received over the next 25 to 30 years. The Company has a rigorous process of ensuring that only valid claims are accepted. £3 million of this provision is expected to be utilised in 2018-19.

The remaining £17 million (2016-17: £22 million) includes employer's National Insurance associated with the award of Employee Free Shares of £6 million, of which £1 million is expected to be utilised in 2018-19 and £5 million within two to five years. The remainder consists of legacy property costs of £7 million, of which £1 million is expected to be utilised within two to five years and £6 million over a period greater than five years, and costs associated with integrating Romec of £4 million, which is all due to be utilised in 2018-19.

20. Provisions (continued)

Other provisions (charged in other operating costs)

Other provisions of £46 million (2016-17: £54 million) include onerous property lease and decommissioning obligations of £16 million, of which £11 million is expected to be utilised in 2018-19 and £5 million within two to three years, and exposures resulting from legal claims incurred in the normal course of business of £28 million, expected to be utilised in 2018-19. The remaining £2 million comprises employers National Insurance associated with the Long-Term Incentive Plan, which is expected to be utilised within one to two years.

21. Retirement benefit plans

Summary pension information

	52 weeks 2018 £m	52 weeks 2017 £m
Ongoing UK pension service costs		
UK defined benefit plan (including administration costs)[1]	**(788)**	(565)
UK defined contribution plan	**(56)**	(50)
UK defined benefit and defined contribution Pension Salary Exchange (PSE)[2]	**(151)**	(151)
Total UK ongoing pension service costs	**(995)**	(766)

	At 25 March 2018 '000	At 26 March 2017 '000
UK pension plans - active membership		
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 Company's ongoing UK pension service costs.

UK Defined Contribution plan

The Company operates the Royal Mail Defined Contribution Plan (RMDCP). This plan was launched in April 2009 and is open to employees who joined the Company from 31 March 2008, following closure of the RMPP to new members.
Ongoing UK defined contribution plan costs have increased from £81 million in 2016-17 to £92 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.

21. Retirement benefit plans (continued)

Royal Mail Senior Executives Pension Plan (RMSEPP)

The Company also contributes to a smaller defined benefit plan for executives: RMSEPP. This closed in December 2012 to future accrual, therefore the Company makes no regular future service contributions. Under the February 2013 Funding Agreement with the Trustee, the Company 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 Company 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 RMPP[2] 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.

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 RM plc Annual Report and Financial Statements 2017-18 at www.royalmailgroup.com.

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.

[2] 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.

21. Retirement benefit plans (continued)

Accounting and actuarial surplus position (RMPP and RMSEPP)

	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 (21(b) below)[3]	**10,340**	9,829	**10,461**	10,066
Present value of plans' liabilities	**(7,017)**	(5,974)	**(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

[3] Difference between accounting and actuarial funding asset fair values arises from the different period 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 Company 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.

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 were 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[4]		
- nominal	2.4%	2.5%
- real (nominal less RPI)	(0.7%)	(0.7%)
Rate of increase in pensionable salaries[5]	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[5]	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[5]	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

[4] 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.

[5] 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.

21. Retirement benefit plans (continued)

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).

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	**410**	**25**	**435**	560	27	587
Bonds						
Fixed interest - UK	**335**	**12**	**347**	306	11	317
- Overseas	**599**	**67**	**666**	936	14	950
Index linked - UK	**174**	**148**	**322**	26	151	177
Pooled investments						
Managed funds	**1,147**	**-**	**1,147**	1,016	-	1,016
Unit Trusts	**6,669**	**-**	**6,669**	5,993	-	5,993
Property (UK)	**28**	**270**	**298**	26	316	342
Cash and cash equivalents	**425**	**-**	**425**	319	-	319
Other	**2**	**-**	**2**	5	-	5
Derivatives	**(92)**	**-**	**(92)**	(25)	-	(25)
Total plans' assets	**9,712**	**628**	**10,340**	9,184	645	9,829

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 Company, 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 £5,993 million at 26 March 2017 to £6,669 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).

21. Retirement benefit plans (continued)

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.

