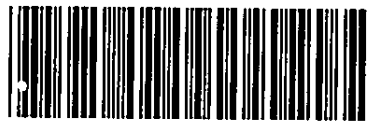


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Royal Mail plc
Annual Report and Financial Statements
2013-14

Royal Mail plc

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Information key

Case studies

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

Who we are

Royal Mail is the UK's designated Universal Postal Service Provider, supporting customers, businesses and communities across the country. We are the only company that has the capability to deliver a 'one-price-goes-anywhere', six-days-a-week service on a range of letters and parcels to more than 29 million addresses across the UK. General Logistics Systems (GLS), our European parcels business, operates one of the largest ground-based, deferred parcel delivery networks in Europe.

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

In October 2013 Royal Mail successfully floated on the London Stock Exchange and was subsequently admitted into the FTSE 100. More than 700,000 members of the public bought shares in Royal Mail. These investors were joined by the overwhelming majority of our people in the UK, who in total received free a ten per cent stake in our Company. In addition to our employees' Free Shares, approximately 15,000 Royal Mail employees chose to purchase shares in the Company through the Employee Priority Offer. Through this alignment has been created between the interests of shareholders and employees.

Our employees

We employ more than 162,000¹ people across our Group. UK Parcels, International & Letters (UKPIL) employs approximately 148,000 people across the UK. GLS employs approximately 14,000 people in a range of frontline, operational and support roles.

Our transformation

Royal Mail is undertaking one of the biggest industrial transformations in the UK in recent history. The UK, like many other countries, is experiencing an ongoing decline in letter volumes. We are focused on leveraging an increasing number of parcels, which in turn is driven by the rise of e-retailing. The parcels market is very competitive. We need to be more flexible and efficient to meet the needs of our customers. We are employing our strong brand and are well placed to introduce new products and services in order to sustain the Universal Service.

Our performance

Five year Group revenue (£m)

Reported ² 52 weeks 2014	Adjusted ³ 52 weeks 2013	Adjusted ⁴ 52 weeks 2012	Adjusted ⁴ 52 weeks 2011	Adjusted ⁴ 52 weeks 2010
9,456	9,146	8,764	8,415	8,547

Five year Group operating profit after transformation costs (£m)

Reported ² 52 weeks 2014	Adjusted ³ 52 weeks 2013	Adjusted ⁴ 52 weeks 2012	Adjusted ⁴ 52 weeks 2011	Adjusted ⁴ 52 weeks 2010
430	403	152	18	147

Five year Group free cash inflow/(outflow) (£m)

Reported ² 52 weeks 2014	Adjusted ³ 52 weeks 2013	Adjusted ⁴ 52 weeks 2012	Adjusted ⁴ 52 weeks 2011	Adjusted ⁴ 52 weeks 2010
398	334	154	(246)	(390)

Revenue by business and market (£m) (Reported 52 weeks 2014)

Business segment/ market	Parcels	Letters & other mail	Marketing mail	Total
UKPIL	3,162	3,514	1,111	7,787
GLS	1,651	-	-	1,651
Other	-	18	-	18
Group	4,813	3,532	1,111	9,456

Percentage of Group revenue by market (Reported 52 weeks 2014)

Parcels	51
Letters & other mail	37
Marketing mail	12
Group	100

¹ Excluding UK partially owned subsidiaries

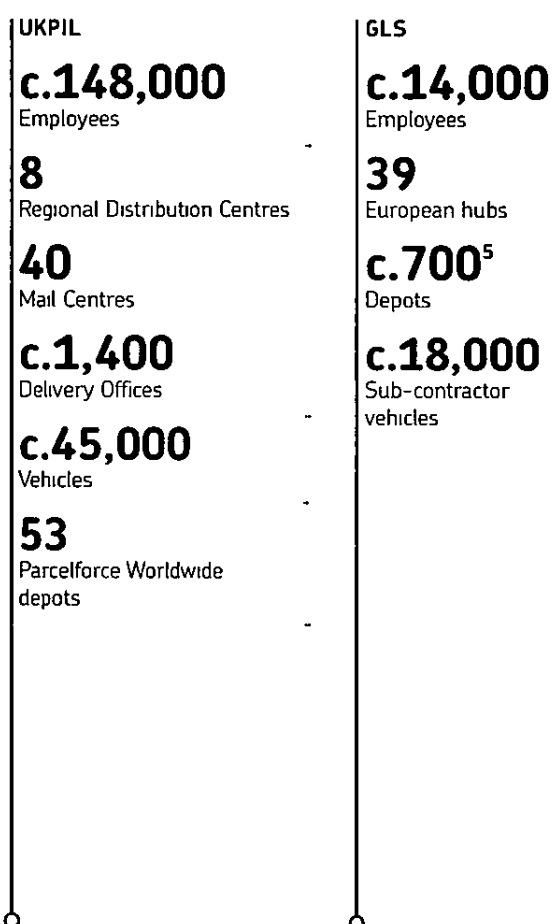
² Reported – prepared in accordance with International Financial Reporting Standards (IFRSs)

³ Adjusted – reported 2012-13 results adjusted to exclude the consolidation of Post Office Limited (POL) up to 1 April 2012 and the 53rd week's additional revenue and costs. In addition, £32 million POL separation costs taken directly to equity in the Reported basis were taken through the income statement in the Adjusted basis. See note 1. Basis of preparation for further details.

⁴ Adjusted – Royal Mail Group results prepared under IFRSs, excluding POL.

Our operations and networks

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



UKPIL

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

See page 20 for further details of UKPIL's performance

GLS

GLS is the Group's European parcels business. It operates one of the largest ground-based deferred⁶ parcel delivery networks in Europe. Across Europe, the GLS network covers 37 countries and nation states through a combination of wholly-owned and partner companies. As our gateway to Europe, GLS is a strategically important part of Royal Mail Group.

See page 22 for further details of GLS' performance

⁵ GLS and partners

⁶ The least time-sensitive type of delivery

Financial and business performance highlights

Financial highlights

Group	Reported 52 weeks 2014	Adjusted 52 weeks 2013	Change
Revenue (£m) ¹	9,456	9,146	2%
Operating profit before transformation costs (£m)	671	598	
Transformation costs (£m)	(241)	(195)	
Operating profit after transformation costs (£m)	430	403	
Operating profit margin after transformation costs (%)			
- Like-for-like	4.2	4.4	(20bps)
- Reported	4.5	4.4	
Profit before taxation (£m)			
- Excluding specific items	363	304	
- Reported	1,666	283	
Notional earnings per share (pence)			
- Excluding specific items	26.3	21.0	
- Reported	127.7	52.5	
EBITDA before transformation costs (£m)	942	915	
Free cash flow (£m)	398	334	£64m
Net debt (£m)	(555)	(906)	£351m
Recommended final dividend per share (pence)	13.3		

Business unit

(£m)	Revenue			Operating profit after transformation costs	
	Reported 52 weeks 2014	Adjusted 52 weeks 2013	Like-for-like change	Reported 52 weeks 2014	Adjusted 52 weeks 2013
UK Parcels, International & Letters (UKPIL)	7,787	7,633	2%	309	294
General Logistics Systems (GLS)	1,651	1,498	7%	108	101
Other businesses	18	15	n/m	13	8
Group	9,456	9,146	2%	430	403

Revenue and volume

- Group revenue increased by two per cent, due to parcel revenue growth in both UKPIL and GLS. Parcels are the largest contributor to Group revenue accounting for 51 per cent.
- UKPIL revenue was £7,787 million, up two per cent. UKPIL parcel revenue increased by seven per cent. As expected, parcel volumes (1,068 million items) were flat compared with 2012-13.
- UKPIL letter revenue (including marketing mail) declined to £4,625 million, a two per cent reduction. The four per cent decline in addressed letter volumes for the full year was at the better end of our forecast range of four to six per cent per annum. Marketing mail revenue, part of letter revenue, was £1,111 million.
- GLS revenue was £1,651 million, up seven per cent. Volumes increased six per cent, with growth in both domestic and international volumes.

Profit and margins

- Group operating profit before transformation costs grew to £671 million.
- Transformation costs of £241 million for the year include a provision of £104 million in relation to the management reorganisation programme announced on 25 March 2014, which will be implemented in 2014-15.
- Group operating profit after transformation costs increased to £430 million. The operating profit margin reduced from 4.4 per cent to 4.2 per cent as a result of the provision for the management reorganisation programme.
- UKPIL generated operating profit after transformation costs of £309 million. The operating profit margin decreased from 3.9 per cent to 3.5 per cent, again as a result of the provision for the management reorganisation programme.
- GLS operating profit was £108 million. The operating profit margin decreased from 6.7 per cent to 6.5 per cent due to the full year effect of further increases in sub-contractor rates in Germany.

¹ Throughout this document, growth/decline rates and margins are stated on a like-for-like basis, unless otherwise indicated. Like-for-like changes in revenue and costs and like-for-like margins are calculated after adjusting for movements in foreign exchange in GLS revenue and costs and working days in UKPIL revenue. For volumes, like-for-like movements are adjusted for working days in UKPIL.

(£m)	Movement compared with prior year relating to		
	Foreign exchange	Working days	Total
Revenue	52	36	88
Costs	48	N/A	48

The cumulative average translation rates for the full year ended 30 March 2014 were £1 = €1.185 compared with £1 = €1.226 for the year ended 31 March 2013.

- Profit before taxation (excluding specific items) of £363 million reflects the trading performance of the Group. Accounting standards require us to include a one-time non-cash benefit of £1,350 million as a result of the Pensions Reform in reported profit before taxation and reported notional earnings per share

Notional earnings per share (EPS)

- Notional EPS excluding specific items was 26.3 pence

Cash flow and balance sheet

- EBITDA before transformation costs grew to £942 million, due to improved trading performance
- Net cash investment of £581 million represents £617 million investment after cash from asset disposals of £36 million
- Free cash flow increased to £398 million. This has driven a reduction in net debt to £555 million

Dividends

- As previously indicated, the Board has recommended a final dividend of 13.3 pence per share, subject to shareholder approval at the Annual General Meeting to be held on 24 July 2014

Transformation and cost control

Collections, processing and delivery productivity improved by 1.7 per cent (2013 1.7 per cent) as we reduced the number of frontline hours at a faster rate than the reduction in the level of workload

See KPIs pages 18 to 19

- Eight Mail Centres closed this financial year taking the total number of Mail Centres remaining to 40. We have completed or commenced modernisation in 94 per cent of our Delivery Offices
- Tight cost control meant non-people costs in UKPIL reduced by three per cent

Regulation

- The Ofcom investigation into changes to access² pricing puts this commercial response to changing market conditions on hold
- Based on our estimates of the impact of TNT Post UK's publicly-stated plans, direct delivery could reduce Royal Mail revenue by over £200 million in 2017-18. See pages 9 to 11 for more information
- With our proposed access price changes suspended and unfettered direct delivery rollout, there is a reasonable prospect that Ofcom's indicative EBIT margin range of between five and ten per cent for Royal Mail's reported business³ may never sustainably be achieved

- We are preparing a regulatory submission calling on Ofcom to take action now and carry out a full review of direct delivery

Summary outlook

- We are facing increasing challenges in the parcels and letters markets in the UK. However, our key value drivers of single digit revenue growth, margin expansion and underlying free cash flow growth remain the objectives for the Group for 2014-15
- The Board's intention remains to pursue a progressive dividend policy, having regard to the normalised earnings progression of the Group

² As the Universal Service provider, Royal Mail is required to provide access at Inward Mail Centres for final mile deliveries

³ The reported business is a subset of UKPIL including network access, and excluding Parcelforce Worldwide and the Royal Mail Property unit. The reported business, as defined by Ofcom, is the entity which provides the Universal Service and takes account of all the costs of both the regulated and unregulated products that depend on the core Universal Service activities

Chairman's statement

Last year was a year of major achievement for Royal Mail, with a good financial and operational performance, agreement in principle on a new industrial relations framework with the CWU and a successful flotation on the London Stock Exchange.

Donald Brydon, CBE
Chairman

“We are reporting a good financial and operational performance”

An important year

More than 700,000 members of the public bought shares in Royal Mail – the largest single extension of private share ownership in the UK for some time. I would like to welcome all of our new shareholders. I am delighted to say they were joined by the overwhelming majority of our employees in the UK, who in total received free a ten per cent stake in our Company. Approximately 15,000 employees also chose to buy shares through the Employee Priority Offer. We are pleased our shares are so widely held and that alignment has been created between the interests of shareholders and employees.

Transforming our business

Our strategy is delivering, as outlined by our CEO in her Review on page 8. The initial phase of Royal Mail's comprehensive transformation programme across our UK operations is largely complete. The vast majority of letters are now sorted and sequenced automatically. We have introduced new, more flexible delivery methods. We have increased efficiency and can handle an increasing number of parcels. We continue to have a strong operational link to Post Office Limited and they are our retail partner. GLS' track record of expertise and innovation provides a framework for best practice behaviours across the Group.

We have agreed a new industrial relations framework with the Communication Workers' Union (CWU). It will provide a new way of working together, helping to provide industrial stability as we seek to transform our business.

Royal Mail is changing. Expansion in e-retailing in the UK and across Europe is continuing apace, while addressed letter volumes in the UK continue to decline. We are increasingly a parcels delivery company. I am confident that we will succeed in the continuing transformation of our Company.

Our contribution to UK life

We are proud to be the designated provider of the Universal Service. Our contribution to the UK is significant. For the 2013–14 financial year, the Centre for Economics and Business Research estimated we made the seventh largest contribution to the UK economy of all UK corporations. We had a total economic impact of more than £10.5 billion, made up of direct and indirect contributions to the wider economy. This equates to about 0.79 per cent of UK GDP.

Royal Mail's employees make a substantial contribution to charitable organisations. Royal Mail holds the Guinness World Record for the number of charities supported through payroll giving – over 975 charities. Royal Mail employees have given an incredible £50 million through the scheme since 1989. They should be very proud.

We continue to support the British Postal Museum and Archive (BPMA) in its programme to upgrade and expand its role as the curator and exhibitor of the UK's postal heritage. I previously reported on the support we have provided to this programme through funding and gifting its new exhibition centre, Calthorpe House, due to open in 2016. Through its fundraising campaign for a new Postal Museum and Mail Rail project, the BPMA has already secured £21.7 million from a wide range of supporters, who have provided a firm foundation to this exciting project.

Safety

The safety of our employees is always our first priority. The Board has overseen a continued reduction in lost time accidents. We continue to focus on initiatives to improve safety on the road, as outlined in our Corporate Responsibility section. The Anti-social Behaviour, Crime and Policing Act 2014 was passed on 13 March 2014. It is a significant change to the law in relation to dangerous dogs, introducing tougher sentences and making dog owners liable for attacks on private property in England and Wales. For our part, if there is a risk from a dog, or any other animal, we will suspend delivery until we can deliver the mail safely. We will also be seeking to ensure prosecution of the owners of dogs in the most serious cases.

Our shareholders

We previously communicated our intention to pay a dividend of £133 million in July 2014. This amount is approximately two-thirds of the notional full-year dividend of £200 million that the Directors believe they would have proposed if the Company had been listed throughout this financial year. On the basis of our performance, the Board and I are delighted to announce that the Board has recommended the payment of a final dividend of 13.3 pence per share on 31 July 2014, subject to approval by our shareholders at our Annual General Meeting (AGM) on 24 July 2014.

Board Evaluation Process

The Board and I recognise the importance of reviewing Board practices and performance on a regular basis. A performance evaluation of the Board, its Committees and individual Directors takes place on an annual basis with the support of the Company Secretary. This year's evaluation was completed during May 2013 and objectives were set for the Board based on the outcomes of the evaluation.

Following privatisation, a more detailed evaluation of the Board, involving the use of an external board evaluator, will take place during 2014. A performance evaluation of the Audit & Risk Committee was conducted by the Chairman of the Committee. The Committees have also undertaken a review of their terms of reference and updates have been made to comply with best practice. More information can be found in the Corporate Governance section (pages 47 to 57).

Thank you

We announced in January 2014 that Mark Higson has decided to stand down as Managing Director, Operations and Modernisation at this year's AGM. I would like to take this opportunity to thank Mark for his huge contribution to the initial phase of our transformation programme.

In April 2014, after the reporting period, we confirmed Jan Babiak's resignation from the Board. Jan has made a very valuable contribution to Royal Mail during an important time for our Company. The Board and I would like to thank her for her support and counsel.

The flotation of Royal Mail was never a foregone conclusion. It took much hard work inside and outside Royal Mail to put the Company in a position to access external capital and ready itself for plc status. The continued success of Royal Mail, including the recent privatisation, is testament to the significant contribution of Moya Greene and her team.

I would like to thank all those involved in facilitating our flotation. Most importantly, I would like to thank all of our people for contributing to Royal Mail's success this year.

Donald Brydon, CBE

Chairman
6 June 2014

Chief Executive Officer's review

I am pleased to report another good performance. We have built a foundation for sustained, steady performance against a backdrop of significant structural and operational change.

Moya Greene
Chief Executive Officer

“Our vision is to be recognised as the best delivery company in the UK and across Europe”

The Group's operating profit after transformation costs increased to £430 million from £403 million. This was due to parcel revenue growth more than offsetting letter volume declines. Operating profit margin declined from 4.4 to 4.2 per cent, due to the provision for our management reorganisation programme. Profit before taxation excluding specific items increased to £363 million and our notional earnings per share was 26.3 pence. Free cash flow increased to £398 million primarily due to an improved trading performance and reduced investment spend.

UKPIL revenue was up two per cent at £7,787 million. Parcel revenue increased by seven per cent to £3,162 million while volumes were flat, mainly due to the impact of size-based pricing on consumers and small and medium-sized enterprises (SMEs) and the industrial relations environment at the end of 2013. The operating profit margin before transformation costs increased, as costs grew at a slower rate than revenue. However, the provision for the management reorganisation programme reduced the operating profit margin after transformation costs, to 3.5 per cent.

GLS delivered revenue growth across all its markets. Total revenue was £1,651 million and operating profits were £108 million. The operating profit margin was slightly lower than last year at 6.5 per cent. Despite increasing revenue in Germany, significant competitor investment in capacity and increasing sub-contractor rates put pressure on margins. Revenue growth was driven by a strong performance in Italy due to our network of owned and franchised operations. We are making progress with our turnaround programme in France.

Our vision

Our vision is to be recognised as the best delivery company in the UK and across Europe

We are the leading provider of postal and delivery services in the UK. GLS operates one of the largest ground-based, deferred parcel delivery networks in Europe.

A clear strategy

Our strategy is based on three priorities:

- 1) being a successful **parcels** business,
- 2) managing the decline in **letters**,
- 3) being **customer** focused.

We are focused on delivering efficiency and productivity improvements as our mail mix changes. We must increase the pace at which we deliver change – whether large or small – if we are to succeed. Our strategy is also underpinned by a focus on managing our business successfully, which includes people, customer and financial measures (see pages 16 to 17 for more information).

Parcels

Our parcels strategy – key points

- Getting the basics right: improving our first time delivery rates through initiatives like Delivery to Neighbour.
- Getting the technology right: including making it easier for our customers to access our networks and rolling out FlexDelivery in GLS.
- Expanding and automating our networks: detailed planning for parcels systems upgrades and automation in the core Royal Mail network, expanding the geographic footprint of GLS through organic growth and selective acquisitions.

UKPIL collects and delivers parcels and letters predominantly through the Royal Mail core network and Parcelforce Worldwide. We offer deferred, express and courier services across a number of segments. Over recent years, e-retailing has driven parcel volume increases in the UK. Competition is intense and capacity is increasing. We are focused on maintaining our leading position by becoming increasingly flexible and efficient and offering additional service features and options. While our volumes are driven largely by growth in e-commerce, we do not benefit from growth in all areas of e-retailing. For example, we do not operate in all online segments and are under-represented in some areas, such as returns for clothing and shoes. We are now focusing on faster growing market segments.

We are increasing the proportion of items we can carry cost-effectively on foot enabled by trolleys

Our parcel customer base is large and diverse. Around a quarter of our domestic parcel revenue, excluding Parcelforce Worldwide, is generated by large and medium-sized companies, whilst approximately three quarters is generated by consumers, micro-SMEs and SMEs. Our single largest parcel customer accounts for approximately six per cent of UKPIL parcel revenue. Changes to its minimum order for free delivery and the expansion of its own delivery capabilities are expected to reduce available volume. However, we believe the breadth of our customer base and our strategy of supporting SMEs to grow through e-commerce means we are not as exposed to the actions of our largest customers as some of our competitors.

In April 2013, we introduced size-based pricing for consumers and SMEs to ensure that parcels are delivered through the most appropriate UK network. This approach has driven significant growth in revenue, while parcel volumes were flat. Declines in consumer volumes were greater than expected. We recognised this quickly and took action to fix it – expanding small parcels dimensions in October 2013.

We are also making it easier for customers to receive and return parcels. Royal Mail is to pilot Sunday afternoon opening at around 100 of its delivery offices across the UK later this summer. We will also trial Sunday parcel deliveries later this summer to addresses within the M25 motorway. Parcelforce Worldwide will also launch a Sunday delivery service in June for online shoppers through participating e-retailers.

We have added tracking to all contract returns services, so customers can check whether items have gone back to the seller and the seller can see when an item is coming. Working with the Post Office, Royal Mail has launched Local Collect – the UK's largest click and collect network. Receiving a parcel at home is still the UK consumer's preferred method of delivery. If this is not convenient, customers can choose one of around 10,500 participating post offices as a parcel collection point. We have completed the expansion of the capacity of Parcelforce Worldwide, with a domestic hub opened in Chorley in 2013 and eleven depots newly opened or upgraded across the UK in the financial year.

Delivery companies are increasingly technology companies, as they seek to provide improved tracking and delivery solutions. In 2011, UKPIL began a five year IT transformation programme, one objective

of which was to support the delivery of our parcels strategy. We completed the issue of more than 74,000 handheld scanners to our postmen and women in time for Christmas 2013. Looking forward, key areas of investment will provide additional tracking systems, including expanding barcoding and SMS messaging.

GLS is a strategically important part of Royal Mail Group. It provides geographical diversification of our earnings. Its experience and focus on parcel delivery means it is a core component of Royal Mail's vision of being recognised as the best delivery company in the UK and across Europe.

Business-to-business (B2B) parcel customers form GLS' core market, representing more than 70 per cent of all parcel volumes it delivered in the year. It is mainly active in the deferred parcels segment – the least time-sensitive type of delivery. 94 per cent of GLS' revenue came from deferred parcels.

GLS continued its introduction and enhancement of FlexDelivery. This is a monitoring and tracking service that allows customers to change the delivery time and location of parcels. FlexDelivery is currently available in ten markets, with plans to roll it out to more countries. It is also available for cross-border traffic in selected markets.

GLS operates through wholly-owned and partner companies in 37 countries and nation states across Europe, with strategies developed based on the dynamics of each local market. However, every business focuses on reliable quality with a strong customer emphasis, optimising the use of technology to provide the services and flexibility customers expect.

Letters

Our letters strategy: key points

- Managing the structural decline in the letters market by adding value to customer mailings, rolling out Mailmark™ barcoding technology and promoting the value of marketing mail.
- Calling on Ofcom to address the potential threat to the economics of the Universal Service created by the uncertainty caused by its Competition Act investigation, access pricing policy review and the unfettered growth of direct delivery competition.
- Leveraging the benefits of our investments in letter automation by increasing the number of letters sorted into delivery order and optimising mail handling techniques.

Our letters performance was at the better end of our expectations. Revenue was down two per cent. Addressed letter volumes declined by four per cent during the year. The decline in addressed letter volumes moderated in the second half. This was due to strengthening economic conditions, alongside one-off impacts such as energy companies writing to customers about price rises in October 2013 and an increase in stamped mail volumes in December 2013, including Christmas cards.

In March 2014, we began the rollout of Mailmark™, which provides barcode technology and online reporting for machine-readable business advertising and publishing mail. Mailmark™ will deliver a number of additional benefits for customers, including timely reporting on performance and predicted delivery times, and more accurate and transparent billing.

Marketing mail revenue was £1,111 million. Research has demonstrated that using marketing mail in combination with other media significantly increases communications effectiveness. Our MarketReach business aims to prove and promote the commercial value of mail and enables customers to realise that value within their own businesses. These additional services complement the extensive UK delivery network, which Royal Mail uses for the distribution of customers' marketing mail.

As we seek to win business, we are flexing our services to provide what customers want. During March 2014, we were awarded a significant contract to collect and deliver mail for 14 councils across London. This collaborative agreement, where mail services have been procured centrally in order to gain efficiencies, is the first of its kind for Royal Mail and the councils.

Regulation

We are proud to deliver the Universal Service. But, the sustainability of the Universal Service depends on Royal Mail being able to use revenue from easy-to-serve urban areas to cover the cost of a nationwide network capable of serving all addresses at a uniform price.

On 10 January 2014, we announced a number of changes to Royal Mail's access contracts. The changes were intended to help secure the provision of the Universal Service, against the backdrop of a continuing decline in letter volumes. Following a complaint by TNT Post UK, Ofcom opened an investigation into some of the access contract changes on 21 February 2014. The price changes subject to Ofcom's investigation are suspended until the outcome of this investigation. On 9 April 2014, Ofcom confirmed that it would

Chief Executive Officer's review (continued)

use its powers under the Competition Act 1998 to investigate the complaint

The planned changes to access contracts are an important part of our commercial response to changing market conditions including the expansion of direct delivery¹ competition. We believe TNT Post UK's complaint is unfounded. We believe the changes are fair, reasonable and fully within the guidance provided by Ofcom². We are cooperating fully with Ofcom to ensure the investigation is completed as quickly as possible, so that our planned changes can be put into effect.

On 9 April 2014, following the end of the reporting period, Ofcom also announced a policy review of the access conditions imposed on Royal Mail in March 2012, and Ofcom's guidance on those conditions. Ofcom has said it will complete this by the end of 2014. We are proactively engaging with Ofcom on this review.

TNT Post UK now has direct delivery operations in much of London and in Manchester and in Liverpool. It has stated its intention to take its own direct delivery service to a number of other cities, with the aim of covering around 42 per cent of

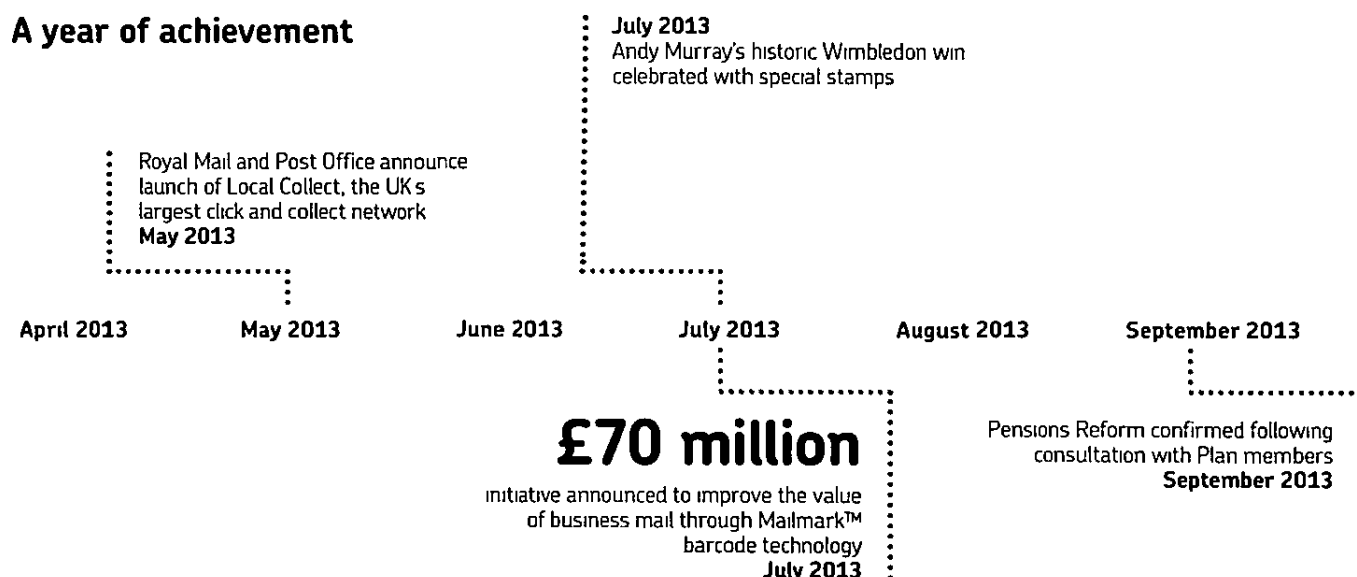
addresses by 2017. TNT Post UK can cherry-pick easy-to-serve urban areas delivering easy-to-handle post to homes less frequently than Royal Mail and to no defined quality standard. Royal Mail is required to deliver six-days-a-week, overnight, throughout the whole country, to stringent quality standards and at a uniform, affordable tariff. Moreover, we are also required to deliver any items TNT Post UK does not consider economic to deliver itself. If TNT Post UK is successful in delivering its stated objectives, this could threaten the fundamental economics of the Universal Service. Based on our estimates of the impact of TNT Post UK's publicly-stated plans, this could reduce Royal Mail revenue by over £200 million in 2017-18³. At the same time, our ability to reduce costs to offset this would be limited by our obligations to deliver the Universal Service.

Our analysis is that, without timely intervention from the regulator, direct delivery competition will have a serious impact on the sustainability of the Universal Service. Ofcom has stated that an EBIT margin range of between five and ten per cent for Royal Mail's reported business is appropriate and

consistent with the need for Royal Mail to earn a reasonable commercial rate of return⁴. With our proposed access price changes remaining suspended and unfettered direct delivery rollout, there is a reasonable prospect that this level of margin may never sustainably be achieved.

We do not believe the current situation serves the best interests of consumers. Ofcom has acknowledged in a recent guidance document its duty, powers and willingness to act to protect the Universal Service if required⁵. However, effective regulatory action could take some time to implement. Meanwhile, the Competition Act investigation and Ofcom's access policy review may create a significant period of uncertainty in the UK postal market. This uncertainty, combined with our Universal Service commitments, means our ability to respond commercially is constrained. At the same time, direct delivery operators are continuing to expand their operations. This is why we are preparing a regulatory submission calling on Ofcom to take action now and carry out a full review of direct delivery. Such a review would be in line with Ofcom's primary duty to secure the provision of the Universal Service. It would also allow for full

A year of achievement



¹ Direct delivery refers to a situation where other postal operators convey mail from customer to recipient, entirely using their own delivery network and not Royal Mail.

² Ofcom. End-to-end competition in the postal sector. Final guidance on Ofcom's approach to assessing the impact on the Universal Postal Service of 27 March 2013 and Securing the Universal Postal Service. Decision on the new regulatory framework. Ofcom statement of 27 March 2012.

³ Based on TNT Post UK's stated ambition of 42.3 per cent delivery point coverage in 2017, expected addressed inland letter market volumes of approximately 11 billion items in 2017-18, using Royal Mail's forecast range of a 4-6 per cent per annum decline in addressed letter market volumes, our estimate that TNT Post UK achieves a 20 per cent local market share in areas where it operates in 2017-18, and an annual RPI increase in our Average Unit Revenue per Downstream Access item.

⁴ Securing the Universal Postal Service. Decision on the new regulatory framework. Ofcom statement of 27 March 2012, paragraph 5.47.

⁵ Final guidance on Ofcom's approach to assessing end-to-end competition. Ofcom statement of 27 March 2013.

consideration of what regulatory interventions may be necessary. At the same time, we are raising the issue with HM Government and are seeking a legislative amendment that would require a review of direct delivery if Ofcom does not initiate one in a timely manner.

Customers

We have a trusted brand. Our most recent Corporate Image Report, conducted by Ipsos MORI in November 2013, indicated that 71 per cent of customers believe Royal Mail's services are good value for money.

Our own research indicates that our mean business customer satisfaction score is 75. This is an increase on 74 last year, and 70 in 2011-12.

See KPIs pages 18 to 19

It is strategically important that we maintain this customer loyalty.

Our regulated Quality of Service specifications are amongst the highest of any major European country.

I am delighted to report that we exceeded our regulatory targets for both First and Second

Class mail in 2013-14: 93.2% per cent of First Class mail was delivered the following day (2013 91.7% per cent), and 98.9 per cent of Second Class mail was delivered within three days of posting.

See KPIs pages 18 to 19

We have delivered a significant improvement on prior years against our internal composite parcels measure⁸. We achieved a performance of 95.1 per cent, meeting our target.

See KPIs pages 18 to 19

Overall, complaints were down six per cent on last year (2013 489,900⁹, 2014 458,700).

Improving our performance in this important area is a key strategic focus.

See KPIs pages 18 to 19

Four issues account for the majority of complaints: redirection, misdeliveries, redeliveries and 'Something for You' cards.

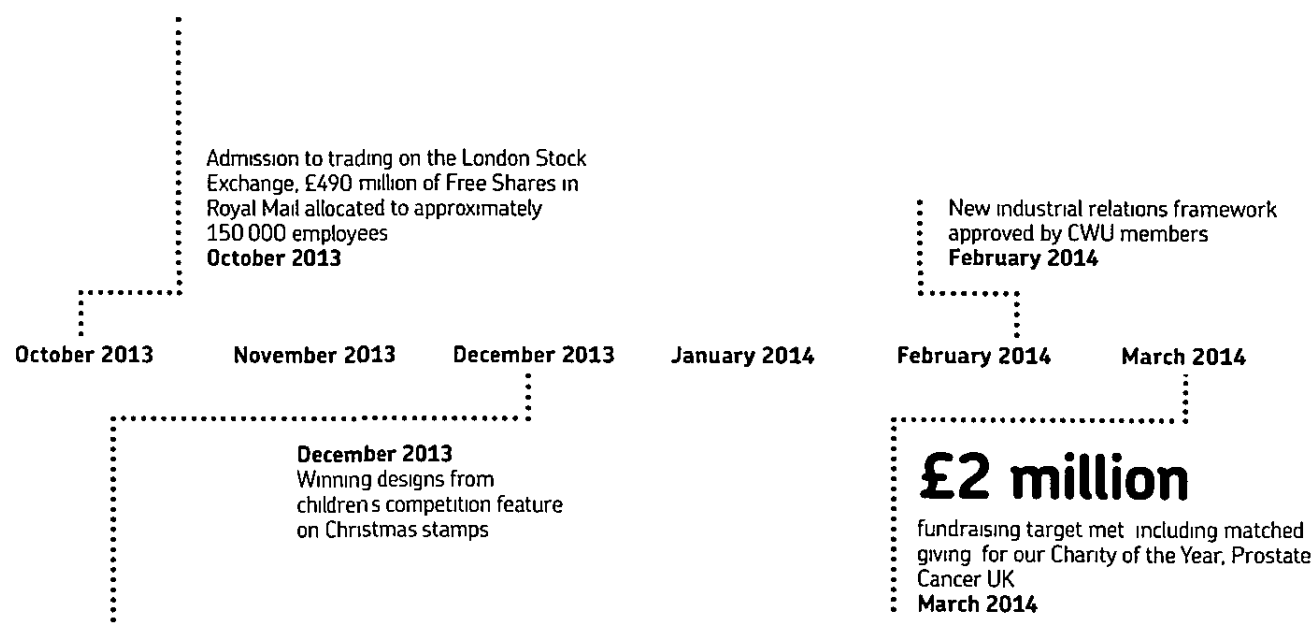
Our performance has improved for three of these complaints, the exception being 'Something for You' cards. Our Delivery to

Neighbour initiative is a key focus as we seek to improve the effectiveness of our delivery operations and reduce redeliveries. Recent Ofcom research found that 94 per cent of customers were satisfied with this service.

Transformation and cost control

Royal Mail is continuing to transform as we seek to mitigate falling letter volumes and manage increasing parcel volumes in an increasingly competitive parcels market. As a matter of course, we look to organise similar tasks into single areas to avoid unnecessary duplication. Since 2003, more than 50,000 people have left the UK business, with 12,000 leaving in the last four years. On 25 March 2014, we launched a consultation with our unions on a proposal to achieve a net reduction of 1,300 roles, mainly within our managerial population. We recognise that this change is tough on our people. But, we must continuously improve our efficiency. This is a key way to sustain the Universal Service and secure good quality jobs for our people.

As we have said before, the initial phase of our transformation is largely complete. Almost all of our Delivery Offices have now commenced or completed modernisation. We continue to drive improvements in the network to be



⁶ Not adjusted for force majeure

⁷ This is not adjusted for force majeure. In 2012-13 the adjusted for force majeure result was 92.5 per cent, including external events such as snow, volcanic ash clouds and the 2012 London Olympics.

⁸ An internal measure for all retail parcel products in the Royal Mail core network.

⁹ This has been restated from 486,400 due to the addition of Door to Door complaints. These were previously tracked separately and have been integrated to improve oversight of complaints across the business.

Chief Executive Officer's review (continued)

more productive and effective. We are now focusing on standardising processes and embedding examples of best practice. Relatively small changes implemented across our business can deliver significant efficiency benefits. We will be launching a nationwide campaign to ensure Delivery to Neighbour is deployed consistently where appropriate. Improving our rate of first time delivery is a key strategic focus across our operations. Our expansion programme in Parcelforce Worldwide is now complete. We are continuing to plan for automation in the Royal Mail core network.

The productivity improvement of 1.7 per cent was disappointing. Whilst we reduced collections, processing and delivery hours by 2.9 per cent, the industrial relations environment meant we were unable to extract more hours to compensate for the impact on workload associated with flat parcel volumes. Most of Royal Mail's non-people costs are subject to inflationary pressures. This year we were particularly successful in addressing this. Non-people costs were down by three per cent in UKPIL.

Our people

Following our recent flotation, the overwhelming majority of our UK employees are also shareholders in our Company. Free Shares gave our people a direct stake in the Company and its future success. Each eligible full-time employee who participated in the Free Shares Offer now has 729 shares. They, along with all shareholders, will receive a final dividend in July 2014, subject to shareholder approval.

In December 2013, we announced an agreement in principle with the Communication Workers Union (CWU). This was approved by its members in February 2014. The agreement is wide ranging in its coverage and focused in its support of the business. It represents a joint commitment to radically improve industrial relations and create a can-do culture in the interests of customers, employees and the Company. We are focused on bedding down this agreement to ensure that we provide a stable and unique platform for problem-solving and for jointly moving the business forward at a faster pace.

Outlook

Our key value drivers of single digit revenue growth, margin expansion and underlying free cash flow growth remain the objectives for the Group for the 2014-15 financial year. However, while we are satisfied with our progress in 2013-14, we are facing increasing challenges in the parcels and letters markets in the UK.

We intend to pursue a progressive dividend policy having regard to the normalised earnings progression of the Group. As the regulatory position on direct delivery becomes clearer, the Board would expect to provide more clarity on our dividend policy.

Royal Mail in the private sector

We must continue to deliver change at an increasing pace to meet the challenges of the changing mix of mail, the liberalised UK postal market, intense parcel competition and a need to become more productive and efficient. Royal Mail's transformation is being delivered whilst maintaining our high Quality of Service levels. I would like to thank all my colleagues for the fortitude and conscientiousness with which they have embraced these changes. I am confident that, with their continued diligence and support, we will be able to make ongoing progress in delivering our strategy.

Moya Greene

Chief Executive Officer
6 June 2014

Market overview

The parcel and letter markets are highly competitive. In parcels, Royal Mail faces significant competition, in both the UK and Europe, from companies with established delivery capabilities and new entrants. In letters, the current suspension of access price changes and unfettered direct delivery are a threat to the fundamental economics of the Universal Service.

UK parcels market

E-retail continues to drive growth in the UK parcels market

Parcels sent from business-to-business (B2B) have long been a significant element of the UK parcels industry. B2B currently represents just over a third of overall UK parcel volume¹. We expect B2B volume growth in the UK to be slightly above GDP growth in 2014-15.

The engine for parcel volume growth is business-to-consumer (B2C) through e-retail. The UK has one of the most developed e-retail markets in the world, with around ten per cent of all retail sales conducted online. This is estimated to rise to 13 per cent by 2017². The UK has the highest e-retail expenditure per capita in the world³.

B2C and C2X (consumer to all parties) currently accounts for nearly two-thirds of UK parcel volume¹. We expect aggregated parcel volumes within the B2C and C2X segments will grow at approximately 4.5 to 5.5 per cent for 2014-15.

Customers and competition

We operate in a highly competitive market. Customers increasingly demand a choice of reliable and convenient delivery options with tracking information and easy returns. There are many parcel carrier competitors and they are getting stronger, with improved service performance, greater convenience, increased geographic coverage and leading edge technology.

Parcel carriers who historically focused on B2B parcels are increasingly focusing on B2C. While home delivery remains the most attractive fulfilment option, collection from a pick up point is also growing in popularity – whether directly from a retailer's store (in-store click and collect) or from a third party location such as a parcel shop or locker bank (Pick Up/Drop Off or PUDO points). Various market research studies suggest that both forms of click and collect are growing fast, albeit from a low base. We too expect it to continue to grow, 96 per cent of retailers that offer in-store click and collect do

not charge for the service, but delivery to PUDO points often incurs an extra fee⁴. Disclosure about the retail sales directly attributed to click and collect is more limited, however Royal Mail has teamed up with Post Office Limited (POL) to enable online purchases to be delivered to around 10,500 post offices nationwide, the largest PUDO network in the UK.

UK letters market

Market volume breakdown 2013-14

Type	Volume (bn)
Non-access (e.g. USO & Retail)	5.6
Access	7.1
Addressed inland	12.7
International	0.6
Total addressed	13.3
Unaddressed	3.1

Demand for letters has historically been closely linked to GDP growth. This link still exists, but is now offset by a structural decline caused by the growth of email and the internet as a form of communication.

Different types of letter are experiencing different rates of decline. We continue to expect a decline in addressed letter volumes of four to six per cent per annum⁵.

Business letters are declining due to relatively mature technologies such as online banking. Businesses perceive cost savings from mail reduction. However, a significant proportion of the population would like a choice as to how they receive household bills and statements without a penalty. Royal Mail is a funding partner of the Keep Me Posted campaign, a coalition of over 56 charities, trade unions, consumer groups and business organisations, which aims to protect the consumer's right to choose, without penalty, how they receive important financial information and statements from their service providers.

Direct mail in the UK is worth £2.1 billion, with direct mail itself accounting for approximately 12 per cent of UK advertising.

spend⁶. This reflects the value that it delivers for businesses.

Following market liberalisation in 2004, access mail competition for upstream⁷ letter collection and processing is now mature. The number of upstream letters handled by competitors has been relatively stable since 2010-11.

European parcels market

The European parcels market is growing, driven by the same e-retail trends as the UK. This growth is uneven across the EU, in particular due to different economic performance and take-up of internet shopping in different countries.

Competition

There are three key types of parcel carriers operating in Europe. While historically they may have focused on different market segments, the dividing line between B2B and B2C, and between express and deferred, has become blurred in recent years.

- **National posts** These carriers generally offer strong domestic B2C and C2X parcel offerings in their home countries. Some also have a wider presence across Europe⁸.
- **Integrators** There are several well-funded multinational companies with varying degrees of presence in each country. These companies were historically focused on providing premium B2B services.
- **Local carriers** A number of these operators are part of alliances which allow them to offer a range of services across Europe.

The gradual trend towards consolidation in the market has continued, with major network operators acquiring smaller businesses which fill geographic or service gaps. This acquisition activity has recently focused on targets specialising in e-retail or consumer collections.

¹ Royal Mail market estimates based on Triangle Management Services research.

² Euromonitor Passport Data 2013. Retail values exclude sales tax, current prices.

³ BCG e-intensity index 2013.

⁴ Micros® Multi-channel Retail Delivery Report 2014.

⁵ Excluding election mail.

⁶ WARC (2013) including production costs.

⁷ Upstream refers to the collection of letters from a customer or collection point and initial sortation. After this, sorted mail is delivered to Royal Mail inward Mail Centres for final mile delivery.

⁸ Opinium research 2013.

Our business model

Our business model aims to deliver shareholder value and support a sustainable Universal Service. It demonstrates how we create value, from revenue generation through to initiatives aligned with our Customer, People and Financial KPIs. Our model provides growth potential, sustained profitability and cash generation.

At the heart of our business model is a focus on leveraging our core strengths. They include

- Our leading position in UK letters and parcels
- The Royal Mail brand,
- Our high quality of service, and
- The geographical and earnings diversification provided by GLS

No business model is without its challenges. In our case 49 per cent of our revenue – letters – comes from a market that is in structural decline. In the UK, the combination of unfettered direct delivery, mandated access and the continued structural decline in letters is a threat to the fundamental economics of the Universal Service. In parcels more competition, more capacity and the e-substitution of smaller items, are an ongoing reality.

We focus on tight cost control, including people and non-people costs. We seek to optimise our UK and international networks including the coverage provided by the Post Office. Leveraging the benefits of our UK modernisation is about driving up our productivity, standardisation, pace and flexibility. Transforming our IT architecture to address legacy systems issues and partnering with customers to provide more flexible solutions for them is key to our model. So too are postmen and women delivering first time consistently to the door.