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	
	2018 £m	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m
Retirement benefit surplus (pre IFRIC 14 adjustment) at 27 March 2017 and 28 March 2016	**9,829**	7,359	**(5,974)**	(3,800)	**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)	**(896)**	(680)	**(903)**	(685)
Pension interest income/(cost)[6]	**251**	265	**(160)**	(145)	**91**	120
Total included in profit before tax	**244**	260	**(1,056)**	(825)	**(812)**	(565)
Amounts included in other comprehensive income – remeasurement gains/(losses)						
Actuarial gain/(loss) arising from:						
Financial assumptions	**-**	-	**(53)**	(1,711)	**(53)**	(1,711)
Demographic assumptions	**-**	-	**-**	243	**-**	243
Experience adjustment	**-**	-	**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[7]	**269**	473	**-**	-	**269**	473
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	**205**	419	**65**	43	**270**	462
Retirement benefit surplus (pre IFRIC 14 adjustment) at 25 March 2018 and 26 March 2017	**10,340**	9,829	**(7,017)**	(5,974)	**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.

[6] 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.
[7] Excludes payments into pension escrow investments of £178 million (2016-17: £nil million).

22. Non-current other receivables

	At 25 March 2018 £m	At 26 March 2017 £m
Amount owed by Royal Mail Group entity	**51**	51
Other	**4**	5
Total	**55**	56

23. Assets 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

Non-current assets held for sale of £50 million (2016-17: £37 million) relate to land and buildings 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.

24. Share-based payments

Employee Free Shares

Employee Free Shares in Royal Mail plc 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 Royal Mail plc and has been consolidated within the Royal Mail plc Annual Report and Financial Statements.

2013 and 2014 SIP

613 Royal Mail plc 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 the Company 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 Royal Mail plc 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 Royal Mail plc 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 Royal Mail plc were granted free of charge to eligible full-time employees by HM Government. Accordingly, each eligible full-time employee received 81 Royal Mail plc 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 £2 million National Insurance credit) has been made for the year ended 25 March 2018 for all four SIP allocations.

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 year (fully vested)	(6,643,092)
Shares transferred out of SIP during the 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.

24. Share-based payments (continued)

Award of shares under the Long-Term Incentive Plan (LTIP)

2015 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 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 Royal Mail plc Annual Report and Financial Statements 2017-18.

Deferred Shares Bonus Plan (DSBP)

DSBP awards in respect of ordinary shares in Royal Mail plc, 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 Royal Mail plc 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 27 March 2017	**12,871,610**
Options exercised	**(8,968,438)**
Options expired	**(381,677)**
Options forfeited	**(749,015)**
Balance at 25 March 2018	**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.

25. Issued share capital

	At 25 March 2018 £	At 26 March 2017 £
Authorised and issued		
50,000 ordinary shares of £1 each	**50,000**	50,000
Total	**50,000**	50,000

Hedging reserve
The Hedging reserve is used to record gains and losses arising from cash flow hedges since 28 March 2005.

Other reserve
The other reserve relates to a dividend in specie received from Royal Mail Estates Limited in the form of a property transfer. This balance will be held as a separate, non-distributable reserve until the property is either sold or otherwise disposed of.

26. Dividends

	52 weeks 2018	52 weeks 2017	**52 weeks 2018**	52 weeks 2017
Dividends on ordinary shares	**pence per share**	pence per share	**£m**	£m
Paid interim dividend	**312,000**	296,000	**156**	148
Paid interim dividend	**154,000**	148,000	**77**	74
Total dividend paid	**466,000**	444,000	**233**	222

27. Commitments

Operating lease commitments
The Company is committed to the following 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	**(150)**	(182)	**(12)**	(11)	**(4)**	(5)	**(166)**	(198)
Between one and five years	**(317)**	(307)	**(41)**	(39)	**(5)**	(9)	**(363)**	(355)
Beyond five years	**(415)**	(384)	**(9)**	(21)	**-**	-	**(424)**	(405)
Total	**(882)**	(873)	**(62)**	(71)	**(9)**	(14)	**(953)**	(958)

Existing leases for UK land and buildings have an average term of 16 years and lease renewals are agreed with the lessor as appropriate. 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.