Networks and Customers

UKPIL

Royal Mail Core Network

Key products and services

USO letters and parcels

- Stamped and meter mail
- Airmail
- Redirections
- Special Delivery

Non USO letters and parcels

- Royal Mail Tracked
- Royal Mail 24/48
- Business and Advertising Mail
- International Business Tracked and Signed
- Network access mail

Customer points

115,000

Pillar Boxes

1,400

Delivery Offices

over 11,500 branches

Partnership with Post Offices

60,000 delivery routes

Parcelforce Worldwide

Key products and services

Domestic and International express parcels

Domestic and International deferred parcels

Customer points

53

Depots

over 11,500 branches

Partnership with Post Offices

GLS

Key products and services

Deferred parcels

Express parcels

Customer points

700¹

Depots

¹ GLS and partners

Customer

- Providing high quality service everywhere in the UK and Europe
- Flexing our propositions – products and services – to meet the needs of the rapidly changing e-retailing market
- Adding value to letters through initiatives like Mailmark™ and to parcels by barcoding more items

See our Customer KPIs, pages 18 to 19

People

- Working with our people and unions to deliver a collaborative, can-do culture as we transform our business
- Becoming an even more customer focused company in the highly competitive markets in which we operate

See our People KPIs, page 18

Revenue



Revenue



Financial

- Leveraging our ongoing transformation. Being more productive and efficient in everything we do
- Tightly managing our people and non-people costs
- Investing to continue to transform the business, particularly in IT and automation

See our Financial KPIs page 19

Our strategy

We have a clear vision to be recognised as the best delivery company in the UK and across Europe. Our three-part strategy aims to deliver our vision by:

- Sustaining the continued provision of the Universal Service in the UK; and
- Generating sustainable shareholder value.

Key challenges

The markets – by category and geography – in which we operate are changing quickly. E-retail is driving growth in parcels. Royal Mail, Parcelforce Worldwide and GLS are well positioned to benefit from domestic and cross-border growth.

There is growing competition in parcels delivery. In the UK, where Royal Mail is a market leader, our competitors are improving their service levels: some e-retailers are providing their own delivery solutions. Market capacity has increased, there is growing price pressure too. Consumers and SMEs now have many choices, including alternatives to the Post Office – our retail partner.

Disruptive technologies – long a feature of our markets, are on the increase. Items traditionally delivered physically as parcels (such as books, CDs and DVDs) are in competition with downloads and streaming. In letters, e-substitution is a major structural factor underpinning continued volume decline. Combined with unfettered direct delivery and mandated access, this threatens the fundamental economics of the Universal Service in the UK.

Key priorities

Our strategy aims to maintain our market leading positions and target new segments and channels where we can grow. We also focus on being a more efficient and flexible company. Our ongoing transformation programme – one of the largest of its kind in the UK – continues. Standardisation, consistency in execution and tight cost control are key. So too is a greater focus on anticipating our customers' needs and responding flexibly to them. Underpinning that focus is a major emphasis on technology – renewing or replacing legacy systems and investing in new IT architecture, providing barcoding and tracking for parcels, and greater connectivity with our customers.

Our key strategic priorities are underpinned by a focus on **managing our business successfully** through both financial and non-financial initiatives. We aim to keep a tight grip on costs and become more efficient. Embedding a more collaborative culture will support the rollout of standardised processes and consistent execution across our operations. Further investment in our people lays the foundation for even better customer service and culture change. Transforming our technology provides the tracking capability to compete in an even more competitive marketplace.

Strategic priorities

Parcels

Strategic priority 1

Being a successful parcels business. In the UK, we will continue to grow account parcels and to maintain our strong position in the consumer, micro-SME and SME market segment. We will deliver significant IT upgrades, introduce new products and maximise the proportion of UK traffic we can handle profitably. In Europe, GLS will continue to expand and grow, and improve its offering, for example, by increasing the number of B2C delivery options.

Letters

Strategic priority 2

Managing the decline in letters. We have launched Mailmark™, which provides business customers with tracking information and significant operational benefits for us. MarketReach promotes the value that physical mail brings to advertising campaigns and maintains our marketing mail volumes in the face of competition from digital channels. Unfettered direct delivery competition is a threat to the Universal Service. We are asking Ofcom to undertake a full review of direct delivery now.

Customer

Strategic priority 3

Being customer-focused. Customers have more and more choices. Our strong brand means we are well positioned in our core markets. The rollout of new delivery methods is now almost complete. Coupled with the full deployment of handheld scanners, it is transforming how we deliver parcels. Our focus on first time delivery gives our customers what they want and drives greater operational efficiency. Important initiatives in this respect include the launch of Local Collect – our click and collect solution with the Post Office, and longer opening hours.

Key initiatives

- Adding barcodes to UK parcels to improve customer information, and operational efficiencies,
 - Investing in technology from making it easier for customers to access our networks through to tracking and management information,
 - Detailed planning for parcels systems upgrades and automation in the core Royal Mail network,
 - Rolling out FlexDelivery to more European markets, offering customers more choice about how and when their parcels are delivered,
 - Upgrading the core GLS operating system to ensure continued market-leading IT capabilities, and
 - Expanding the geographic footprint – depth and range – of GLS through organic growth and selective acquisitions
-
- Adding value to customer mailings through the rollout of initiatives like Mailmark™,
 - Promoting the value of advertising mail in customer retention and acquisition – on its own and in combination with other media,
 - Calling on Ofcom to address the potential threat to the economics of the Universal Service created by uncertainty caused by its Competition Act investigation, access pricing policy review and the unfettered growth of direct delivery competition, and
 - Leveraging benefits of our investments in letter automation by increasing the number of letters sorted into delivery order and optimising mail handling techniques
-
- Improving our first time delivery rates, increasing use of Delivery to Neighbour and Local Collect,
 - Refreshing our enquiry offices and training our customer-facing colleagues to improve customers' experiences when collecting their parcels,
 - Re-engineering our key customer journeys to remove sources of dissatisfaction, reducing the time between account set up and first posting for businesses, and
 - Driving down customer complaints with a focus on first time resolution of issues

See pages 29 to 31 for more information about the links between our strategic objectives and key business risks

Key performance indicators

Our KPIs are divided into People, Customer and Financial segments, as represented in our business model and our Corporate Balanced Scorecard. Further details relating to the link between our KPIs and Executive Remuneration can be found in the Directors' remuneration report on page 65. To reflect the significant changes that took place during 2013-14, we have revised our KPIs. We have removed Second Class Quality of Service. We have replaced Delivery Office modernisation and delivery hours reduction with a broader KPI on collection, processing and delivery productivity. Finally, we have added a composite parcels quality of service measure, to reflect the increasing importance of parcels to our business.

KPI and strategic link(s)	Measured by	Key activities in the year
People		
Safety	Lost Time Accident Frequency Rate: the number of work-related accidents resulting in an absence on the next day or shift per 100 000 hours worked	We have delivered a very good safety performance in the year further reducing the amount of time lost to accidents and making Royal Mail a safer place to work. We have established assessments for 93 per cent of delivery routes. We are continuing to increase the identification and risk mitigation of significant risks on those routes so we take action where appropriate. Improving road safety is a key priority. A Head of Health and Safety has been appointed in Parcelforce Worldwide to develop a safety leadership culture. We also ran our annual Road Safety Week campaign in November 2013 raising safety awareness through videos, posters, RMTV and manager's briefings. Topics ranged from seatbelts and stationary objects to driver distractions and winter driving.
More information: see Corporate responsibility, page 35		
Employee engagement	An annual survey by Ipsos MORI measuring involvement, alignment and loyalty of colleagues through a number of questions including what our people think about Royal Mail, their understanding of our strategy and their place in achieving our strategic objectives.	Approximately 150 000 eligible UK employees were awarded Free Shares as part of the privatisation. Approximately 15 000 employees bought shares in the Company at the same time. We have agreed a new industrial relations framework with the CWU and are developing and embedding a more collaborative 'can-do' culture. As part of our town hall programme, members of our senior management team have addressed thousands of colleagues at almost 60 meetings. An ongoing face-to-face communications programme will ensure colleagues understand our strategy and their role in delivering it.
More information: see Corporate responsibility, page 33		
Customer focus	An annual survey by Ipsos MORI measuring how focused our people are on delivering improvements in customer service.	Christmas is a key trading period for us. Planning began early to ensure we delivered a high quality service for our customers – we did. We recruited 21 000 seasonal workers to support our postmen and women. Ten parcel sort centres were opened to manage increasing volumes over the period. We offered extended opening hours and Sunday deliveries to improve our customers' delivery and collection options. We are completing our Customer and You training for approximately 2 000 employees and are deploying a new programme to refurbish enquiry offices.
More information: see Corporate responsibility, page 33		
Customer		
First Class Quality of Service	An independent, audited measure of Quality of Service for First Class retail products which may be adjusted for force majeure ¹	Our regulatory Quality of Service targets are amongst the highest of any major European country. We delivered a strong performance at both the national and local level. This included meeting or exceeding the minimum target of 91.5 per cent for First Class delivery in 114 out of 118 post code areas. This improved performance was achieved against a backdrop of one of the largest industrial transformation programmes undertaken in the UK in recent history. Our programme to standardise best practice and drive up first time delivery will support continued high Quality of Service delivery.
More information: see CEO's review, page 11		
Customer satisfaction	Average business customer satisfaction scores on a number of issues including price, service quality and customer experience.	We maintained very good levels of customer satisfaction amongst our business customers. A customer satisfaction questionnaire is completed by a sample of business customers every month. During the year, we established a programme to redesign key customer journeys to improve the experience from posting to issue resolution. We increased our emphasis in customer service centres to focus on the first time resolution of issues for customers.
More information: see CEO's review, page 11		

¹ This accounts for the impact of factors which are beyond Royal Mail's control, such as weather.

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

Strategic links key

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

KPI and strategic link(s)	Measured by	Key activities in the year
Customer (continued)		
Composite Parcels quality of service	An internal measure for all retail parcel products in the Royal Mail core network. Results are presented as a proportion of items which are delivered by their service specification and combined into a composite metric	Our composite parcels KPI looks at delivery performance for regulated and non-regulated products across our entire portfolio. We saw very significant progress in our performance this year. We provided handheld scanners for all delivery rounds, providing significantly more management information and better customer service. We are now seeking to improve first time delivery rates through standardisation of best practice, especially for key initiatives like Delivery to Neighbour.
More information see CEO's review, page 11		
Customer complaints	Number of complaints captured by our Customer Service team	We achieved significant improvements in the level of customer complaints over the year. We saw reductions in all major categories except 'Something for You' cards. We completed the rollout of a new complaint resolution tool to enable Delivery Offices to access complaints and are re-engineering how we handle undelivered parcels in enquiry offices. We are establishing a major programme in Operations to identify areas of best practice and standardise them across the network.
More information see CEO's review, page 11		
Financial		
Group revenue	Group revenue	Overall revenue growth was driven by increases in parcel revenue in both GLS and UKPIL, offset by an expected decline in addressed letter volumes driven by e-substitution. UKPIL parcel revenue growth was driven by size-based pricing and growth in account parcel volumes and Parcelforce Worldwide. GLS also saw strong revenue growth, driven by increased volumes.
More information see Financial review, page 23		
Productivity for collection, 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)	This measure demonstrates whether the business is getting more or less productive in collecting, processing and delivering letters and parcels across the UKPIL network. It takes into account the change in volume and mix of letters and parcels with the latter having a materially different workload. Productivity has improved. Continued progress includes the Mail Centre rationalisation and implementation of new delivery methods. Our priority is standardisation, continued tight cost control and leveraging the efficiency benefits offered by our ongoing transformation programme.
More information see Financial and business performance highlights, page 5		
Total UK costs	Total costs for UK businesses before transformation costs	Total UK costs before transformation costs increased by one per cent. People costs increased by four per cent, mainly due to the three per cent pay award, higher pension charges and the move to a shorter working week. Non-people costs reduced by three per cent, largely due to cost management and procurement savings programmes.
More information see Financial Review, page 23		
Group operating profit	Group operating profit before transformation costs	Overall revenue growth for both UKPIL and GLS resulted in an increase in Group operating profit before transformation costs.
More information see Financial Review, page 24		
Free cash flow	Free cash flow	Free cash flow has increased due to improved trading performance and lower investment spend.
More information: see Financial review, page 26		

UK Parcels, International & Letters (UKPIL)

Trading results

(£m)	Reported 52 weeks 2014	Adjusted 52 weeks 2013	Like-for-like change
Revenue ¹	7,787	7,633	2%
- Letters & other mail	3,514	3,582	(2%)
- Marketing mail	1,111	1,118	(1%)
- Total letters	4,625	4,700	(2%)
- Parcels	3,162	2,933	7%
Operating profit after transformation costs	309	294	
Operating profit margin after transformation costs	3.5%	3.9%	(40bps)
Volumes (m)			
Royal Mail core network parcels	991	994	(1%)
Parcelforce Worldwide	77	70	8%
Total parcels	1,068	1,064	Flat
Addressed letters (including international)	13,342	13,869	(4%)
Unaddressed letters	3,143	3,258	(4%)

About UKPIL

UKPIL is the UK's designated provider of the Universal Service. Its network is unrivalled in the UK in terms of size, coverage and geographical reach. UKPIL comprises the core UK and international parcel and letter delivery businesses operated through the Royal Mail core network and Parcelforce Worldwide. It has a leading position in the overall UK parcel market, with an estimated 38² per cent revenue share.

UKPIL also carries out a number of letter-related business activities, including marketing mail consulting services. It is responsible for the design and production of the UK's stamps and philatelic products. It also processes international mail under reciprocal arrangements with other overseas postal administrations.

Trading performance

UKPIL revenue increased by two per cent to £7,787 million. Parcel revenue increased by seven per cent. UKPIL parcel volumes were flat, mainly as a result of the impact of size-based pricing in the consumer and SME segments over the year. We saw growth in account parcel volumes, despite some customer reaction to the threat of industrial action in the run up to Christmas. Parcelforce Worldwide volumes grew strongly. Parcels accounted for 41 per cent of UKPIL revenue (2013 38 per cent).

Total letter revenue decreased by two per cent. Addressed letter volume decline of four per cent was at the better end of our forecast range, benefiting from strengthening economic conditions, energy company customer mailings at the end of 2013 and increased stamped mail volumes in December 2013, including Christmas cards. Marketing mail revenue, including unaddressed letters, was £1,111 million, down one per cent, mainly due to additional marketing activity in the build up to London 2012 and the Diamond Jubilee in the prior year.

We did not increase stamp prices in 2013. However, there were changes to other products, such as access mail. In March 2014, we announced tariff changes across the portfolio of products, including First and Second Class stamps. We thought carefully about the impact of all our tariff increases on our customers and our own business. Our stamp prices remain among the best value in Europe. First and Second Class stamp prices for letters up to 100 grams remain well below the European average⁴.

Operating costs

Operating costs before transformation costs increased by one per cent, below the rate of revenue growth, to £7,237 million. A four per cent increase in people costs was substantially mitigated by a three per cent decline in non-people costs.

One-off benefits in the first half of £42 million in relation to a VAT credit and lower depreciation and amortisation charge were offset by a £44 million higher pension charge (mainly due to the IAS 19 pension service charge rate increasing from 18.2 per cent to 20.3 per cent of pensionable pay).

People costs increased by four per cent, mainly due to the three per cent pay award, higher pension charge, and the move to a shorter working week. Collections, processing and delivery operations delivered a productivity improvement of 1.7 per cent, below our two to three per cent target. Whilst gross hours reduced by 2.9 per cent, this was not sufficient to compensate for the reduced workload resulting from flat parcel volumes.

Non-people costs were down three per cent. There continue to be increases in terminal dues with overseas postal administrations (distribution and conveyance costs) and IT (infrastructure costs). However, our cost management and procurement programmes were particularly successful.

¹ Stamped, metered and other prepaid revenue channels are subject to statistical sampling surveys to derive the revenue relating to parcels, marketing mail and letters. These surveys are subject to continuous refinement, which may over time reallocate revenue between the products above and which may occasionally lead to a consequent change to this estimate.

² Triangle estimates at December 2013 based on latest competitor data and market insight and Royal Mail 2013-14 financial year end revenue. Excludes international traffic.

³ Triangle Management Services estimates at December 2013 based on competitor financial reports, market insight and Royal Mail financial year end results.

⁴ European average is 63 pence for inland stamp prices up to 100 grams. First and Second Class combined.

Transformation costs

Transformation costs increased to £241 million, due to a provision for the management reorganisation programme of £104 million, mainly relating to voluntary redundancy costs. The programme is expected to generate annual cost savings of approximately £50 million, of which approximately £25 million is expected to be realised in 2014-15.

Other voluntary redundancy costs were lower than the prior year due to the timing of announcements with respect to Mail Centre closures – the majority of which were provided for in 2012-13.

Project and property costs mainly relate to Mail Centre closures and Delivery Office revisions.

The £17 million business transformation payments relate to the Business Transformation 2010 Agreement, under which colleagues receive payments of up to £1,000 based on specific milestones and specific bonuses with respect to transforming the network. Remaining payments of around £10 million are expected to be made in 2014-15 as the Delivery Office modernisation process is completed.

Operating profit after transformation costs

Operating profit after transformation costs was £309 million – up £15 million on an adjusted basis including the increased transformation costs as a result of the management reorganisation programme. Operating profit margin after transformation costs reduced to 3.5 per cent (2013 3.9 per cent).

Operating costs

(£m)	Reported 52 weeks 2014	Adjusted 52 weeks 2013	Like-for-like change
People costs	(4,818)	(4,641)	4%
Distribution and conveyance costs	(855)	(850)	1%
Infrastructure costs	(946)	(951)	(1%)
Other operating costs	(618)	(702)	(12%)
Operating costs before transformation costs	(7,237)	(7,144)	1%
Transformation costs	(241)	(195)	
Operating costs after transformation costs	(7,478)	(7,339)	2%

Transformation costs

(£m)	Reported 52 weeks 2014	Adjusted ⁵ 52 weeks 2013
Voluntary redundancy – management reorganisation programme	(102)	–
Voluntary redundancy – other	(14)	(78)
Project and property costs (including £2m of management reorganisation programme costs)	(108)	(95)
Business transformation payments	(17)	(22)
Total	(241)	(195)

Case study Christmas Stamp Competition

In Christmas 2013, for the first time in many years, we gave children across the UK the opportunity to design a Christmas stamp. We received more than 240,000 entries. The two winners – Molly Robson (aged seven) and Rosie Hargreaves (aged ten) – were chosen by a panel of judges led by His Royal Highness The Prince of Wales. Their stamps went on sale on 5 November 2013.

We were delighted to see enthusiasm for our Christmas stamps translate into higher volumes of stamped mail in the Christmas period.

The Christmas stamps competition was also linked to an educational programme, helping students and teachers meet requirements of the national curriculum. We ran five educational stamps programmes linked to our special stamps in 2013-14, delivering 13,450 packs to schools across the UK. Almost 55,000 resources were downloaded online. 98 per cent of schools who have taken part this year have requested future programme packs – a great result for pupils and the Company.

⁵ Transformation costs are the same on both a Reported and an Adjusted basis.

General Logistics Systems (GLS)

Trading results

	Reported 52 weeks 2014	Adjusted 52 weeks 2013	Like-for-like change
Revenue (£m)	1,651	1 498	
Operating profit (£m)	108	101	
Revenue (£m)	1,957	1,837	7%
Operating profit (£m)	128	123	4%
Operating profit margin (%)	6.5	6.7	(20bps)
Volumes (m)	404	380	6%

Operating costs

(£m)	Reported 52 weeks 2014	Adjusted 52 weeks 2013	Like-for-like change
People costs	(367)	(337)	5%
Distribution and conveyance costs	(1,015)	(920)	7%
Infrastructure costs	(108)	(100)	4%
Other operating costs	(53)	(40)	29%
Total operating costs	(1,543)	(1,397)	7%

About GLS

GLS is one of the largest ground-based, deferred parcel delivery companies in Europe. Its reach across Europe spans 37 countries and nation states through a combination of wholly-owned and partner companies. Germany, France and Italy GLS' main markets accounted for around 70 per cent of GLS' revenue. Approximately 94 per cent of GLS' revenue came from deferred parcels. The remainder was split between logistics (four per cent) and express parcels (two per cent).

Trading performance

GLS' revenue was £1,651 million, with all countries delivering year-on-year revenue growth. Excluding the positive impact of foreign exchange of £52 million, revenue increased by seven per cent. Parcel volumes increased by six per cent, with growth in both domestic and international volumes.

Operating costs rose by seven per cent, driven by the increase in distribution and conveyance costs as a result of higher volumes and a full year impact of increased sub-contractor rates in Germany. Infrastructure costs increased, largely due to a higher depreciation charge. Other operating costs were higher due to a non-recurring indirect taxation charge, higher IT costs and restructuring costs in France.

Operating profit increased to £108 million, representing a margin of 6.5 per cent (2013 6.7 per cent).

Germany

The competitive environment, coupled with a challenging labour market, has had a continued impact on the GLS Germany business. GLS Germany saw revenue growth of three per cent and remains the largest market for GLS by revenue. The initiative to consolidate sub-contractors to address increasing costs was not sufficient to offset further increases in costs caused by low unemployment rates and high demand for drivers, associated with increased competitor capacity. As a result, margins remain under pressure.

France

The turnaround programme in GLS France is making progress. While loss-making overall, performance for the year was slightly ahead of the restructuring plan, with operating losses reducing by €3 million to €27 million. The cost reduction element of the turnaround has progressed well during the year. Over the past few years, GLS France has undertaken an operational overhaul, changing from an 'express' delivery service provider to a deferred delivery service provider. This included the sale of its 'In Night' business, an overnight courier service. In 2011-12, GLS France will focus on improving quality, achieving greater operational efficiency and growing volumes from new and existing customers.

Italy

Despite an unfavourable economic environment, GLS Italy achieved strong organic growth, which has led to a strengthening of its market position. Performance was further enhanced by the acquisition of three franchise areas as well as competitor disruption, leading to an overall increase in revenue of 16 per cent. The GLS network in Italy is partially wholly-owned, with the rest of the operations covered by franchisees. The franchise system remains stable and represents a good platform for future growth.

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

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

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

Performance throughout the rest of Europe has been strong, with a good increase in revenue from developing/emerging European markets. The largest growth was in Slovakia and Czech Republic, in addition to the new business launched in Croatia in August 2013, where we have been pleased with the progress.

Financial review

Matthew Lester
Chief Finance Officer

Revenue

(£m)	Reported 52 weeks 2014	Adjusted 52 weeks 2013	Like-for-like change
UKPIL	-	-	-
- Letters	4,625	4,700	(2%)
- Parcels	3,162	2,933	7%
GLS	1,651	1,498	7%
Other	18	15	n/m
Group	9,456	9,146	2%

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

See KPIs pages 18 to 19

Parcel revenue accounted for 51 per cent of Group revenue (2013 48 per cent)

Group operating costs

(£m)	Reported 52 weeks 2014	Adjusted 52 weeks 2013	Like-for-like change
People costs	(5,282)	(5,077)	4%
Distribution and conveyance costs	(1,869)	(1,771)	4%
Infrastructure costs	(1,051)	(1,047)	Flat
Other operating costs	(583)	(653)	(11%)
Operating costs before transformation costs	(8,785)	(8,548)	2%
Transformation costs	(241)	(195)	-
Group operating costs after transformation costs	(9,026)	(8,743)	3%

The total UK costs before transformation costs increased by one per cent to £7,242 million (2013 £7,151 million)

See KPIs pages 18 to 19

Operating costs before transformation costs increased by two per cent. The business continues to exercise tight cost control, which particularly benefited other operating costs. Operating costs also benefited from a one-off VAT credit of £35 million and lower year-on-year depreciation and amortisation of £7 million due to a different mix in depreciable assets. The VAT credit arose as a result of a change in regulation, which increased the scope of products attracting VAT from April 2012, leading to an increased recovery rate. The one-off benefits were offset by a £45 million higher pension charge (mainly due to the IAS 19 service charge rate increasing from 18.2 per cent to 20.3 per cent of pensionable pay).

Financial review (continued)

People costs increased by four per cent, driven by an increase in UKPIL people costs. Tight cost control in non-people costs in UKPIL, which reduced by three per cent, mitigated the impact of increased volumes in GLS and higher sub-contractor rates in GLS Germany in distribution and conveyance costs. Infrastructure costs were flat, with lower property and depreciation and amortisation costs being offset by higher IT costs. Other operating costs decreased by 11 per cent due to tight cost control, predominantly in UKPIL.

Operating profit before transformation costs

All the business segments generated increased operating profit before transformation costs, resulting in a Group operating profit before transformation costs of £671 million (2013 £598 million), with the margin increasing by 20 basis points.

See KPIs pages 18 to 19

Operating profit after transformation costs

Transformation costs were £241 million (2013 £195 million) and are described in the UK Parcels, International & Letters (UKPIL) section of this report.

(£m)	Reported 52 weeks 2014	Adjusted ¹ 52 weeks 2013
UKPIL	309	294
GLS	108	101
Other	13	8
Group operating profit after transformation costs	430	403

The Group reported operating profit after transformation costs of £430 million (2013 £403 million) with UKPIL contributing around 72 per cent (2013 73 per cent) to the Group total. The operating profit margin after transformation costs declined to 4.2 per cent (2013 4.4 per cent) due to the recognition of a £104 million provision relating to the management reorganisation programme which impacted margins by approximately one percentage point.

Specific items

(£m)	Reported 52 weeks 2014	Adjusted ¹ 52 weeks 2013
Operating specific items		
Royal Mail Pension Plan amendment (non-cash)	1,350	-
Transaction-related costs	(28)	(10)
Employee Free Shares costs (non-cash) ²	(94)	-
Business-related costs	(15)	(67)
Total operating specific items	1,213	(77)
Non-operating specific items		
Profit on disposal of property, plant and equipment	19	4
Profit on disposal of associate undertaking	2	-
Release of gains held in equity on disposal of pension escrow gilts	-	22
Net pension interest (non-cash)	69	30
Total specific items	1,303	(21)

There were a number of specific items recognised during the year. The accounting impact of the Pensions Reform was to increase the accounting pension surplus significantly, resulting in a one-time non-cash credit of £1,350 million. Specific items also arose in relation to transaction-related costs of £28 million (2013 £10 million) and the charge associated with the Employee Free Shares Offer of £94 million. The Employee Free Shares Offer charge represents the charge to the income statement relating to the issuing of Free Shares, which is calculated from the start of the period when employees become eligible for the shares and is based on the mid-market closing price on the day of admission to the London Stock Exchange. In 2014-15 the charge is expected to be around £170 million.

Business-related costs of £15 million (2013 £67 million) largely comprise £15 million historical employment costs, a £7 million release (2013 £28 million charge) of the industrial diseases claims provision and £5 million of POL separation costs (2013 £20 million) relating to facilities management. The prior year also included £20 million of asset impairments (mainly property).

¹ The Business-related costs and Profit on disposal of property, plant and equipment specific items on an Adjusted basis are different than on a Reported basis due to the treatment of the costs of POL separation (see Basis of preparation note in financial statements for further details).

² Includes £3 million provision for National Insurance which will be cash settled.

Non-operating specific items comprise property disposal gains of £19 million (2013 £4 million) and £2 million from the sale of the Groups associate investment in G3 Worldwide Mail NV (Spring) and net pension interest

Net pension interest is non-cash and is calculated by applying the discount rate at the beginning of the year for the schemes' liabilities to the net pension surplus. Due to the substantial change in the RMPP surplus resulting from the Pensions Reform, the net pension interest was recalculated to £69 million (2013 £30 million) for the full year. The net pension interest for 2014-15 based on the discount rate for the schemes' liabilities and net pension surplus is expected to be around £75 million.

Net finance costs (excluding specific items)

The net finance costs of £67 million (2013 £99 million) comprise finance costs of £71 million (2013 £104 million), offset by finance income of £4 million (2013 £5 million). 2014-15 will see the full year benefit of refinancing our HM Government funding in 2013-14.

On 12 September 2013, the Group entered into new Syndicated bank loan facilities. On 15 October 2013, the date of the Company's admission to the London Stock Exchange, drawdowns of £600 million were made against these new facilities and used, along with £418 million of surplus cash, to repay all existing HM Government debt and accrued interest and related costs of obtaining loan finance.

The net finance costs include £47 million (2013 £82 million) of interest relating to average loans and borrowings on HM Government facilities of £973 million up to the date of the repayment of these facilities (2013 £972 million) at an average interest rate of 8.8 per cent (2013 8.4 per cent). A further £3 million (2013 £nil) was payable on the new Syndicated bank loan facilities on an average borrowing volume of £536 million since the Company's listing at an average interest rate of 1.4 per cent. The total blended interest rate on the new Syndicated bank loan facilities is estimated to be 3.5 per cent (after including the effects of interest rate hedging, commitment and arrangement fees and allowing for market expectation of rate rises over the life of the facilities). The other main elements of net finance costs comprise £10 million (2013 £13 million) finance lease interest and commitment and arrangement fees of £8 million (2013 £8 million).

The table below provides details of the new Syndicated bank loan facilities.

Syndicated bank loan facilities	Average balance since flotation 2014 £m	Average interest rate 2014 (%)	Basis of interest rate at 30 March 2014 – LIBOR plus (%)	Facility end date	Total facility £m	Drawn balance at 30 March 2014 £m	Average loan maturity date
Term Loan A	162	1.5	1.00	2018	300	300	2018
Term Loan B	300	1.4	0.90	2016	300	300	2016
Revolving loan facility C	74	1.3	0.85	2018	800	–	–
Total	536	1.4			1,400	600	

Taxation

The effective tax rate on the reported profit before taxation was 23 per cent, comprising the current tax charge of £37 million (2013 £38 million), mainly in respect of GLS, and a deferred tax charge of £349 million (2013 £284 million credit), principally in relation to the Pensions Reform. The UK current tax charge is minimal, primarily as a result of the statutory treatment of the HMRC-approved Employee Free Shares Offer as well as utilisation of some brought forward tax reliefs, including losses and capital allowances. GLS' current tax rate was 34 per cent reflecting higher European corporation tax rates on profits and losses, primarily in France, for which no deferred taxation credit has been recognised. The deferred tax charge is principally due to the effect of the Pensions Reform. The deferred tax credit in the prior year arose as a result of the recognition of a deferred tax asset in respect of carried forward tax reliefs in the UK, including losses and capital allowances.

Excluding specific items, the Group tax charge was £97 million, representing an effective tax rate of 27 per cent.

Notional earnings per share (EPS)

Notional EPS, excluding specific items, was 26.3 pence (Reported 127.7 pence). The notional EPS is calculated using the profit from continuing operations attributable to equity holders of the parent, both Reported and Excluding specific items, and assumes that the one billion ordinary shares in issue at the date of the Company's flotation had been in existence throughout the current reporting year. Going forward, EPS will be calculated using the weighted average number of shares in issue over the relevant period.

Dividends

The Board is recommending a final dividend of 13.3 pence per share, payable on 31 July 2014 to shareholders whose names appear on the register of members on 4 July 2014, subject to shareholder approval at the AGM on 24 July 2014.

Financial review (continued)

Summary free cash flow

(£m)	Reported 52 weeks 2014	Non-GAAP ³ 53 weeks 2013
EBITDA before transformation costs	942	915
Trading working capital movements	(57)	(60)
Difference between pension costs charged in operating profit and pension cash flows	58	(3)
Total investment	(617)	(665)
Other – taxation net finance costs, dividend from associate undertaking	(69)	(81)
Underlying cash flow	257	106
One-off working capital movements	140	202
Cash cost of operating specific items	(35)	(26)
Proceeds from disposal of assets and associate undertaking (non-operating specific items)	36	52
Free cash flow	398	334

Free cash flow increased to £398 million (2013 £334 million) primarily due to trading performance and reduced investment spend

See KPIs pages 18 to 19

EBITDA before transformation costs of £942 million (2013 £915 million) increased due to the improved trading performance explained above. Trading working capital movements generated an outflow of £57 million (2013 £60 million outflow) due to a number of factors including the level of VAT payments. Both years benefited from one-off working capital items. In 2013–14 there was a one-off benefit of £150 million in respect of the March 2012 pension prepayment and £20 million relating to the buy forward of stamps partially offset by a £30 million unwinding of the prior year buy forward. In 2012–13, working capital benefited from the buy forward of stamps of £87 million, an increase in the VAT creditor of £75 million due to an increase in the number of products that have become subject to the standard rate of VAT since April 2012, and the unwinding of the pension prepayment of £40 million. In 2014–15 there will be a one-off benefit to working capital of approximately £45 million due to the timing of payroll payments in respect of monthly paid staff.

Payments in respect of transformation operating expenditure of £201 million (2013 £230 million) comprised £111 million (2013 £100 million) project and property costs, £71 million (2013 £75 million) voluntary redundancy payments and £19 million (2013 £55 million) business transformation payments. Transformation capital expenditure was £83 million (2013 £177 million). Non-transformation capital expenditure was £333 million (2013 £258 million) primarily in respect of GLS Parcelforce Worldwide expansion and Mailmark™.

The level of investment in the year is the amount of cash EBITDA that needs to be re-invested back into the business to sustain its operations and enable future growth. It comprises both operating expenditure (including voluntary redundancy payments) and capital expenditure, which is currently running well ahead of depreciation. This investment is needed to transform the operations of the UK business to meet the changing mix of traffic and to drive efficiencies in people costs. Net investment totalled £581 million in 2013–14, reflecting total investment of £617 million offset by the re-investment of operating property and business disposals of £36 million.

Taxation and interest cash costs of £71 million (2013 £81 million) comprise £33 million (2013 £44 million) relating to net interest paid and £38 million (2013 £37 million) relating to current taxation payments.

Cash inflows associated with operating property and business disposals were £36 million (2013 £52 million).

Net debt

Net debt decreased by £351 million to £555 million for the year ended 30 March 2014, mainly due to cash flow generated, offset by £45 million of 2013–14 finance costs settled on early repayment of HM Government loans and the costs associated with obtaining new loan facilities. At the date of listing, all principal and interest on HM Government loans were repaid and £600 million of Syndicated bank loans were drawdown.

Property

The Group's property portfolio can be divided into two classes: surplus or soon-to-be-surplus sites with the potential for development ('development properties') and 'operational properties' used for the Group's day-to-day operations. The vast majority of the Group's properties are operational properties.

As set out in the Prospectus⁴, the Group has identified three potential development sites in London: Nine Elms, Mount Pleasant, and Paddington (the 'London Development Portfolio'). Depending on future changes to the configuration of the operational network, some other sites may have the potential to become development properties, but none would be of similar scale to the London Development Portfolio.

Additionally, each year there will be lower value disposals arising from localised changes to the network. The proceeds from these disposals will be re-invested to fund partially the modernisation of the Royal Mail Delivery Office network. With new external facilities now in place, we can seek to

³ Cash flows are the same on both a Reported and Adjusted basis. This non-GAAP presentation excludes the £820 million cash flows relating to POL on its transfer to Royal Mail Holdings plc on 1 April 2012.

⁴ Prospectus in relation to the Initial Public Offering, dated 27 September 2013.

optimise the realisable value of any development properties as they become surplus but we will adopt a flexible approach as to the manner in which this is achieved

Pensions Reform

On 26 September 2013, the Company agreed with the Royal Mail Pension Plan Trustee to implement the Pensions Reform with effect from 1 April 2014. Under this agreement members' pensionable pay will increase by RPI (up to a maximum of five per cent) regardless of whether actual basic pay increases by more or less than this amount. This change is considered to be a 'plan amendment' which meets the IAS 19 definition of a past service cost and accordingly a non-cash £1,350 million credit (specific item) has been recognised in the Group income statement.

Pension balance sheet amounts

The IAS 19 pension position at 30 March 2014 was a surplus of £1,723 million compared with a surplus of £825 million at 31 March 2013. The increased surplus reflects the impact of the Pensions Reform of £1,350 million, partially offset by the impact on liabilities of a lower discount rate. This discount rate is driven by the estimated real rate of return available on AA corporate bonds of similar duration to the schemes' liabilities (28 years).

Financial risks and related hedging

The Group is exposed to currency and commodity price risk. The Group operates hedging policies which are described in the notes to the financial statements. The exposures are set out below, together with the impact on 2014-15 operating profit as a result of the changes in fuel costs/exchange rates up to 30 March 2014, after the impact of the respective hedging programmes.

	5% increase in price/ weakening of Sterling (before hedging) £m (loss)	No further change in price/exchange rate versus 2013-14 (after hedging) £m gain
Impact on 2014-15 operating profit		
Diesel and jet fuel	(4)	1
US\$	(3)	2
Euro	(10)	-

The currency exposure arises mainly from the Group's trading with overseas postal operators. GLS profits and inter-company loans with GLS. There is a significant degree of offset between these exposures and hedge programmes in place which will reduce the impact on 2014-15 operating profit. The residual, unhedged, exposure for 2014-15 is estimated to be £5 million in respect of Euro and £30 million US Dollars.

It is anticipated that there will be a £1 million favourable impact on profits arising from the change in effective (after hedging impact) diesel costs from 50.2 pence per litre in 2013-14 to an anticipated 49.7 pence per litre in 2014-15. Without hedging, this variance would be £7 million favourable (based upon closing fuel prices at 30 March 2014).

The Group's exposure to fuel prices is shown below, together with the coverage provided by the hedges in place. The exposure represents the cost of the underlying commodity and excludes fuel duty (approximately £100 million per annum). Diesel and jet fuel costs (including duty) for 2014-15 are expected to be £185 million (2013 £196 million).

2014-15 Exposure	Underlying product incl irrecoverable VAT £m	Fuel duty £m	Total cost £m	Underlying product hedged %
Diesel	76	96	172	94
Jet	13	-	13	86
Total	89	96	185	

The Group manages its interest rate risk through a combination of fixed rate loans (fixed via interest rate swaps), fixed rate leasing, floating rate loans and floating rate financial investments. At 30 March 2014, £492 million (89 per cent) of net debt of £555 million was at a long term (i.e. more than one year) fixed rate to maturity. An increase of 100 basis points in interest rates during the year would have resulted in an increase to profit of £1 million.

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

Letters of Credit

In 2000 Royal Mail entered into a lease arrangement whereby certain automation equipment was leased and the lease rentals concurrently prepaid by Royal Mail into an investment fund. Following the general fall in credit ratings in the market, a Letter of Credit has been required to provide, on behalf of Royal Mail, additional support to the lessor in the event of default by the investment fund holder. The current value of the Letter of Credit is £37 million and it is currently not collateralised.

Financial review (continued)

As a result of changes to insurance arrangements during the year, the Group is now required to provide Letters of Credit against the economically self-insured elements of its insurance programme. As at 30 March 2014, £75 million of Letters of Credit were required and had been put in place and are not currently collateralised.

The probability of any of the Letters of Credit being called upon is considered to be remote, and therefore no disclosures have been made in relation to these Letters of Credit in the Group financial statements.

Outlook for 2014-15

We continue to expect to see overall volume growth in the UK parcel market in 2014-15, with the B2C/C2X segment growing at around 4.5 per cent to 5.5 per cent and the B2B segment growing at slightly above GDP. However, we expect that the increased competitive activity in the market will put pressure on pricing.

We continue to expect UK addressed letter market volumes to decline by four to six per cent per annum⁵. For 2014-15 we expect to be at the better end of this range. The impact of upcoming European and local elections in May 2014 and forecast improvement in GDP will more than offset the expected impact from the increased rollout of direct delivery competition in 2014-15.

GLS experienced good revenue growth in 2013-14, in part helped by competitor disruption in Italy that is not expected to be repeated in 2014-15. Therefore the rate of GLS revenue growth in 2014-15 is expected to be slightly lower than in 2013-14. The profit improvement resulting from the continued turnaround in France is expected to be offset by increased IT investment across the network.

We continue to focus on cost control. The management reorganisation programme announced in March 2014 is expected to deliver annualised cost savings of £50 million, of which approximately £25 million will be realised in 2014-15. However there is expected to be an increase in the pension charge of £70-80 million, mainly driven by the increase in the IAS 19 pension service charge rate from 20.3 per cent to 23.6 per cent as a result of market conditions. The expected increase is based on the current pensionable payroll and the final charge will be dependent on the level and mix of pensionable pay in 2014-15. In addition, 2014-15 will not benefit from the one-off VAT credit of £35 million in 2013-14. Depreciation and amortisation is expected to increase by around £20 million, reflecting continuing investment. These items will have an impact on the year-on-year movements in operating costs, particularly in the first half of the year.

Excluding the one-off VAT credit and expected increase in the pension charge, we are targeting around a 50 basis point expansion in Group operating profit margin before transformation costs for the full year.

Transformation costs are expected to be in the range of £120-140 million, largely depending on the level of voluntary redundancies.

We expect the cumulative net cash investment over 2013-14 and 2014-15 to remain at around £1.2 billion, as the reduced costs of implementing certain projects in 2013-14 will help offset the cash costs of the management reorganisation programme in 2014-15.

Matthew Lester
Chief Finance Officer
6 June 2014

⁵ Excluding election mail

Business risks

The Corporate governance section describes in detail how the Group manages its risk from the Group Board level, its respective sub-Committees and through the organisation. Further details can be found on pages 53 to 54.

The table below details the principal business risks, their current status and how the Group mitigates these risks.

Principal risk	Status	Mitigation
Changes in customer preferences		
<p>The letter and parcel markets are becoming more competitive. Customer behaviours are constantly evolving and our competitors are responding quickly to these changing demands.</p> <p>Customer behaviour and Royal Mail's responsiveness to market Changes in customer behaviour and changes to the markets in which the Group sells its products and services could result in reduced demand for the Group's products and services and impact our forecast rates of decline and growth of letter and parcel volumes respectively.</p> <p>There is a risk that our product offerings and the customer experience we provide may not adequately meet evolving customer needs or that we are unable to innovate or adapt our commercial and operational activities fast enough to respond to changes in the market.</p>	No change – as volumes are broadly consistent with expectations	<ul style="list-style-type: none"> We are piloting Sunday afternoon opening at around 100 Delivery Offices later this summer when we will also trial Sunday parcel deliveries to home addresses within the M25. Parcelforce Worldwide will also launch a Sunday delivery service in June 2014 for online shoppers. We launched Mailmark™ barcode technology for our large business mail customers. This increases our ability to track addressed letters through our network for these customers. We continue to focus on our advertising mail offering both on its own and in combination with other media to ensure sustainable revenue streams through customer retention and acquisition. We are working with the Keep Me Posted campaign to protect the rights of consumers to choose without penalty to receive communications such as bills and statements by post. We continue to focus on meeting or exceeding our Quality of Service targets and internal performance targets (such as composite parcel delivery performance). Through our continued transformation programme we are seeking to improve first time delivery rates. This includes an emphasis on consistency and standardisation of key initiatives like Delivery to Neighbour across our operations. We continue to invest in technology to improve our service. In April 2013 we introduced our tracked returns service. We have also introduced enhanced delivery information for our Special Delivery and Tracked offerings and we have introduced Local Collect, our own click and collect service in Post Offices and We have extended our network operating hours for parcels processing for some of our business customers.
<p>Economic environment Historically there has been a correlation between economic conditions in the UK and Europe and the level of letter and parcel volumes. There is a risk that flat or adverse economic conditions could impact our ability to stay profitable either by reducing letter and parcel volumes or by encouraging customers to adopt cheaper service options for sending letters and parcels.</p>	No change – the economic environment is improving in line with expectations	<ul style="list-style-type: none"> We have robust econometric models in place to provide early warnings of changes to overall volumes and the profile of letter and parcel volumes. We continually review and upgrade these models to better anticipate the impact of price rises and reflect the increasingly deregulated market and We continually review our cost base to ensure we are as efficient as possible.

Business risks (continued)

Principal risk	Status	Mitigation	
Cost management and business transformation			
Royal Mail must continuously become more efficient and flexible in order to compete effectively in the letter and parcel markets			Managing the business successfully
Cost management The success of the business strategy relies on effective control of costs and the delivery of efficiency and other benefits from our transformation programme whilst maintaining Quality of Service safety and employee engagement	<p>No change – due to effective management of non-people costs</p> <p>People costs growth mitigated by productivity improvements</p> <p>Non-people costs reduced due to tight cost control</p>	<ul style="list-style-type: none"> The initial phase of our transformation programme which included the modernisation of all of our Delivery Offices the automation of letters sorting and a revision of all delivery walks is now largely complete and We track progress and outcomes of all transformational revisions to operational practice on a weekly basis to ensure completion to time and the sharing of good practice and lessons learned Quality of Service is a fundamental consideration prior to any change 	
Employee awareness and engagement Lack of employee engagement in relation to transformation and understanding of the need for change could mean that we or CWU are unable to execute the efficiency changes enabled by the pay deal	<p>Reduced risk – due to the award of Free Shares and the new CWU agreement</p>	<ul style="list-style-type: none"> Our recent agreement with the CWU includes an Agenda for Growth to deliver change at the right pace and to ensure we are working together towards agreed goals 	
Retaining and attracting senior management Any failure by the Group to retain or attract Directors and highly skilled personnel could have a material adverse effect on its ability to manage its costs and transform the business	<p>Risk remains in place</p>	<ul style="list-style-type: none"> The Directors' remuneration report sets out the Groups overarching approach to remuneration in its policy (pages 59 to 63) The 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 There is a risk if it is not 	
IT transformation Our current IT estate requires significant investment and the IT transformation programme is complex and will take several years to complete	<p>No change – as the programme is progressing as expected</p>	<ul style="list-style-type: none"> We are actively progressing and monitoring the IT transformation programme This remains high risk due to the significant scale and complexity of change and the ongoing requirement for effective management of the transition 	
<p>Failure to improve our IT systems or successfully implement the IT transformation programme would increase the risk of security breaches and attacks a material adverse effect on the Groups operations, and the risk that the IT systems might not be able to support the business plan</p>			
Regulatory and legislative environment, including direct delivery			
The business operates in a regulated environment Changes in legal and regulatory requirements could impact our ability to meet our targets and goals			Managing the decline in letters
Direct delivery and the Universal Service In our liberalised postal market other operators are able to offer direct delivery services by cherry picking easy-to-serve urban areas without having to adhere to the same high delivery requirements and quality standards as Royal Mail	<p>Increased risk – due to unfettered rollout of direct delivery competition and Ofcom not bringing forward a review of the impact of direct delivery on the USO</p>	<ul style="list-style-type: none"> We have proposed changes to our access contracts to help secure the provision of the Universal Service Certain of these proposed changes are subject to a Competition Act investigation by Ofcom Under the terms of Royal Mail's access contracts the price changes subject to the investigation are suspended pending the outcome of that investigation and We are preparing a regulatory submission calling for Ofcom to bring forward its full review of direct delivery competition in the UK and how it will protect the Universal Service from the serious risk this presents 	
<p>The combination of mandated access unfettered rollout of direct delivery and structural decline in letters poses a serious risk to the economics of the USO in the UK</p>			

Principal risk**Status****Mitigation**

Any failure or delay by Ofcom in undertaking a review of direct delivery in the future or any failure or delay in introducing appropriate regulatory safeguards to protect the Universal Postal Service would be likely to undermine the Group's future ability to earn revenue necessary to ensure the sustainable provision of the USO

VAT exemption Mandated Network Access services provided by Royal Mail are currently exempt from Value Added Tax (VAT). This VAT exemption is currently the subject of judicial review proceedings. There is a risk that the VAT exemption on access services could be lost as a result of these proceedings, thus increasing the cost to those customers who cannot reclaim VAT. In this case, end-users that use such network access services for distribution of their letters may accelerate their adoption of e-substitution or alternative means of communicating with their customers or switch to competing third party direct delivery services.