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	**(61)**	**(59)**	(67)	(63)
Between one and five years	**(107)**	**(94)**	(126)	(116)
Beyond five years	**(122)**	**(13)**	(106)	(12)
Total minimum lease payments	**(290)**	**(166)**	(299)	(191)
Less future finance charges	**122**	**-**	107	-
Less exchange rate impact	**2**	**-**	1	-
Total finance lease obligations	**(166)**	**(166)**	(191)	(191)

27. Commitments (continued)

The Company has finance lease contracts for vehicles, land and buildings, 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 Company has commitments of £48 million (2016-17: £18 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 in the financial statements.

28. Contingent liabilities

On 28 July 2015, the Company 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 Company in January 2014. Ofcom's investigation was launched in February 2014 following a complaint brought by TNT Post UK (now Whistl).

The Company has robustly defended its conduct in written and oral representations made to Ofcom and will continue 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 the Company).

The Company continues to maintain that it has not infringed competition law and its representations to Ofcom have been made on that basis.

29. Related party information

Royal Mail plc is the ultimate parent company of the Company. The Company's principal investments in subsidiaries held directly by the Company are as follows:

	Country of incorporation	% Holding	Principal activities
Principal subsidiaries			
Royal Mail Investments Limited	UK	100	Holding company
Royal Mail Estates Limited	UK	100	Property company
Royal Mail Property and Facilities Solutions Limited	UK	100	Facilities management

The above companies have a year end date of the last Sunday in March.

The principal subsidiary of Royal Mail plc that is not an investment held directly by the Company is General Logistics Systems B.V. - a holding company incorporated in the Netherlands which has investments in other operational companies based in Europe. Royal Mail Investments Limited has a 100% holding in General Logistics Systems B.V.

All shareholdings are equity shares.

A full list of the Company's related undertakings is included in Note 31.

Related party transactions

The Company has taken advantage of two of the exemptions conferred by FRS 101.8, whereby certain details regarding transactions with 100% owned subsidiaries within the same group do not have to be disclosed where Group financial statements are publicly available and disclosures relating to key management personnel compensation are not required.

During the year, the Company entered into transactions which included administration and investment services, recharged to the Company's pension plans by Royal Mail Pensions Trustees Limited. The Company also entered into transactions with other entities within the same group but which are less than 100% owned. The transactions were in the ordinary course of business. The transactions entered into and the balances outstanding at the year end were as shown below.

29. Related party information (continued)

	Sales/recharges to related party		Purchases/ recharges from related party		Amounts owed from related party including outstanding loans		Amounts owed to related party including outstanding loans	
	52 weeks 2018 £m	52 weeks 2017 £m	**52 weeks 2018 £m**	52 weeks 2017 £m	**At 25 March 2018 £m**	At 26 March 2017 £m	**At 25 March 2018 £m**	At 26 March 2017 £m
Royal Mail Pension Plan	**5**	5	**-**	-	**-**	-	**-**	-
Quadrant Catering Limited	**-**	-	**7**	8	**-**	-	**1**	1
NetDespatch Limited	**-**	-	**1**	2	**-**	-	**-**	1

The sales to and purchases from related parties are made at normal market prices. Balances outstanding at the year end are unsecured, interest free and settlement is made by cash.

30. Immediate and ultimate parent company

At 25 March 2018, the Directors regarded Royal Mail plc as the immediate and ultimate parent company. The results of the Company form part of the Royal Mail plc Annual Report and Financial Statements, which are available from www.royalmailgroup.com/results or the Company Secretary, 100 Victoria Embankment, London, EC4Y 0HQ.

31. Related undertakings of Royal Mail Group Limited

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 directly by the Company or its subsidiaries.

Subsidiary undertakings

Company Name	Share Class	% held by Company
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

[1] 100% of the equity contribution. No shares are issued by EBP.

31. Related undertakings of Royal Mail Group Limited (continued)

Company Name	Share Class	% held by Company
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
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.

31. Related undertakings of Royal Mail Group Limited (continued)

Company Name	Share Class	% held by Company
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
IRED 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 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

31. Related undertakings of Royal Mail Group Limited (continued)

Company Name	Share Class	% held by Company
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 Company
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

Corporate information

Registered Office and Group Head Office

Royal Mail Group Limited
100 Victoria Embankment
LONDON
EC4Y 0HQ
020 7250 2888
Registered No: 04138203

Corporate website

Information made available on Royal Mail plc Group's website (www.royalmailgroup.com) does not, and is not intended to form part of these Financial Statements.