No change – outcome of judicial review proceedings pending

- We consider that HM Revenue & Customs (HMRC) has correctly implemented VAT legislation in compliance with European law and we are continuing to support HMRC in defending the claim

Employment legislation Changes to laws and regulations relating to employment (including the interpretation and enforcement of those laws and regulations) could directly or indirectly increase the Group's labour costs, which given the size of the Group's workforce, could have an adverse effect on the Group. There is emerging European case law which may provide new guidance in relation to the interpretation of the Working Time Directive which subsequently would need to be considered by the English courts in relation to the implementation of that directive through the Working Time Regulations 1998 and UK employers' compliance with it.

Increased risk – due to evolution of case law

- We have processes and controls to ensure that we pay all of our people correctly. If the law is changed or elements relevant to the particular circumstances of Royal Mail are reinterpreted by English courts, then we will need to adapt to these as appropriate.

Managing the business successfully

Industrial relations

There is extensive trade union recognition in respect of our workforce in the UK.

Industrial action There is a risk that one or more material disagreements or disputes between the Group and its trade unions could result in widespread localised or national industrial action.

Widespread localised or national industrial action would cause material disruption to our business in the UK and would be likely to result in an immediate and potentially ongoing significant loss of revenue for the Group.

Widespread localised or national industrial action may cause Royal Mail to fail to meet the Quality of Service targets prescribed by Ofcom leading to enforcement action and fines.

Reduced risk – due to the new CWU agreement

- We have reached an agreement with the CWU on an Agenda for Growth, including a new legally binding agreement to promote industrial stability and provide employee protections. The agreement represents a joint aspiration to radically improve industrial relations and create a can-do culture in the interests of customers, employees and the Company, and
- We continue to engage with both Unite and the CWU at all levels across the business, and there is constant visibility of issues, action taken and potential risks.

Managing the business successfully

Corporate responsibility

Responsibility leader

Silver

distinction in the RobecoSAM Sustainability Yearbook, ranking us amongst global Dow Jones Sustainability Index Leaders

Top 10

in BITC's Corporate Responsibility Index – the UK's leading benchmark for corporate responsibility

Our performance

Times Top 50

Employer for Women

85 per cent

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

£50 million

donated to over 975 charities since our Payroll Giving Scheme was launched in 1989

3.5 per cent

reduction in UK carbon emissions compared with 2012-13

¹ Ipsos MORI Corporate Image Survey 2013

Royal Mail makes a major contribution to the UK's social and economic infrastructure. As the designated provider of the Universal Service, we play a vital role in connecting millions of customers, businesses, organisations and communities – including those in the most remote rural areas.

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

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

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

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

Measuring our progress

We aim to be independently rated as one of the most responsible companies in the UK Business in the Community's Corporate Responsibility Index is one good way of measuring our performance. In the 2014 Index, Royal Mail was ranked one of the top ten most responsible companies in the UK

We achieved a Silver distinction in the 2013 RobecoSAM Corporate Sustainability Yearbook, the assessment that forms the foundation of the Dow Jones Sustainability Index (DJSI). We rank amongst the top four companies globally in our industry Transportation and Transportation Infrastructure

Our customers

Being customer focused is one of our strategic objectives (see page 16). Every person and business in the UK is a potential customer. As the UK's Universal Service provider Royal Mail can deliver to more than 29 million addresses, across the UK six-days-a-week, for a uniform, affordable price

In GLS we are aiming to expand our customer base in Europe as we seek to build our presence in the growing B2C segment

We have continued to progress in 2013-14 – exceeding our regulatory Quality of Service targets for First Class and Second Class mail and achieving a six per cent reduction in customer complaints². Maintaining this performance and our customers' trust is a key strategic priority

We seek feedback from both business and consumer customers to help us to continually improve our performance. Our business customer satisfaction score and Quality of Service standards are detailed in the CEO review on page 11. As well as improved performance in these areas in our second full year of gathering consumer customer satisfaction scores, we have also seen a steady increase from 68 in 2012-13 to 70 in 2013-14

We measure our employees' views on how customer focused our products and services really are. We use our annual Employee Survey to gauge what they think about key aspects of the customer experience. This year, we achieved a customer focus score of 69 compared with 65 last year.

See KPIs pages 18 to 19

Our people

Employee engagement is one of the key drivers in our business success. Our Employee Survey helps us identify the areas where we are doing well and those we need to improve. This year, we achieved an employee engagement score of 54, up from 50 in 2012-13.

See KPIs pages 18 to 19

As noted in our KPI table on page 18 we take action to ensure we are continuously improving employee engagement by

- Keeping people informed of our business strategy and their role in delivering it. During the year we conducted almost 60 Town Hall meetings, two Group Forums (conferences for our most senior managers), and our Operations and Modernisation forum for approximately 4,000 operations managers
- Supporting managers in the creation and implementation of local action plans, based on feedback from the annual Employee Survey, and
- Updating our employees through the Royal Mail in-house newspaper 'Courier', Royal Mail TV (RMTV) and our other digital and printed communication channels. This includes regular updates on our financial results, business developments and competitor activity

GLS also undertakes targeted engagement activities. For example in GLS Belgium, the management team visits each depot at least once a year to engage with employees, while in GLS Poland, 360-degree feedback has been used to inform development plans and training requirements

In December 2013 we agreed in principle a ground-breaking new agreement on an Agenda for Growth with our main union, the CWU. It is about improving industrial relations, creating a can-do culture and a joint commitment to delivering business success

² We also provide a detailed annual disclosure on customer complaints to our regulator, which is publicly available

Corporate responsibility (continued)

The agreement includes legally-binding terms covering employee pay, protections and industrial stability as well as a programme of work to help deliver change at pace in operations. The industrial stability framework sets out a new approach to resolving workplace issues.

In February 2014, over 94 per cent of CWU members voted in favour of the proposed Agenda for Growth. 57 per cent of eligible members voted in the ballot.

Training and career development

Ensuring our people have the skills they need to do the job is also fundamental to the success of the business.

We make a significant investment in our learning and development programmes. In 2013-14, almost 50,000 colleagues attended instructor-led training in the UK, with 90,000 colleagues attending web-based training sessions. Topics covered include improving the customer experience, safety, compliance and management and leadership.

Examples from across GLS include the GLS Italy Academy, where tailored training curricula were developed in 2013-14 for different functions and responsibilities. GLS Germany offers a three-year bachelor degree programme in logistics or information management.

Promoting diversity

Royal Mail employs a diverse mix of people who reflect the communities in which we work, and the customers we serve. We are committed to being an equal opportunities employer and we proactively seek to recruit people from socially excluded groups. It is our

policy to provide opportunities for our employees based on an individual's performance and skills, with no discrimination against protected characteristics³.

We are a signatory to the Government's Think, Act, Report initiative. We work with Business in the Community's (BITC) Opportunity Now and Race for Opportunity programmes, which promote best practice in equal opportunities.

In late 2013, we established a Diversity Council to progress and monitor our diversity performance. Chaired by the Company Secretary, it includes the Chief Operating Officer, Group HR Director, frontline employees and representatives from the CWU and Unite. The Council met for the first time in March 2014. Its progress will be regularly reviewed by the Chief Executive's Committee.

Our existing Gender Diversity Steering Group will continue to support our gender strategy. It will report to the Diversity Council. Since its inception in 2010, the Steering Group has developed policies and initiatives to attract new talent and support female colleagues' career progression. Through this work, we have achieved external recognition.

In 2013, we were named as one of BITC's Top 10 Private Sector Organisations for Gender in the UK. We also achieved a place in the Times Top 50 Employers for Women in 2014.

At our Board and senior management grades, we have relatively high gender diversity (see table below). At Board level, 36 per cent of members are female⁴. On average, FTSE 100

companies have 17.3 per cent female representation on their boards⁵.

At senior management level, 26 per cent of employees are female, compared to 15 per cent in operational functions. We are committed to improving the gender balance across all areas of the business.

Royal Mail's ethnic profile is representative of the UK workforce⁶. Around ten per cent of our employees declare themselves to be from ethnic minority backgrounds. However, we recognise we need to improve representation of ethnic minorities amongst our management population. Our newly-established Diversity Council will seek to address this.

As a Disability 'Two Ticks' employer, Royal Mail welcomes job applications from candidates with a disability or health condition. We have reviewed our recruitment processes to ensure a fair approach for people with disabilities and we interview all disabled applicants who meet the minimum criteria for a role. Additionally, the case study on page 37 provides insight into our partnership with disability charity Remploy.

We make reasonable adjustments to the workplace to support employees who become disabled. We also provide training as required, for example in assistive technology and software.

We introduced deaf awareness training workshops for hearing impaired employees, their colleagues and managers. We also focus on ensuring those with disabilities are not discriminated against through the provision of

Gender distribution (number of people)	UKPIL ⁷		GLS	
	Female	Male	Female	Male
Royal Mail plc Board ⁴	4	7		
Senior Management	694	1,789	36	243
Management	1,715	6,950	2,739	2,354
Administrative	1,700	1,341		
Operational	19,011	115,274	1,924	6,515

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

⁴ Jan Babiak resigned from the Board with immediate effect on 29 April 2014. This statistic is inclusive of her being a Director during the year ended 30 March 2014.

⁵ The Female FTSE Board Report 2013, Cranfield University School of Management.

⁶ Labour market status by ethnic group, ONS, January 2014.

⁷ Includes Heritage Trustees not included in the people numbers on page 96. Total difference of 44 people.

anti-discrimination workshops. Approximately six per cent of our employees have a disability⁸

Safety

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

We continue to make progress driving down accident rates. We achieved a Lost Time Accident Frequency Rate⁹ of 0.77 in 2013-14 (compared with 1.17 in 2012-13).

See KPIs pages 18 to 19

We strive to improve our safety performance in everything we do. It is with great regret that we report four people died in connection with our activities in the UK in the past year. All fatalities were associated with road traffic accidents with our vehicles. We liaise closely with the relevant authorities and undertake our own detailed investigations to establish the root cause of each accident and, where possible, to determine what lessons can be learned. Findings are discussed at Board level and communicated across the Group.

We continue to take actions to improve safety. We have appointed a Head of Health and Safety at Parcelforce Worldwide to develop a safety leadership culture. We also ran our annual Road Safety Week campaign in November 2013, raising safety awareness through videos, posters, RMTV and managers briefings. Topics ranged from seatbelts and stationary objects to driver distractions and winter driving.

Our communities

Our economic impact, as a major employer and purchaser of goods and services, is significant. The Centre for Economics and Business Research Ltd (Cebr), commissioned by Royal Mail, has carried out a complete economic impact assessment of UKPIL. Cebr found that we made the seventh largest contribution to the UK economy of all UK

corporations. For the 2013-14 financial year, our impact totalled £10.5 billion in terms of value added, made up of direct and indirect contributions to the wider UK economy. This includes our contribution through employment, procurement and taxation. Our approach to tax is published on page 36.

Cebr research commissioned in 2013 also found that we make a significant contribution to social inclusion through the employment and earnings we bring to some of the UK's poorer regions. We offer jobs where there are generally fewer job opportunities. On average across the UK, one in every 200 employees works for Royal Mail.

Supporting good causes

In 2013-14, Royal Mail contributed £9.8 million¹⁰ directly to charities, good causes and schemes for disadvantaged groups. We also supported £3.3 million of colleague fundraising for charities and good causes across the UK.

In early 2014, we celebrated reaching 25 years and £50 million in charitable donations through our payroll giving scheme. The generosity of our people has been recognised by two National Payroll Giving Excellence Awards and a Platinum Payroll Giving Quality Mark Award.

We also met our target to raise £2 million for our Charity of the Year, Prostate Cancer UK. Royal Mail matched money raised by colleagues, penny-for-penny. This will fund at least 34 specialist prostate cancer nurses

in areas of need across the UK. During the year, Royal Mail also provided £136,000 in matched giving and grants schemes to support employees' fundraising for all other charities and good causes.

GLS uses its services to support areas of need across Europe. This has included delivering organic breakfast boxes to pupils in Frankfurt, collecting Christmas presents for refugee children in Austria, and collecting and delivering aid supplies in Sassari, Italy following the devastation of Cyclone Cleopatra in November 2013.

Our suppliers

In the UK we contribute around £2.5 billion annually procuring goods and services from over 6,300 suppliers.

We are committed to ensuring that our suppliers maintain high standards of social, ethical and environmental conduct. We expect suppliers to adhere to our Responsible Procurement Code of Conduct. Our Code is based on the UN Global Compact's ten principles around good human rights, labour and environmental practice, and anti-corruption. In addition, we encourage them to set objectives to improve their performance in social, environmental and ethical issues. In 2013, we became the first company globally to be awarded the Chartered Institute of Purchasing & Supply's platinum standard for procurement and supply chain management.

⁸ Percentage of employees identifying themselves as having a disability in the 2014 Employee Survey.

⁹ The number of UKPIL employee work-related accidents resulting in an absence on a subsequent day or shift per 100,000 hours worked.

¹⁰ Includes our mandated commitments to Artucles for the Blind and BPMA totalling £6.1 million.

Corporate responsibility (continued)

Our Taxation Principles

Royal Mail makes a significant tax contribution to public finances and we take a fair and reasonable approach to tax

- Royal Mail's head office is in the UK and our parent Company is and will remain a UK tax resident company
- Royal Mail will comply with applicable tax rules, regulations and disclosure requirements in all territories in which we operate. We will not engage in abusive tax arrangements
- Royal Mail will, where it is responsible and appropriate to do so, take steps to reduce our tax liabilities within the laws of the countries in which Group companies operate. We will claim properly available allowances, deductions, reliefs, incentives, exemptions and credits where it is beneficial to do so

Our environment

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

During the year, the Chief Executive's Committee reviewed our environment strategy. We reconfirmed our targets for carbon emissions and waste. We also reconfirmed our main environmental focus areas: namely climate, waste, water, biodiversity and customers and suppliers.

We published a new group-wide Environment Policy to strengthen our approach. Our Policy Statement adjacent sets out our approach to environmental issues in our operations. A full version of the Policy can be accessed online at www.royalmailgroup.com/responsibility/policies. The table below sets out our Group Scope 1 and Scope 2 carbon dioxide equivalent (CO₂e) emissions for 2013-14.

Our target is to achieve a 20 per cent reduction in our UKPIL emissions (including Scopes 1, 2 and 3) by 2020-21 compared to a 2004-05 baseline. We achieved a 3.5 per cent reduction in our UK carbon footprint in 2013-14, generating around 705,200 tonnes compared with 730,800 tonnes in 2012-13¹². We are on track to achieve our long-term target.

We diverted 71 per cent of waste from landfill last year, achieving our 2014-15 target of 70 per cent one year ahead of schedule. We did this by raising awareness amongst our employees of the importance of separating waste and by making recycling easy. We also recorded a reduction of 6.5 per cent in our use of water during the year. We have completed water footprint assessments at our top 50 water consuming sites and will use the resulting recommendations to further develop our strategy and drive efficiencies.

In GLS, environmental management and performance is driven through the *ThinkGreen* initiative – an overview is provided in the case study on page 37.

Our Environment Policy Statement

We commit to

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

2013-14 CO ₂ e Emissions by Scope ('000 tonnes) ^{11,13}	Total	UKPIL	GLS
Scope 1	473.1	457.6	15.5
Scope 2	149.7	132.6	17.1
TOTAL	622.8	590.2	32.6
Tonnes CO₂e per £1 million revenue	65.9		

¹¹ Carbon dioxide equivalent emissions (CO₂e) have been calculated in accordance with the UK Government's Environmental Reporting Guidance (2013 version). Data has been consolidated according to the financial control approach. We have reported all material Scope 1 and Scope 2 emissions for which we consider ourselves responsible and exclude immaterial sources such as fugitive emissions from air conditioning in owned vehicles.

¹² CO₂e emissions for 2012-13 have been restated from 746,500 tonnes in accordance with revised Defra emission factors.

¹³ CO₂e emissions have been assured by EY.

Case study Remploi and the First Shot programme

We have been a national partner of disability charity Remploi since 2008, working together to provide jobs and placements for people with disabilities. During 2013-14, around 300 people with disabilities started working at Royal Mail as a result of this partnership. We are pleased to report that in April 2014, just after year end, we reached a significant milestone. Royal Mail has now provided employment to 2,000 people through the partnership. We are one of only three organisations to have supported this number of Remploi people into work.

Our Group HR Director is on the Board of Trustees of the Business Disability Forum. Through this we became aware of and took the opportunity to extend our Remploi partnership by committing to support at least 40 people made redundant by the closure of Remploi factories across the country. We have developed a programme of placements, providing participants with the opportunity to learn new skills in order to support them into new roles. By the end of April 2014 more than 40 people had applied to be a part of the scheme.

Human rights

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

This Strategic report was approved by the Board on 6 June 2014.

Emily Pang
Company Secretary

Case study GLS *THINKGREEN*

In 2008 GLS launched its *ThinkGreen* environmental initiative to coordinate and actively promote environmental activities. The programme has three key aims: to use resources responsibly, reduce emissions, and optimise waste management. Key initiatives to help GLS achieve these objectives include modernising the fleet and buildings, optimising transport planning and implementing local green measures. Initiatives range from tree planting in Hungary to a carbon neutral shipping service in Germany.

A network of 25 environmental representatives helps integrate the *ThinkGreen* vision and promote best practice across the Company. They have supported the implementation of the ISO14001 environmental management system (EMS) across 17 countries.

ThinkGreen is also the driving force behind the rollout of GLS eco-depots. Constructed using recyclable materials and making use of heat pumps, rainwater harvesting and photovoltaic cells, the eco-depots have reduced energy and water consumption, meaning a reduced environmental impact as well as reduced business costs. GLS opened three new eco-depots during 2013-14, at Habay and Nivelles in Belgium and Steinabruckl in Austria. This brings the total number of eco-depots in GLS to 15.

Our Board of Directors

Donald Brydon, CBE
Chairman

Moya Greene
Chief Executive Officer

Orna Ni-Chionna
Senior Independent
Non-Executive Director

Matthew Lester
Chief Finance Officer

Mark Higson
Managing Director,
Operations and Modernisation

John Allan
Non-Executive Director

Jan Babiak*
Non-Executive Director

Nick Horler
Non-Executive Director

Cath Keers
Non-Executive Director

Paul Murray
Non-Executive Director

Les Owen
Non-Executive Director

Details of membership of the
various Board committees
can be found in the Corporate
governance section

Jan Babiak resigned from the Board with immediate effect on 29 April 2014. The above statistical analysis is inclusive of her being a Director during the year ended 30 March 2014.

Donald Brydon, CBE Chairman, age 69

Appointed to the Board¹ 6 September 2013

Skills and experience Donald had a 20-year career with Barclays Group, during which time he was Chairman and Chief Executive of BZW Investment Management and acting Chief Executive of BZW, followed by 15 years with the AXA Group including holding the posts of Chairman and Chief Executive of AXA Investment Managers and Chairman of AXA Framlington. He has since chaired several FTSE 100 companies in addition to his experience of a wide range of domestic and international industries.

External appointments (current and former) Currently Chairman of The Sage Group plc. He is Chair of the Medical Research Council and Patron of the British Postal Museum and Archive and was previously Chairman of Smiths Group (retired November 2013), the London Metal Exchange, Amersham plc, Taylor Nelson Sofres plc, the IFS School of Finance and EveryChild, an international children's charity. He is a former Director of Allied Domecq plc, Scottish Power plc and AXA UK plc.

Committee membership Chairman of the Nomination Committee and a member of the Remuneration Committee.

Matthew Lester Chief Finance Officer, age 50

Appointed to the Board¹ 6 September 2013

Skills and experience Matthew was previously Group Finance Director of ICAP plc for five years and has held a number of senior finance roles at Diageo plc including Group Financial Controller and Group Treasurer.

External appointments (current and former) Matthew is a Non-Executive Director of Man Group plc and a main committee member of the 100 Group of Finance Directors where he is Chairman of its Investor Relations and Markets Committee.

Committee membership Member of the CEC and the Pensions Committee.

Moya Greene Chief Executive Officer, age 60

Appointed to the Board¹ 6 September 2013

Skills and experience Moya started her career in public service in 1979 and held various posts in a variety of departments, culminating in the position of Assistant Deputy Minister for Transport Canada. Her experience in the financial sector includes Managing Director Infrastructure Finance, at TD Securities Inc., and Senior Vice President, and Chief Administration Officer, Retail Products at Canadian Imperial Bank of Commerce. Her operating experience includes Senior Vice President for operational effectiveness at Bombardier. Moya became President and Chief Executive Officer of Canada Post Corporation in 2005. She has been Chief Executive Officer of Royal Mail since 2010.

External appointments (current and former) Currently Director of Tim Hortons in Canada. Member of both Audit Committee and Human Resources and Compensation Committees at Tim Hortons Inc. Chairman of the Remuneration Committee at Purolator Inc. Formerly she was Vice-Chairman of Purolator Courier Ltd, a Canadian express parcel company.

Committee membership Chair of the Chief Executive's Committee (CEC).

Mark Higson Managing Director, Operations and Modernisation, age 58

Appointed to the Board 20 September 2013. Mark will resign from the Board following the 2014 Annual General Meeting.

Skills and experience Mark was previously Divisional Chief Executive and Group Operations Director of BPB plc. He has also held senior positions at Courtaulds plc, HJ Heinz and British Aerospace.

External appointments (current and former) Currently President of the World Class Manufacturing Association (WCMA) and a member of the IPA Advisory Council.

Committee membership Member of the CEC.

Orna Ni-Chionna Non-Executive Director, age 58

Appointed to the Board 20 September 2013

Skills and experience Orna is a former Partner at McKinsey & Company, where she specialised in serving retail and consumer clients.

External appointments (current and former) Currently Chair of the Advisory Board at Eden McCallum LLP, a Non-Executive Director of Saga Plc and a Trustee of the National Trust. Formerly Senior Independent Director of HMV plc, Northern Foods plc and BUPA, and a Non-Executive Director of Bank of Ireland UK Holdings plc and Bristol & West plc.

Committee membership Chair of the Remuneration Committee, member of the Audit & Risk Committee and the Nomination Committee.

John Allan Non-Executive Director, age 65

Appointed to the Board 20 September 2013

Skills and experience John is currently Chairman of Dixons Retail plc and Ship Midco Limited (trading as WorldPay Limited). He is to become a Non-Executive Director and Chairman designate of Barratt Developments plc from 1 August 2014 and will become Chairman following Barratt Developments plc's AGM on 12 November 2014.

External appointments (current and former) John is Chairman of the Board of Trustees of the DHL UK Foundation and a senior adviser to Alix Partners. He is a former senior executive and corporate board member of Deutsche Post World Net. Previously amongst other senior executive roles, John was a CFO and corporate board member of Deutsche Post DHL. He was CEO of Exel plc, a supply chain logistics company. John was also previously Chairman of Care UK Health & Social Care Holdings Limited and a Non-Executive Director of the Home Office Supervisory Board. He has also been a Non-Executive Director at PHS Group plc, ISS A/S, National Grid plc, Wolseley plc, Hamleys plc, 3i plc and Connell plc. His early career was with Lever Brothers, Bristol-Myers Company Ltd and Fine Fare Ltd.

Committee membership Member of the Audit & Risk Committee.

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

Our Board of Directors (continued)

Jan Babiak Non-Executive Director, age 56

Appointed to the Board 20 September 2013 Jan resigned from the Board with immediate effect on 29 April 2014

Skills and experience Jan previously held managing partner and executive board level roles at EY

External appointments (current and former) Currently on the Board of Walgreens and is Chair of its Audit Committee and a member of its Finance Committee She is also a Board member of the Bank of Montreal a member of its Audit and Conduct Review Committee and of the Risk Committee She has also been an independent board member and Audit Committee Chair for Logica plc In addition Jan is a Council Member on the governing body of the Institute of Chartered Accountants in England and Wales

Committee membership Member of the Nomination Committee, the Pensions Committee and the Remuneration Committee

Paul Murray Non-Executive Director, age 52

Appointed to the Board 20 September 2013

Skills and experience Paul has been Chairman of the Audit & Risk Committee since August 2009 and is Audit Committee Chairman at Qinetiq plc He was Group Finance Director of Carlton Communications plc and of LASMO plc

External appointments (current and former) Currently Non-Executive Director of Independent Oil and Gas plc Naked Energy Ltd, Qinetiq Group plc and Ventive Ltd In addition Paul is a Treasurer of Pilotlight Formerly Senior Independent Director of Taylor Nelson Sofres plc and Non-Executive Director of Thomson SA and of Tangent Communications plc

Committee membership Chairman of the Audit & Risk Committee, member of the Pensions Committee and the Remuneration Committee

Nick Horler Non-Executive Director, age 55

Appointed to the Board 20 September 2013

Skills and experience Nick was previously Chief Executive Officer of Scottish Power and has held senior strategic roles in major companies both in the UK and abroad, including being Managing Director Retail and Board member of E.ON UK plc and MD Powergen Energy Trading Limited

External appointments (current and former) Currently a Non-Executive Director of The Go-Ahead Group plc (member of Audit, Remuneration and Nomination Committees) and a Non-Executive Director of Thames Water Utilities Limited Nick is also Chairman of Alderney Renewable Energy Ltd and Chairman of Meter Provida Ltd

Committee membership Member of the Audit & Risk Committee and the Nomination Committee

Cath Keers Non-Executive Director, age 49

Appointed to the Board 20 September 2013

Skills and experience Cath was previously Customer Director and Marketing Director of O2 UK and has held various marketing, strategy and business development roles at Next Sky TV, Avon and Thorn EMI

External appointments (current and former) Currently a Non-Executive Director of Telefónica Europe, Home Retail Group plc and the insurance group Liverpool Victoria Friendly Society Limited (LV=) Cath has chaired the Remuneration and Nomination Committee at LV= since May 2011 and has chaired the Remuneration Committee at Home Retail Group since July 2012

Committee membership Member of the Audit & Risk Committee and the Nomination Committee

Les Owen Non-Executive Director, age 65

Appointed to the Board 20 September 2013

Skills and experience Les is a qualified actuary with 35 years' experience in the financial services industry From 2000 to 2006, he was the Group Chief Executive Officer of AXA Asia Pacific Holdings Limited He was also CEO of AXA Sun Life plc, a member of the Global AXA Group Executive Board and responsible for AXAs Asian Life Insurance and Wealth Management operations

External appointments (current and former) Currently Non-Executive Chairman of Jelf Group plc and Non-Executive Director of Computershare CPP Group plc, Just Retirement Group plc and of Discovery Holdings, a South African listed health and life insurer He was previously a Non-Executive Director of Post Office Limited

Committee membership Chairman of the Pensions Committee member of the Audit & Risk Committee and the Remuneration Committee

Directors who left during the year

During the year no Directors have left the Royal Mail plc Board or the Royal Mail Group Limited Board (except those Directors appointed to the Royal Mail plc Board on 20 September 2013 who left the Royal Mail Group Limited Board on the same day)

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

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

Director	Royal Mail Holdings plc	Royal Mail Group Limited
Donald Brydon CBE	27 January 2009 ¹	1 April 2012
Moya Greene	15 July 2010	1 April 2012
Orna Ni-Chionna	1 June 2010 ²	1 April 2012
Matthew Lester	24 November 2010	1 April 2012
Mark Higson	5 November 2007	1 April 2012
John Allan	-	14 January 2013
Jan Babiak	-	1 March 2013
Nick Horler	1 April 2010	1 April 2012
Cath Keers	1 June 2010	1 April 2012
Paul Murray	1 August 2009	1 April 2012
Les Owen	27 January 2010	1 April 2012

¹ Appointed Chairman on 26 March 2009

² Appointed Senior Independent Director on 1 April 2011

Chief Executive's Committee

Moya Greene
Chief Executive Officer

Stephen Agar
Managing Director,
Consumer and Network Access

Rico Back
GLS, Chief Executive Officer

Catherine Doran
Chief Information Officer

Neil Harnby
General Counsel

Mark Higson
Managing Director
Operations and Modernisation

Matthew Lester
Chief Finance Officer

Jon Millidge
Group HR Director

Mike Newnham
Chief Customer Officer

Shane O'Riordan
Managing Director
Communications, Strategy
Regulation and Pricing

Emily Pang
Company Secretary

Stuart Simpson
Deputy Chief Operations Officer

Sue Whalley
Chief Operations Officer

Chief Executive's Committee (continued)

The Group has a focused and committed management team which has driven the return of the Group to profitability and the successful implementation of the transformation programme. Working closely with key stakeholders including HM Government, Ofcom, trade unions and colleagues, the management team has successfully addressed a number of significant challenges faced by the Group, including enabling the Company to gain access to external capital.

Moya Greene Chief Executive Officer

See 'Our Board of Directors' on page 39.

Stephen Agar Managing Director, Consumer and Network Access

Current role Stephen was appointed Managing Director, Consumer & Network Access, commencing October 2011. As such, Stephen is responsible for the regulated letters business (both USO and Access).

Previous work history Stephen is a barrister who started his career in the Government Legal Service before moving to Racal Electronics plc. He joined Royal Mail in 1991 and previous roles with Royal Mail include Business Strategy Director, Regulatory Affairs Director and MD, Royal Mail Wholesale.

Rico Back Chief Executive Officer, GLS

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

Previous work history Rico was founding manager of German Parcel in 1989, which was acquired by the Group in 1999. He is a member of the CEC and a member of the Supervisory Board of Raben Group, a haulage contractor.

Catherine Doran Chief Information Officer

Current role Catherine joined Royal Mail in September 2011 as Chief Information Officer.

She is a Non-Executive Director for Defra and BQF. She is also a member of the CIO Board for e-skills UK.

Previous work history Catherine joined Royal Mail from Network Rail, where she led the company-wide transformation programme, aimed at achieving multi-billion pound savings through technology and process changes. Throughout her career, she has held progressively responsible IT leadership roles in a number of blue chip companies – BT, NatWest, Capital One, Logica and Altergo.

Neil Harnby General Counsel

Current role Neil was appointed General Counsel in January 2012.

Previous work history Previously, Neil was General Counsel for the European and Middle Eastern Division of GE Capital, the financial services unit of the General Electric Company. Before joining GE, Neil was a Partner at Linklaters LLP. Neil has a BA Honours degree in History and is a qualified solicitor. After leaving university, Neil spent five years as a commissioned officer in the British army.

Mark Higson Managing Director, Operations and Modernisation

See 'Our Board of Directors' on page 39.

Matthew Lester Chief Finance Officer

See 'Our Board of Directors' on page 39.

Jon Millidge Group HR Director

Current role Jon was appointed Group HR Director in February 2014. He is also Chairman of National Design Consultancy Ltd and a Pension Scheme Trustee of the Royal Mail Defined Contribution Plan.

Previous work history Jon joined Royal Mail in 1985 as a graduate and has worked across all of the businesses of the Group, notably as HR Director in Royal Mail Letters (2003 – 2004), Parcelforce Worldwide (2000 – 2003) and Subscription Services (1997 – 1998) and as General Manager in the Post Office (1999 – 2000). He was previously Company Secretary from May 2010 to February 2014 and prior to that was the Acting Group HR Director. Jon is a fellow of the Chartered Institute of Management Accountants and of The Chartered Institute of Personnel Development.

Mike Newnham Chief Customer Officer

Current role Mike was appointed Chief Customer Officer in March 2012.

Previous work history Previously, Mike led the Consumer division of Orange in the UK for two years. Prior to that, Mike held a number of executive board positions at Orange, including running the Consumer Sales and Service operations and leading Orange's B2B business. Mike joined Orange as the UK CFO. Before joining Orange, Mike was a director at PricewaterhouseCoopers in the Telecoms Media and Technology practice. Mike has a BA Honours degree in Management Science and is a qualified Chartered Accountant.

Shane O'Riordain Managing Director, Communications Strategy Regulation and Pricing

Current role Shane was appointed Managing Director, Communications in November 2010 joining from Lloyds Banking Group. He has subsequently assumed responsibility for Strategy Regulation and Pricing.

Previous work history Shane was previously Group Corporate Affairs Director at a number of FTSE 10 companies (Lloyds Banking Group and HBOS), as well as at Halifax and Flemings. In these roles, his responsibilities spanned customer, business-to-business and City PR issues management, internal communications sponsorship, community investment, and government relations at both UK and EU levels. Previously, Shane was a diplomat in the Irish Diplomatic Service, with postings in Dublin, Belfast and Washington DC. Shane has a degree in Public Administration, Masters degrees in Business Administration and Organisational Behaviour and is an Associate of the Chartered Insurance Institute.

Stuart Simpson Deputy Chief Operations Officer

Current role Stuart was appointed Deputy Chief Operating Officer in January 2014. Prior to this, he was running Operations for the West Region of the UK and was the Finance Director for UK Operations.

Previous work history Before joining the Royal Mail in 2009, Stuart worked in the automotive industry for 15 years with senior roles in Finance and Strategy, the last ten of which were based outside the UK. Roles included the FD of SAAB AB and latterly the FD for General Motors Global Family Car Division. Stuart qualified as a Chartered Accountant with Arthur Andersen.

Emily Pang Company Secretary

Current role Emily was appointed as Company Secretary in February 2014, in addition to her current responsibilities. She joined the Group as Chief of Staff for Royal Mail Group in April 2011.

Previous work history Prior to joining Royal Mail, Emily was at Canada Post where she was Executive Chief of Staff, Office of the President and CEO and the interim Lead Executive for Human Resources. Prior to that she worked at CIBC, a major Canadian bank. Her experience there spanned Executive Director Business Management in the wholesale business, Senior Director Investor and Financial Communications, Communications and Public Affairs, as well as positions in Finance and Taxation. Emily is a Chartered Accountant and holds a Bachelor of Commerce and an Executive MBA from the joint York University/Northwestern University Kellogg-Schulich Program.

Sue Whalley Chief Operations Officer

Current role Sue joined Royal Mail in 2006 and was appointed Chief Operations Officer in January 2014. She is responsible for leading the next phase of the transformation in Operations, with specific focus on further development of culture, safety, quality and efficiency.

Previous work history Before joining Royal Mail in September 2006, Sue worked at McKinsey and Company for 17 years, the last six of which were as a partner in their London office. She was also co-leader of McKinsey's European Marketing and retail practices. She has an MA from Cambridge University and an MBA from Harvard Business School.

Directors' report

The Directors present their report together with audited financial statements for the year ended 30 March 2014

Strategic report

To enable the assessment of how the Directors have performed their duty to promote the success of the Company, the Companies Act 2006 requires the Directors to set out in this report a fair review of the business of the Group during the year, the position of the Group at the end of the year and a description of the principal risks and uncertainties facing the Group

Information fulfilling these requirements can be found in the following sections of the Strategic report and are incorporated by reference

Index	Page
Business model	14-15
Strategy for delivering objectives	16-17
Results	04-05
Financial assets and liabilities	104-106
Business risks	29-31
Corporate responsibility	32-37
Greenhouse gas emissions	36
Disabled employees	34
Our people	33-35
Going concern	78

Disclosure and Transparency Rules

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

Corporate governance statement

The Disclosure and Transparency Rules require certain information to be included in a corporate governance statement in the Directors' report. Information that fulfils the requirements of the corporate governance statement can be found in the Corporate Governance report on pages 47 to 57 and is incorporated into this Directors' report by reference

Disclaimer

The purpose of this Annual Report and Financial Statements is to provide information to the members of the Company. The Annual Report and Financial Statements have been prepared for and only for the members of the Company as a body, and no other persons. The Company, its Directors and employees,

agents or advisers do not accept or assume responsibility to any other person to whom this document is shown or into whose hands it may come and any such responsibility or liability is expressly disclaimed

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

Dividends

The Directors recommend a final dividend of 13.3 pence per Ordinary Share, payable on 31 July 2014 to shareholders whose names appear on the register of members on 4 July 2014. This will amount to the total dividend for the year.

Political donations

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

Future developments

Possible future developments are described in Our strategy on pages 16 to 17 and Business risks on pages 29 to 31 of the Strategic report

Share capital

As at 30 March 2014, the Company's issued share capital comprised 1 000 000 000 Ordinary Shares of one penny each, as set out in note 27 to the accounts on page 116

Rights and obligations attaching to shares

Voting

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

- On a show of hands, every member present in person has one vote and every proxy present who has been duly appointed by one or more members will have one vote except that a proxy has one vote for and one vote against if the proxy has been duly appointed by more than one member and the proxy has been instructed by one or more members to vote for and by one or more other members to vote against

For this purpose the Articles provide that, where a proxy is given discretion as to how to vote on a show of hands, this will be treated as an instruction by the relevant member to vote in the way that the proxy decides to exercise that discretion, and

- On a poll, every member has one vote per share held by him, her or it and he, she or it may vote in person or by one or more proxies. Where he, she or it appoints more than one proxy, the proxies appointed by him, her or it taken together shall not have more extensive voting rights than the member could exercise in person

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

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

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

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

Deadline for voting rights

Full details of the deadlines for exercising voting rights in respect of the resolutions to be considered at the Annual General Meeting to be held on 24 July 2014 will be set out in the Notice of Annual General Meeting (AGM)

Special rights

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

Dividends and distribution

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

Dividend waivers

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

Transfer of shares

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

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

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

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

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

Authority of the Directors to allot shares

By resolutions passed by the selling shareholder on 25 September 2013 in preparation for the

Initial Public Offering (the IPO), the Board was authorised subject to certain limitations to allot shares in the Company and to grant rights to subscribe for or to convert any security into shares i) up to an aggregate nominal amount of £3 333,333 (less the amount of any allotment made under ii) below) and ii) up to an aggregate nominal amount of £6 666 666 in connection with an offer by way of a rights issue (less the amount of any allotments made under i) above). Such authorities apply until the end of the first Annual General Meeting of the Company or the close of business on 31 December 2014 if earlier (the 'Expiry Date'). The Directors will be seeking a new authority for the Directors to allot shares and to grant subscription and conversion rights to ensure that the Directors continue to have the flexibility to act in the best interests of shareholders when opportunities arise by issuing new shares or granting such rights. There are no current plans to issue new shares except in connection with employee share plans. The Board was also given authority to allot equity securities for cash or to sell Ordinary Shares as treasury shares for cash subject to certain limitations such authority to apply until the Expiry Date.

Purchase of own shares by the Company

By a resolution passed by the selling shareholder on 25 September 2013 the Board was authorised to purchase up to a maximum number of 100,000,000 of its Ordinary Shares pursuant to certain limitations, such power to apply until the Expiry Date. The Company did not repurchase any of its Ordinary Shares during the year ended 30 March 2014.

The Directors require express authorisation from shareholders to purchase our own shares. Accordingly, at the 2014 AGM, the Directors will seek authority to make market purchases of up to a maximum of ten per cent of issued share capital. At the present time the Group has no plans to exercise this authority.

Treasury Shares and Employee Benefit Trust

As at 30 March 2014 the Company did not hold shares in Treasury and there has been no change to the number of shares held in Treasury during the period under review. In addition, the Company does not have an Employee Benefit Trust in place.

Substantial shareholdings

As at 30 March 2014 the Company had been notified in accordance with the Disclosure and Transparency Rules, of the following interests in the Company's Ordinary Share Capital.

Shareholder	Number of shares	% of voting rights
Postal Services Holding Company	299,840,000	29.98%
Equiniti Share Plan Trustees Limited	84,437,195	8.44%
GIC Private Limited	41,022,465	4.10%

The position has not changed as of 30 May 2014.

Amendment to the Company's Articles of Association

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

Indemnity of Directors

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

Appointment and replacement of Directors

Unless otherwise determined by ordinary resolution of the Company the Directors shall be no fewer than two and no more than 15 in number. As the UK Government was the Company's sole shareholder prior to privatisation the Secretary of State for Business, Innovation and Skills appointed the Chairman. All other Directors were appointed by the Company with the Secretary of State's consent.

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

There is also an agreement in place with Postal Services Holding Company Limited (PSH) which grants PSH the right to nominate one Non-Executive Director for appointment to the Board for so long as PSH (together with its associates) is entitled to exercise or to control the exercise of ten per cent or more

Directors' report (continued)

of the voting rights exercisable at a general meeting of the Company

In accordance with the Code all Directors of the Company with the exception of Mark Higson are subject to election at this year's AGM and will be subject to annual re-election going forward. Mark Higson will resign from the Board following this year's AGM.

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

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

Directors and their interests

The Directors of the Company during the year are given on pages 38 to 40. Details of the interest of the Directors and where applicable their Connected Persons in the Ordinary Shares of the Company and of Long Term Incentive Plan Awards over Ordinary Shares of the Company are set out in the Directors' remuneration report on pages 58 to 69.

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

Powers of the Directors

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

Financial risk management

The Group's financial risk management objectives and policies and the main risks arising from the Group's financial assets and liabilities are summarised in note 14 to the accounts on page 99. See the financial risks and related hedging contained on page 27 of the Financial review in the Strategic report.

Change of control

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

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

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

The agreement with Capgemini UK plc covers services for the Group's e-Business web platform and allows the Group to terminate the agreement on change of control of Capgemini.

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

The New Facilities Agreement with various financial institutions provides the Group with two term loan facilities and a revolving credit facility for general corporate and working capital purposes and repayment of previous debt. The agreement contains provision on a change of control of the Group for negotiation of the continuation of the agreement or cancellation by a lender.

Branches

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

Going concern

These consolidated financial statements have been prepared on a going concern basis. The financial performance and position of the Group, its cash flows and its approach to capital management are set out in the Financial review on pages 23 to 28. The Board has reviewed the Group's projections for the next 12 months and the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for at least 12 months.

Audit information

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

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

By Order of the Board



Emily Pang
Company Secretary
6 June 2014

Royal Mail plc
100 Victoria Embankment
London
EC4Y 0HQ
Company number 08680755

Corporate Governance report

Good corporate governance involves ensuring that an effective internal framework of systems and controls is put in place which clearly defines authority and accountability and promotes success whilst permitting the management of risk to appropriate levels.

Donald Brydon, CBE
Chairman

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Directors' remuneration report	58

Chairman's introduction

The following statement is intended to explain our governance arrangements in the light of the principles and provisions of the UK Corporate Governance Code (the 'Code') as published by the Financial Reporting Council in September 2012, the Listing Rules and Disclosure and Transparency Rules and to provide insight into how the Royal Mail plc Board (the 'Board') and its management run the business for the benefit of shareholders.

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

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

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

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

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

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

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

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

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

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

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


Corporate Governance (continued)

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

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

To enhance its performance and effectiveness, the Board sets itself explicit objectives, which are separate from objectives set for the Company and for the Chief Executive Officer following the outcome of the Board appraisal process for the prior year. In relation to the objectives for the year ended 30 March 2014, the Board has regularly monitored its performance against these and has found this process adds value.

Prior to privatisation, the Royal Mail Group Limited Board complied with the Code in so far as it was appropriate to Royal Mail Group as a company with a single shareholder, and many of the corporate governance practices and principles expected of a listed company were already well-established within the Group. On privatisation the Board conducted a full and comprehensive review of its corporate governance arrangements to ensure they were fit for purpose. Our Company will no doubt face many challenges as we begin a new chapter in its long history but the above governance framework will be an essential foundation for future business success.



Donald Brydon, CBE
Chairman

Change in the structure of the Group and preparation for plc status

Royal Mail plc is the holding company of the Royal Mail Group. This follows the internal group reorganisation to facilitate the Initial Public Offering (the IPO) which took place in September 2013. By this reorganisation a new company, Royal Mail Limited, was incorporated on 6 September 2013 with Royal Mail Holdings plc as its immediate and ultimate parent Company. Royal Mail Holdings plc changed its name to Postal Services Holding Company plc on 11 September 2013. The Special Share in Royal Mail Group Limited held by HM Government was redeemed on 12 September 2013. Subsequently on 12 September 2013, the entire issued share capital of Royal Mail Group Limited was transferred from Postal Services Holding Company plc to Royal Mail Limited. The effect of this reorganisation was to insert Royal Mail Limited as the new immediate parent Company between Postal Services Holding Company plc and Royal Mail Group Limited. Royal Mail Limited was subsequently re-registered as Royal Mail plc on 19 September 2013. The resulting structure is shown in the chart below.

In preparation for the IPO it was recognised that although the Company's internal governance processes were sound, additional work was required to prepare the Company for plc status. As a result, several work programmes were put in place to ensure that Royal Mail should be able to operate effectively and compliantly as a listed company immediately following the public offering and subsequent trading. Work included putting in place the necessary policies, procedures and structures to meet the various compliance requirements.

Board focus

The Boards of Royal Mail Group Limited and Royal Mail plc (together the 'Board') have focused on the following matters during the year:

- The privatisation and initial public offering (IPO),
 - Industrial relations
 - Safety,
 - Pensions Reform
 - Parcels strategy
 - Operations and modernisation
 - General Logistics Systems (GLS) – cost restructuring and future markets, and
 - Progress and future plans for improving IT security
- Expected Board focus for the next year
- The Board has developed objectives as a framework for its work in addition to business as usual activities for the next 18 months and expects that it will focus on increasing its understanding of:
- Revenue growth
 - Continued productivity and efficiency drivers,
 - Use of new technologies in the Company's business
 - Views of key stakeholders including shareholders, the regulator and major channel partners, and
 - The senior management talent pool

Governance framework

The Board considers that the Company complied with the full provisions of the Code during the year. The Code is publicly available at the website of the Financial Reporting Council (www.frc.org.uk). This report explains the key features of the governance framework and how the Board applies the principles of the Code. The location within the Annual Report and Financial Statements of each of the disclosures required in the Directors' report is either disclosed separately or indexed in the Directors' report and is therefore incorporated by reference.

The role of the Board

The Board is responsible for setting the objectives and strategy for the Group and for monitoring its performance and risk management. The Board has adopted terms of reference setting out its duties and obligations.

The Board has defined those matters that are reserved exclusively for its consideration. These include the approval of strategic plans, financial statements, acquisitions and disposals, major contracts, projects and capital expenditure. As noted above, it also has developed objectives as a framework for its work for the next 18 months and progress

¹ 51 per cent owned subsidiary

in achieving these objectives is reviewed at each Board meeting

Board Committees

Certain responsibilities are delegated by the Board to the Committees shown in the diagram below. The details of these Board Committees are outlined later in this report. The Chairman of each of the Board Committees reports to the Board on matters discussed at Committee meetings and highlights any significant issues requiring the Board's attention. Reports on the work of the Audit & Risk Committee, Nomination Committee and Pensions Committee during the year are given on pages 51 to 57. The work of the Remuneration Committee can be found in the Directors' remuneration report on pages 58 to 69. Full terms of reference for these Board Committees can be found on the Company's website, www.royalmailgroup.com

Board meetings

The Royal Mail Group Limited Board met on four occasions during the period from 1 April 2013 to 19 September 2013. During the period from 20 September 2013 to 30 March 2014, the Royal Mail plc Board met on six occasions. For each scheduled meeting, the Company Secretary, on behalf of the Chairman, collates and circulates the papers during the week prior to the meeting, to allow sufficient time for the Directors to review the information provided.

In addition to these meetings, the Board Transaction Committee, formed to facilitate preparations for the IPO, met on seven occasions.

Board information

The Board receives business and financial performance reports at each Board meeting as well as standing reports on Safety and from the Company Secretary. In addition, Directors have access to a Board information archive containing background and supporting documents for reference in performance of their duties. The Directors receive regular updates on developments in matters such as corporate governance. This is how the Company complies with the provisions of the

Code requiring the timely provision of information to directors

The Composition of the Board

At the end of the year the Board of Royal Mail plc comprised a Chairman, three Executive Directors and seven Non-Executive Directors. Prior to their appointment as Directors of the Company, each of the Directors had been a Director of Royal Mail Group Limited. The biographies of each of the Directors setting out their current roles, commitments and previous experience are on pages 38 to 40. The composition of the Board was strengthened in anticipation of the IPO and no further appointments were made in the past year or external search agencies used.

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

The Chairman

The Chairman's responsibilities include

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

evaluated at least once a year and to act on the results of such evaluations

The Chairman is Donald Brydon, who was originally appointed as the Chairman of Royal Mail Holdings plc on 26 March 2009. He was then appointed as the Chairman of Royal Mail Group Limited on 1 April 2012 and as the Chairman of Royal Mail plc in September 2013. While the Chairman was appointed by the Secretary of State for Business, Innovation and Skills, the Directors consider that he was independent at the time of his appointment. The Chairman retired from his role as the Chairman of Smiths Group in November 2013. Details of the Chairman's other commitments are shown on page 39.

Non-Executive Directors

The Board considers that each of the Non-Executive Directors is independent. This means that in the view of the Board, they have no links to the Executive Directors and other managers and no business or other relationship with the Company that could interfere with their judgement. The Board reviewed and authorised the schedule of Directors' interests, including any potential conflicts, in February 2014 and does so at least annually. Each Non-Executive Director plays an instrumental role in the decisions that are made by the Board and its Committees. They challenge management regarding the performance of the Company with regard to the Company's goals and objectives. They also monitor financial controls and the systems of risk management.

The terms of appointment for the Non-Executive Directors require the Non-Executive Directors to devote a minimum of two days a month to working for the Company. However, during the year ending 30 March 2014, the time commitments were much greater as the Non-Executive Directors contributed to the decision making process regarding the privatisation.

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

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

Corporate Governance (continued)

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

The Senior Independent Director

The Code recommends that the Board should appoint one of its independent Non-Executive Directors to be the senior independent director (the Senior Independent Director). The Senior Independent Director is available to meet with shareholders if they have concerns that the normal channels of Chairman, Chief Executive Officer or other Executive Directors have failed to resolve or for which such channels of communication are inappropriate. The Senior Independent Director is Orna Ni-Chionna. She has met with the Non-Executive Directors and Executive Directors during the year to assess the performance of the Chairman.

Director induction and training

On appointment, all the Directors take part in an induction programme, in which they receive information about the Group, the role of the Board and matters reserved for its decision, the role of the principal Board Committees, the Group's Corporate Governance arrangements and the latest financial information about the Group. This is supplemented by visits to key business locations and, following privatisation, a newly appointed Director will be given the opportunity to meet major shareholders.

Directors also receive training. In preparation for privatisation, training sessions were held for the Board to ensure that each Director was aware of the requirements and additional obligations for a director of a company with a premium listing on the London Stock Exchange.

Directors' support and the role of the Company Secretary

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

Outside appointments

The Board believes that there are significant benefits to both the Group and the individual from Executive Directors accepting non-executive directorships of companies outside

the Group. The Board's approach is normally to limit Executive Directors to one non-executive directorship for which the Director may retain the fees (see the Directors' remuneration report on pages 58 to 69 for details).

Performance evaluation of the Board

Performance evaluation of the Board, its Committees and individual Directors takes place on an annual basis with the support of the Company Secretary. This year's evaluation was conducted by the Chairman via questionnaires, with an opportunity to discuss any issues arising. Among the matters considered were adequacy of reporting, focus on the right issues, performance of the Committees and communication with the then sole shareholder, the Secretary of State for Business, Innovation and Skills. It was completed during May 2013 and objectives were set for the Board based on the outcomes of the evaluation. The agenda of each Board meeting is reviewed against the objectives and this has driven the focus of the Board's discussion. As a result of the previous Board review, two new Directors were recruited to bring extra dimensions to the Board. A more detailed evaluation of the Board, involving the use of an external board evaluator, will take place next year. A performance evaluation of the Audit & Risk Committee and of the Remuneration Committee was conducted in each case by the Chair of the Committee. Terms of reference for each of the Board, Audit & Risk Committee, Remuneration Committee, Nomination Committee and Pension Committee were amended and adopted by the Board in September 2013.

Relations with shareholders

Prior to privatisation, the Group engaged in two-way communication with the sole shareholder to discuss the Group's strategy, performance and policies. The Board received feedback from the Directors who attended the shareholder meetings. In addition, the Chairman and Senior Independent Director had ongoing contact with the shareholder regarding preparation for privatisation and remuneration.

In preparation for privatisation, the Chief Executive Officer and Chief Finance Officer held extensive meetings with potential investors. Since privatisation, the Chairman and Senior Independent Director have met with major investors to gain their views on Company policies, including the Remuneration Policy outlined in the Directors' remuneration report on pages 58 to 69.

Internal control

The Board is responsible for maintaining a risk management and internal control system and for managing significant risks faced by the Group. This is described in more detail in the

Audit & Risk Committee Report on pages 51 to 54.

Environmental, social and governance risks

The Board annually reviews the Company's Corporate Responsibility report, which is published in order to demonstrate sustainability to socially responsible investors. The report is prepared in alignment with the reporting framework of the Global Reporting Initiative and the Company's performance is assessed against international sustainability indices. The Company reports progress against corporate responsibility objectives under five areas: Customer, People, Community, Suppliers and Environment. Further details can be found in the Corporate responsibility report on pages 32 to 37. The Board identifies and assesses significant risks, including those relating to environmental, social and governance ('ESG') matters, through the maintenance and review of the Group Risk Profile which contains significant current risks, including ESG risks which are identified at an early stage of becoming known as part of the long-term business perspective. Emerging risk identification is conducted by experts in the business and risk management is owned and managed at the operational level supported centrally. An independent effectiveness review by an independent external auditor confirmed good links between the strategy of the Company and currently identified risks and that appropriate importance is placed on risk management by executives within the Group. The Company maintains a range of policies and procedures for managing business risks which include ESG-related matters.

Chief Executive's Committee and Board Committees

The following Committees deal with specific aspects of the Group's governance. The details of Committee membership shown are as at 30 March 2014.

Chief Executive's Committee (CEC)

Chair	Moya Greene
Membership	See pages 41 to 43
Role	The Committee is responsible for all the key areas of commercial activity within the Group. The CEC meets twice a month. The role of the CEC is to manage the overall framework of financial risk and business controls to meet regulatory and legal requirements. The Committee also assigns key accountabilities for business performance.

Audit & Risk Committee report

Introduction from the Chairman

Dear Shareholder

The Committee has two main areas of responsibility. The first is to review and recommend to the Board all financial statements and disclosures. The second is to satisfy itself that internal controls and risk management processes are working effectively. The Committee gets independent assurance from the Group's Internal Audit & Risk Management function as well as the external auditor (EY) across a wide range of issues in support of its oversight responsibilities. Alongside myself, the members of the Committee are all independent Non-Executive Directors – Orna Ni-Chionna, John Allan, Nick Horler, Cath Keers and Les Owen.

This year, the Committee has continued to work on improving its oversight of internal controls and risk management processes and systems. The Group invests significant resource in Internal Audit capability, and management acts quickly on relevant findings. We reviewed 2013-14 interim and full year results, as well as all financial and risk aspects of documentation associated with the privatisation of Royal Mail.

The Committee provided a challenging review and approval process to the audit of the first quarter results for 2013-14 which were disclosed in the IPO Prospectus alongside the full year results for 2012-13, 2011-12 and 2010-11. As part of this process, we also assessed the results of the working capital review and other private reports produced by the Reporting Accountant, EY.

In January 2014, the Committee announced that it would initiate a competitive audit tender process in light of emerging best practice, new requirements with respect to audit tenure and the fact that the existing auditor, EY, had been the incumbent since 1986 and we have not undertaken a competitive tender process since that date. The current external audit engagement partner is Richard Wilson, who

was appointed to lead the audit in 2011. The Committee nominated a 'Tender Working Team' comprising the Chairman of the Audit & Risk Committee, John Allan, Jan Babiak² and relevant experts from within the business. The successful bidder will be informed during 2014 and be proposed for appointment at the 2015 AGM.

Paul Murray
Chairman, Audit & Risk Committee

Committee membership

Chairman	Paul Murray
Membership	Non-Executive Directors Orna Ni-Chionna, John Allan, Nick Horler, Cath Keers and Les Owen

Meetings of the Committee were also attended, where relevant, by the Chairman of the Board, Jan Babiak (the only Non-Executive Director who was not a member of the Committee), the Chief Executive Officer, the Chief Finance Officer, other members of senior management and representatives from the external auditor, EY. The Board considers that a number of the members of the Committee have recent and relevant financial experience.

Audit Committee Terms of Reference

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

Meeting cycle and agenda items

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

During 2013-14, the Committee met nine times:

- Two meetings specifically related to the privatisation
- One meeting related to the audit re-tender; and
- One meeting related to a specific internal audit report.

Of the five regular meetings:

- Two meetings mainly focused on the interim financial statements and year-end financial results, and
- Three meetings mainly focused on internal audit and risk management.

However, all regular meetings do contain elements of both financial reporting and internal audit and risk management, with

reports from the Group Financial Controller and the Director of Internal Audit & Risk Management being standing items on all agendas.

Reliance on external and in-house experts

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

The Committee also relies on:

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

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

² Replaced by Les Owen with effect from 29 April 2014.

Corporate Governance (continued)

Key activity and sources of estimation, uncertainty and critical accounting judgements

The main areas of focus for the Committee during the year were

Matter considered	What the Committee did
<p>Advance customer payments (£322 million, see note 26 on page 116)</p> <p>The Group estimates the amounts of stamp and meter credits that have been sold but not used prior to the year end</p> <p>Although the relevant survey and extrapolation is conducted by an independent company the level at which a stamp holding is considered to be abnormal and therefore excluded from the estimate, is a judgement made by management. This judgement impacts revenue, profit and net assets</p>	<p>The Committee reviews and challenges the methodology and outcomes from the statistical survey at the interim and year end and the judgement made by management and compares these to the deferred income recognised by management at each reporting period to ensure a consistent application</p> <p>Separately, the auditor uses its own experts to review the statistical processes and challenge the judgemental assumption</p>
<p>Royal Mail Defined Benefit Pension Surplus (£1,723 million, see balance sheet and note 8 on page 88)</p> <p>The valuation of the pension liabilities relies on the estimation of long-term assumptions such as RPI/CPI/future salary growth and mortality. Small movements in these assumptions can lead to material impacts on the balance sheet</p>	<p>The Committee relies on the benchmarking of the key long-term assumptions and the calculations provided by the Group's actuary Towers Watson Limited. All of these assumptions are disclosed in note 8 to the financial statements. The Committee also relies on the work and recommendations of the Board Pensions Committee (see Report on page 56)</p> <p>The auditor uses its own independent actuarial experts to confirm that these assumptions are reasonable and appropriate</p>
<p>Royal Mail Pension Plan Amendment Credit (£1,350 million, see income statement and note 4 on page 81)</p> <p>This credit to the income statement in 2013-14 arose when the Trustee agreed to cap future salary growth to RPI, meaning that the long-term salary growth assumption reduced from RPI+1% to RPI</p>	<p>The Committee reviewed the pension benefit reform proposed by the Trustee and its subsequent disclosure in both the Prospectus and the Interim Financial Report</p> <p>The Committee also received confirmation from both Towers Watson Limited and the auditor that the new assumption was appropriate based on the Pensions Reform agreed with the Trustee</p>
<p>Industrial diseases claims provision (£62 million, see note 20 on page 111)</p> <p>The Group is liable for claims brought by employees (past and current) and by individuals who were employed in the General Post Office Telecommunications division and whose employment ceased prior to October 1981. The provision covers the estimate of claims that could be received over the next 25-40 years. Changes to the provision will also impact the income statement</p>	<p>The Committee receives estimates of the gross provision (total expected cash outflow undiscounted) calculated by the Group's actuary Towers Watson Limited and compares this to the provision recorded at previous reporting dates and to recent cash settlements confirmed by the General Counsel</p> <p>The discount factor used by management is validated against applicable bond rates</p>
<p>Contingent liabilities not recognised in the balance sheet</p> <p>The Group has a number of contingent liabilities which it considers 'remote or possible' and which are therefore not provided for. The likelihood of these liabilities materialising is a matter of judgement and if it was considered 'more likely than not' that they would crystallise in the future then a provision would be raised which would impact the income statement and balance sheet</p>	<p>The Committee receives a paper at the November and May meetings on each unprovided contingent liability, with an assessment from management of the probability of it crystallising in the future</p> <p>The Committee reviews each of these papers by comparing their status to prior reporting periods and by receiving an overview from management at the Committee</p> <p>The auditor is also asked to provide comments on the assessment of probability and the appropriateness of the accounting</p> <p>The Committee concluded that all of these contingent liabilities should remain unprovided based on the risk assessment provided by management</p>

Matter considered	What the Committee did
Specific items – disclosure (see note 4 on page 81) The income statement follows a columnar approach and in 2013-14 the Company has introduced a classification for certain items of income and expenditure termed 'specific items', which replaces the previous 'exceptional items' classification, as further highlighted on page 77	The Chairman of the Committee discussed this disclosure with the external auditor and management in advance of the interim close and this matter was fully covered at the November meeting with management providing an explanation as to why each item has been disclosed as 'specific'. The Committee concurred with management's view that the column 'excluding specific items' better presents the trading results of the Group and recognised the need to disclose this, given Royal Mail is now listed
Privatisation The privatisation of Royal Mail required the Company to produce a full set of financial statements for the quarter ending 30 June 2013. These financial statements required a full audit and were included in the Prospectus along with historical financial information from 2010-11 onwards	<p>The first quarter results for 2013-14 were reviewed and approved by the Committee following presentations from management and the auditor. The same degree of challenge and scrutiny was applied as for the year end audited results.</p> <p>The Committee also received and reviewed a number of private reports from EY, the Reporting Accountant including a working capital report, a financial position and prospects report and a long form report.</p> <p>The Prospectus risk factors were also presented by the General Counsel to the Committee for review and approval and the Committee ensured these factors were complete by receiving a specific report from the Director of Internal Audit & Risk Management.</p>

Audit Committee effectiveness

The Committee has a framework to assess both Audit Committee and external auditor effectiveness, using a combination of surveys of members, private meetings with the auditor, specific reports from the auditor and executive management, and relevant external benchmarking, to conclude that the Committee and the external audit process remains effective.

External auditor effectiveness

During the year, the Committee has reviewed the planning methodology and proposed audit approach presented by the external auditor and the Chairman of the Committee attended an audit planning event. Furthermore, the Committee reviewed and approved the respective engagement letters for the statutory and regulatory audits.

At the end of the first quarter first half and year end statutory audits, the Committee receives a report from EY which covers significant issues identified and discussed during the audit visits. This report is compared to the matters that management have identified to ensure consistency.

The Committee has carried out an assessment of the auditor using surveys and direct feedback from Committee members and management and private meetings with the auditor.

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

Non-audit work provided by the auditor and independence

The Committee agrees fees in respect of non-audit services provided by the external auditor to ensure that the provision of non-audit services does not impair the external auditor's independence and objectivity. Generally, non-audit work is only granted to the auditor if there is a genuine efficiency in doing so, and for 2013-14 the total fees for non-audit services (excluding the Reporting Accountant work with respect to the privatisation) were £0.4 million.

A further £4.0 million fees were paid relating to EY's role as Reporting Accountant with respect to the privatisation. The Committee received a special report and presentation from EY which provided specific assurance that the audit remained independent with respect to the reporting accountant role.

Risk management and internal control overview

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

The Group's risk management and internal control system is designed to manage rather than eliminate the risk of failure as taking on risk is inherent in undertaking the commercial activities of the Group.

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

Corporate Governance (continued)

Risk management and internal control framework

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

- Reviewed and refreshed its Risk Management Framework, Risk Management Policy and Risk Management Guide, cascaded the Risk Management Mandatory Standards to business units and functions, received self-assessment validations from the prioritised units and functions on compliance with the standards and provided independent assurance on these submissions
- Conducted sensitivity analysis and financial stress-testing on Group Risks using a model developed by independent economic consultants
- Further enhanced our emerging risk identification process through regular structured dialogue with subject matter experts across the business and
- For a sample of risks on the Group Risk Profile, arranged for Executives to attend the Committee to explain their respective risk and how it is being managed

The Group's approach to control is based on the underlying principle of line management accountability for internal control and for risk management

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

First Line comprises primary controls over the risks to the business located in the day-to-day operation, and includes established management organisation policies and documentation, budgets, and performance management

Second Line comprises internal monitoring and oversight including regular reviews, self-assessments, and annual sign-offs by Finance Directors

Third Line comprises independent assessments by the Internal Audit & Risk Management (IA & RM) function and others (including external audit)

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

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

1. Risk governance

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

2 Assurance from Internal Audit

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

The Internal Audit work programme, focused towards the key business priorities for 2013-14, included

- A review of the Transaction Programme including PLC Readiness,
- Business Transformation reviews including Parcels Strategy and Delivery Modernisation,
- Major business process reviews including Fuel Management, Order to Cash and Christmas Planning
- Continued rolling programme of review of the basic business controls and validation reviews related to the management of individual risks on the Group Risk Profile, and
- Conformance of key units/functions to defined Risk Management Mandatory Standards

3. Effectiveness of Internal Audit

The Chartered Institute of Internal Auditors International Standards and general good practice requires an external assessment of Internal Audit activity to be conducted at least once every five years by a qualified, independent reviewer from outside the organisation. During the year the Committee engaged Deloitte to provide an assessment of the effectiveness of IA & RM in line with these standards. Deloitte were also engaged to provide an assessment of Risk Management against current accepted practice. The review concluded that the internal audit activity and risk management framework were fit for purpose and of high quality.

4. External audit activity

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

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

Whistleblowing

Arrangements are in place to enable employees to raise concerns in confidence and to ensure independent investigation of such matters. During the year IA & RM reported to the Committee on the number of notifications and the usual time taken to process them through the Employee Disclosure Committee (EDC). IA & RM provides the EDC with learnings and clarifications as a result of processing such cases.

Nomination Committee report Introduction from the Chairman

Dear Shareholder

Although the 2013-14 financial year saw a significant change in the ownership of the Company it has been a stable year for Board membership with no changes to the Executive Directors and Non-Executive Directors. Following the Annual General Meeting on 24 July 2014 Mark Higson will resign from the Board. Jan Babiak resigned from the Board in April 2014.

The Committee has continued to evaluate the balance of skills, knowledge and experience of the Board and its diversity and is committed to the progressive renewal of Board membership through orderly succession. Succession plans for the Non-Executive Directors and Executive Directors were kept under review during the year. The Committee also approved the changes to the membership of the CEC.

The following report outlines the membership of the Committee, its role, the key areas of focus during the year and the Committee's policy on Board diversity.

Donald Brydon

Chairman of the Nomination Committee

Committee membership

Chair	Donald Brydon
Membership	Non-Executive Directors Jan Babiak ¹ , Nick Horler, Cath Keers and Orna Ni-Chionna

Meetings of the Committee were also attended where relevant by the Company Secretary and Chief of Staff.

Role of the Committee

A summary of the responsibilities of the Committee in connection with appointments to the Royal Mail plc Board and senior management positions is shown below.

- To regularly review the structure, size and composition of the Board and to evaluate the balance of skills, knowledge, experience and diversity on the Board to inform the capabilities required for a particular appointment.
- To give full consideration to succession planning for Directors and senior management.

- To identify and nominate for the approval of the Board candidates to fill Board vacancies as and when they arise.
- To evaluate, before any appointment is made by the Board, the balance of skills, knowledge, experience and diversity on the Board and in the light of this evaluation consider, where appropriate, preparing a description of the role and capabilities required for a particular appointment. In identifying suitable candidates, the Committee may use open advertising or the services of external advisers to facilitate the search.
- For the appointment of a Chairman, to prepare a job description including the time commitment expected. A proposed Chairman's other significant commitments should be disclosed to the Board before appointment and any changes to the Chairman's commitments should be reported to the Board as they arise.
- To review annually the time required from Non-Executive Directors to fulfil their duties.
- To make recommendations to the Board on:
 - formulating succession plans for both Executive Directors and Non-Executive Directors and in particular for the key roles of the Chairman and Chief Executive Officer
 - suitable candidates for the role of Senior Independent Director
 - membership of the Board Committees in consultation with the Chairs of those Committees
 - the reappointment of any Non-Executive Director at the conclusion of their specified term of office having given due regard to their performance and ability to continue to contribute to the Board and
 - the re-election of Directors by shareholders under the re-election provisions of the Code or the retirement by rotation provisions in the Company's Articles of Association, having due regard to their performance and ability to continue to contribute to the Board and the need for progressive refreshing of the Board.
- To review the succession management process within the Company for the top 120 senior management positions.

The full Terms of Reference for the Committee can be found on our website www.royalmailgroup.com

Key areas of focus during the year

Matters the Committee considered during the year include:

- Accepting the resignation of Mark Higson from the Board, which will be effective from the closing of the Annual General Meeting.
- Assessing the composition of the Board following the resignation of Mark Higson.

- Approving changes to the roles of certain members of senior management including recommending for approval the change of Company Secretary and the appointment of a new member of the CEC.
- Considering future experience, skills and capabilities required on the Board and
- Reviewing the Board's policy on diversity as outlined below.

Board diversity policy

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

The Board has adopted a Board Diversity Policy to ensure transparency and diversity in making appointments to the Board on the recommendation of the Committee. This policy expresses the commitment to principles of non-discrimination on grounds of race, colour or ethnic origin, disability, sex, age, religion or belief and to promotion of fair participation and equality of opportunity for all. The Board assesses whether it is compliant with that policy through its Board effectiveness review. The Board has also adopted within such policy a process for Board appointments (including procedures for appointing a new Chairman) where an appointment becomes necessary following a resignation or additional characteristics are identified as necessary during the Board effectiveness review.

The gender balance of the Board is also taken into consideration when recruiting a new Non-Executive Director. This is reflected by the current composition of the Board. We are one of the few companies in the FTSE 100 that has a female Chief Executive Officer and, at 30 March 2014, three of the eight Non-Executive Directors (37.5 per cent), including the Senior Independent Director (and also Jan Babiak), were also female. The Committee does not feel that it is appropriate to set a quota regarding the number of women on the Board but will look to maintain a strong representation of women on the Board.

Directors' re-election

The Committee considers the performance of each individual Director and whether he or she continues to be effective and can demonstrate commitment to the role and whether they should be proposed for election at the Annual General Meeting. Biographical details of each of the Directors, together with details of their skills and experience, may be found on pages 39 to 40. Following a performance evaluation of each Director and the Board as a whole, all Directors are considered by the Board to be fully effective.

¹ Resigned 29 April 2014

Corporate Governance (continued)

Pensions Committee report Introduction from the Chairman

Dear Shareholder

This is the first report of the reconstituted Pensions Committee following the change in membership in September 2013 from a blend of Board Directors and senior management to a membership solely made up of Board Directors, the majority of whom are Non-Executive Directors. This reconstitution was in preparation for privatisation and to fully comply with the Code.

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

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

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

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

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

Les Owen

Chairman of the Pensions Committee

Committee membership

Chair	Les Owen
Membership	Non-Executive Directors Jan Babiak ¹ and Paul Murray Executive Director Matthew Lester

The meetings of the Committee have also been attended on invitation by the Chairman of the Board, the Company Secretary, the Deputy Group Chief Finance Officer, the Head of Pensions Strategy and representatives from the Company's pensions advisers, Towers Watson Limited and the auditor, EY.

Role of the Committee

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

- Reviewing annual reports from management on the Royal Mail pension schemes' goals and objectives, financial position, investment performance, and economic conditions,
- Reviewing recommendations from the Pensions Policy Committee and approving assumptions relating to valuations and the Statement of Investment Principles,
- Approving, in accordance with the pension schemes' Rules, the appointment, reappointment, removal, period of appointment and remuneration of the Chair of Trustees. This approval will be given on behalf of the Board following consultation with the Chair and on the recommendation of management, and
- Reviewing major policy, regulatory, legislative, accounting, reporting, industrial relations and Governmental issues impacting the pension schemes as from time to time is necessary, at the request of the Board, management or any member of the Pensions Committee, and making decisions, recommendations or reporting to the Board accordingly.

The full Terms of Reference for the Committee can be found on our website www.royalmailgroup.com

Key areas of focus during the year

Matters the Committee considered during the year include:

- Scheme funding
- Investment strategy and risk management
- Recommendations for Scheme reform, and
- Pensions Accounting and treatment of reform

¹ Resigned 29 April 2014

Remuneration Committee Committee membership

Chair Orna Ni-Chionna

Membership Chairman
Donald Brydon
Non-Executive Directors
Jan Babiak¹, Paul Murray
and Les Owen

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

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

¹ Resigned 29 April 2014

Role of the Committee

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

The full Terms of Reference for the Committee can be found on our website www.royalmailgroup.com

Key areas of focus during the year

Details of the work carried out by the Remuneration Committee and the decisions made are outlined in the Directors' remuneration report on pages 58 to 69

Orna Ni-Chionna

Chair of the Remuneration Committee

Other Committees

Risk Management Committee

The Risk Management Committee supports the Audit & Risk Committee and meets to promote and support the establishment, communication and embedding of risk management throughout the business

Disclosure Committee

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

Board and Committee Attendances

During the year the Directors attended the following number of meetings of the Board and its main Committees

	Board ²	Audit & Risk	Nomination	Pensions ³	Remuneration
Total number of meetings	10	9	2	2	6
Chairman					
Donald Brydon	10/10	-	2/2	-	6/6
Executive Directors					
Moya Greene	10/10	-	-	-	-
Mark Higson	10/10	-	-	-	-
Matthew Lester	10/10	-	-	2/2	-
Non-Executive Directors					
John Allan ⁴	9/10	7/9	-	-	-
Jan Babiak	10/10	-	2/2	2/2	6/6
Nick Horler	10/10	9/9	2/2	-	-
Cath Keers ⁵	9/10	8/9	2/2	-	-
Paul Murray	10/10	9/9	-	2/2	6/6
Orna Ni-Chionna	10/10	9/9	2/2	-	6/6
Les Owen ⁶	10/10	5/9	-	2/2	5/6

² Includes Board meetings of Royal Mail Group Limited and Royal Mail plc

³ From 10 September 2013

⁴ John Allan was unable to attend the Board meeting on 18 April 2013 and the Audit & Risk Committee meetings on 17 May and 23 July 2013 due to prior engagements

⁵ Cath Keers was unable to attend the Board meeting on 18 April 2013 and the Audit & Risk Committee meeting on 14 August 2014 due to prior engagements

⁶ Les Owen was unable to attend the Audit & Risk Committee meetings on 14 August, 6 September 12 November 2013 and 17 January 2014 and the Remuneration Committee meeting on 17 January 2014 due to prior engagements

Directors' remuneration report

Dear Shareholder,

2013-14 was a banner year for Royal Mail. We delivered revenue and operating profit growth across all of our businesses and generated strong free cash flow; we continued to reshape our business to drive operational efficiencies so we can compete effectively in the rapidly changing parcel and letter marketplaces; and we began life as a listed company.

Orna Ni-Chionna
Chair, Remuneration Committee

This context of a good performance, our continued transformation and the transition from public to private ownership, set the agenda for much of the Remuneration Committee's work during the year

Remuneration for 2013-14

Our Company's continued good performance resulted in pay outs on both our annual bonus and our Long Term Incentive Plan (LTIP), in accordance with our remuneration policy. This policy aims to reward strong performance which generates sustainable returns for our shareholders

Annual bonus

Our performance in 2013-14 resulted in the achievement of a high score against the financial, people and customer targets in our Corporate Balanced Scorecard, which make up 80 per cent of the potential annual bonus. Performance against personal objectives which are set by the Committee and represent 20 per cent of the potential bonus, was also high

This resulted in a bonus of 77 per cent of salary for our CEO, Moya Greene, 77 per cent of salary for our CFO, Matthew Lester, and 57 per cent of salary for our Managing Director, Operations and Modernisation, Mark Higson. More details about the annual bonus targets and performance against specific KPIs are given on page 65

LTIP

During 2013-14, the Company exceeded the challenging performance targets that were set in 2011 for Operating Profits and Return on Total Assets as part of the LTIP. As a result, the LTIP that was awarded in 2011 vested in full for each of the three Executive Directors. The Committee had no reason to use its discretion to reduce it. More details of the LTIP payout can be found on page 66

Remuneration policy for 2014-15

Following our flotation, and in line with the vast majority of other listed companies, we are now able to pay our Executive Directors partially in shares, aligning their interests more closely with shareholders. At the time of our flotation, the 2013 LTIP grant was

converted into a share-based award. Subsequent LTIP grants will also be share-based. We will also require our senior management to retain a proportion of their share-based incentives so they build up an appropriate individual stake in our Company

As we have set out elsewhere in this report, our business faces many significant challenges. The impact of the structural decline in letters is being exacerbated by a number of regulatory issues, including the unfettered rollout of direct delivery competition in the UK. Competition in the UK parcels market is growing rapidly, with capacity increases in addition to a potential reduction in our addressable market due to increasing e-substitution and alternative fulfilment options. This will put pressure on pricing

Responding to these challenges requires the continued transformation of almost everything the Company does. The roles of our senior executives are demanding and complex as a result of these significant challenges. Our move to being a listed company has also added complexity to some aspects of their roles

Despite this, the Committee decided after much deliberation not to make any changes to the remuneration policy, which was approved by HM Government when I became Chair of the Remuneration Committee in 2011. We also decided to make no change of any sort to the potential remuneration of our Chief Executive, Moya Greene. In making that decision, we took account of her views and wishes. This means that her salary has remained the same each year since she joined our Company in July 2010 and her annual bonus and LTIP potential have remained the same since the current policy was introduced in 2011

Our shareholders

Until October 2013, Royal Mail was wholly owned by HM Government. The major elements of executive remuneration, including the annual bonus and LTIP structure and opportunity, were subject to approval from

the Secretary of State for Business, Innovation and Skills

This changed with our listing on the London Stock Exchange. Approximately 150 000 of our UK employees were given 10 per cent of their Company through HM Government's Free Shares Offer. As at the time of writing, HM Government had a stake of approximately 30 per cent in our Company. The remaining 60 per cent of our Company is owned by a wide range of institutional investors and hundreds of thousands of retail investors.

Private ownership has created the opportunity and need for dialogue with a broader range of shareholders. This dialogue is only just beginning and conversations to date have been constructive. The Committee's challenge in the coming years is to reflect the diverging views of all our shareholders in a coherent and appropriately-pitched remuneration policy.

The Committee recognises that executive remuneration remains a sensitive issue in our society. However, it is also aware that our Executive Directors' potential remuneration is significantly lower than that of the leaders of comparable large and complex companies in the UK.

As Royal Mail changes over the next few years, so too will our remuneration policies and practices. We will continue to work hard, in consultation with our shareholders, to find an appropriate formula that takes into account the Company's unique situation and appropriately rewards the creation of sustainable shareholder value.

Directors' remuneration report 2013-14

The remainder of this remuneration report has been written in accordance with the new regulations that came into force earlier this year. It consists of our Policy Report, which describes our guiding principles and philosophy, and our Annual Report on Remuneration, which describes how the policy was implemented over the past year.

I hope that you will feel able to support both the Policy Report and the Annual Report on Remuneration. I look forward to continued dialogue with you over the coming years.

Orna Ni-Chionna

Chair of the Remuneration Committee

Policy Report

This Policy Report (pages 59 to 63) will be put to a binding shareholder vote at the AGM on 24 July 2014. It will take effect from that date subject to approval by shareholders.

Summary of our policy and what it aims to achieve

The Remuneration Committee determines, on behalf of the Board, the Company's policy on the remuneration of senior executives and the Executive Directors.

The Company's policy on Executive Directors remuneration is that:

- There is no reward for failure
- A significant proportion of the remuneration package should be dependent on the achievement of demanding performance targets – both short and long term,
- Incentives should be designed so that they align the interests of senior executives, customers and shareholders
- Variable reward should be structured so as to achieve a balance between short term and long term incentive programmes,
- 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, and

- We pay attention to the social sensitivities around executive remuneration

Components of current pay for executive directors

The Executive Directors receive two elements of pay – fixed and variable. Fixed pay comprises salary, benefits and pension contributions, or cash in lieu of pension. Variable pay comprises an annual bonus (also known as the short term incentive plan or 'STIP') which pays out only if challenging short term objectives are achieved, and an award made under the LTIP which vests (pays out) only if three year performance targets are achieved.

Variable pay is designed to pay out only if the performance targets are achieved or exceeded. The Committee sets these targets in advance and aims to ensure that they are only achievable if the Company performs strongly. Variable pay is also subject to clawback in certain circumstances (see pages 60 to 61).

The chart below shows the potential pay that could be received at different levels of performance based on the policy as it will be applied in 2014-15.

Fixed pay comprises base salary + benefits + pension. Annual bonus relates to the bonus that could be earned in relation to performance in 2014-15. The LTIP relates to the awards that could be received based on performance over the three years to 2016-17. Strong performance assumes an annual bonus of 60 per cent of salary and an LTIP award of 70 per cent of salary. Exceptional performance assumes an annual bonus award of 100 per cent of salary and an LTIP award of 98 per cent of salary. The LTIP award is payable in shares; no assumptions have been made as to future share price movements.

Directors' remuneration report (continued)

Policy table- description of elements of our policy

This table sets out the key elements of the remuneration policy for the Executive Directors

Element of remuneration	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures	Supporting information*
Salary	Recruit and retain executives with the skills and experience to run a large complex company in a challenging context	Salaries are paid monthly	<p>The salary levels for the Executive Directors are normally reviewed annually. When considering salary levels and whether any increase should be offered, the Committee takes into account a variety of factors such as: the performance of the Company; the performance and experience of the individual; any changes in role or responsibility; assessment against relevant comparator groups; internal relativities; and the level of increase being offered to our frontline employees.</p> <p>The Committee will consider the factors outlined above to determine the maximum amount that would be paid in base salary for an Executive Director.</p>	None	<p>No change in policy from the prior year.</p> <p>Moya Greene's current salary is £498,000 and remains unchanged since her appointment to the Company in 2010.</p> <p>Matthew Lester's salary will increase by six per cent to £454,065 from 1 April 2014. This increase is consistent with the salary increase given to our frontline employees for 2013 and 2014. Prior to this increase, Matthew Lester's salary had not changed since his appointment to the Company in November 2010. Over this period, our frontline employees have received an average increase of 11 per cent.</p>
Benefits	To provide an appropriate and cost effective benefits package	<p>Benefits provided are the provision of a company car and health insurance, or the cash equivalent of any benefits not taken. Under her contract, Moya Greene is entitled to two return flights to Canada each year, financial advice and use of a driver for business-related travel.</p> <p>The type and level of benefits provided may be subject to minor amendment from time to time as appropriate.</p>	The cost of the benefit provision varies from year-to-year and there is no prescribed maximum limit. The Committee monitors annually the overall cost of the benefits provided to ensure that it remains appropriate.	None	No change in policy from prior year.
Pension	To provide appropriate levels of retirement benefit	Company contribution to a defined contribution pension scheme and/or a cash supplement (in lieu of pension)	£200,000 per annum cash allowance for the CEO and a 40 per cent of salary cash allowance for the CFO	None	No change in policy from prior year.
Annual bonus	<p>Reward annual performance against a Corporate Balanced Scorecard which is aligned to the strategy of the Group through the achievement of financial and non-financial targets.</p> <p>The same Scorecard determines annual bonus awards for all Royal Mail managers.</p>	<p>Payable annually in cash, subject to the achievement of stretching performance targets.</p> <p>A clawback mechanism applies to the annual bonus within three years of the award being made and in the event of financial misstatement, an error in calculation or gross misconduct on the part of the executive.</p>	<p>The award level payable for strong performance is 60 per cent of salary. If the minimum performance hurdles are not achieved, then no bonus is payable.</p> <p>The maximum award level payable for exceptional performance is 100 per cent of salary.</p>	<p>80 per cent of the bonus opportunity is based on financial, people and customer targets as set out in the Corporate Balanced Scorecard and reviewed annually.</p> <p>20 per cent of the opportunity is based on the achievement of challenging personal objectives.</p> <p>A minimum level of operating profit must be achieved before any Executive Director becomes eligible for any payment.</p> <p>The performance targets are measured over 12 months.</p>	No change in policy from prior year.

* This column does not form part of the binding policy. It has been included to provide additional contextual information for the reader.

Element of remuneration	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures	Supporting information*
Long Term Incentive Plan	Reward the delivery of sustained long term financial and operational performance Align the structure of awards received by Executive Directors with the drivers of shareholder returns	Awards granted in shares and released after three years subject to performance measured in the third year of a three year period and continued employment The value of dividends paid on long term incentive awards will be rolled up and paid on vesting A clawback mechanism applies within three years of vesting in the event of financial misstatement, an error in calculating the level of vesting or gross misconduct on the part of the executive	The award level payable for strong performance is 70 per cent of salary The maximum award level for exceptional performance is 98 per cent of salary	For the awards to be granted in 2014 the measures will be - earnings per share (50 per cent) - growth in operating profit margin before transformation costs (35 per cent) - relative total shareholder return (TSR) (15 per cent) The performance targets are measured over three years Further details on the performance targets for the 2014 awards are set out on page 69 Different performance measures and/or weightings may be used for future awards as appropriate to reflect the business strategy at that time	As announced in the Prospectus in September 2013 the cash LTIP is replaced with share-based awards and we have changed the performance conditions used for future awards. No change to award levels Any significant change in the weighting or choice of performance metrics for future awards would be subject to prior consultation with our major shareholders
All employee share plans	To increase alignment between the interests of Executive Directors and shareholders	Participation in the Company's all employee share plans (HMRC approved share plans) The Executive Directors are eligible to participate on the same terms as other eligible employees	Subject to HMRC approved limits	None	Introduced on IPO

* This column does not form part of the binding policy. It has been included to provide additional contextual information for the reader.

Unvested Incentive Arrangements

The Executive Directors have outstanding unvested LTIP awards relating to grants made in 2012 and 2013. As set out in the Prospectus, the 2013 awards were converted into shares shortly after the IPO (they were converted using a share price of 529.14 pence, which resulted in a smaller number of shares than would have been achieved had the IPO price of 330 pence been used). The 2012 award is cash based. No further awards will be made under this plan, but the outstanding awards may pay out, subject to meeting the performance targets. The 2012 award vests based on performance to 31 March 2015 and the 2013 award based on performance to 31 March 2016. Details of the performance conditions applying to the 2012 and 2013 LTIP awards are set out on page 66.

Directors' remuneration report (continued)

Questions and answers: Influences on our policy and how it works in specific situations

How are shareholder views taken into account when deciding remuneration policy?

The Committee Chair met and corresponded with several of the Company's major shareholders over the past few months to understand their views on executive pay and on the policy currently in place at Royal Mail. The remuneration policy is being put to all shareholders for approval at the AGM. The Committee will listen carefully to the views of shareholders expressed at the AGM and at other times during the year.

Do you take the pay of other employees into account when deciding the remuneration policy?

We do. We try to maintain a consistent approach throughout the Group with pay appropriately set for different levels of employee.

- The proposed increase to the CFO's salary reflects the basic salary increase received by frontline employees from 2013 to 2014. Prior to this increase, the CFO's salary had not changed since it was set on his appointment in 2010. Over the same period, the average salary received by frontline employees increased by 11 per cent.
- The Corporate Balanced Scorecard determines annual bonus awards for all employees at manager grade and above.
- All Royal Mail's senior managers participate in the LTIP and
- The Executive Directors have a greater proportion of their remuneration package based on variable (performance related) pay than other employees.

Discussions about the Group's overall approach to remuneration take place with union representatives as part of the annual pay review. To date there has been no formal consultation with employees in determining the policy. However, over 96 per cent of our employees are shareholders in the Company (having received shares on IPO) and are able to vote on this policy along with other shareholders.

Are the Executive Directors required to hold shares in the Company?

Executive Directors are expected to build up a shareholding equivalent to 100 per cent of their salary. They are expected to keep any shares they already own and 50 per cent of any shares released under the LTIP (after selling sufficient shares to meet any associated tax obligation) until this is achieved. We recognise that this may take some time.

What changes can the Remuneration Committee make to the annual bonus and LTIP?

The Committee will operate the annual bonus and LTIP according to the plan rules. Once the remuneration policy is approved by our shareholders, our ability to make changes is limited. The maximum award levels cannot be increased without prior shareholder approval. However, the Committee can make certain changes, such as the timing of grant and pay out, the treatment of leavers, the structure of awards under the LTIP, retrospective adjustment of share award grants (e.g. for a rights issue, a corporate restructuring or for special dividends) and, in exceptional circumstances, the discretion to adjust previously set targets. This would only happen if we believe that changing circumstances mean that the awards, as agreed, are unable to meet their original purpose.

What would happen if a new Executive Director was appointed?

If we appointed a new Executive Director to Royal Mail

- We would set the remuneration package in line with the approved policy at the time of appointment.
- In setting the salary level for a new Executive Director, the Committee would take into account the skills and experience of the individual, his or her current remuneration package, the market rate for the role and the importance of securing the best candidate.
- The annual bonus opportunity would not exceed 100 per cent of salary and the LTIP opportunity would not exceed 98 per cent of salary. Participation in the annual bonus would normally be pro-rated for the year of joining (i.e. reduced to reflect the proportion of the performance period worked), and
- The Committee may also make additional awards to take account of deferred pay or benefit arrangements forfeited on leaving a previous employer. We would take into account whether forfeited awards were to be paid in cash or shares when they would have been received and the likelihood of meeting any existing performance conditions. Other payments may be made in relation to relocation expenses and other incidental expenses as appropriate.

In the case of an internal appointment, any outstanding LTIP or annual bonus awards would be allowed to pay out according to the terms under which they were originally granted.

What are the Executive Directors' terms of employment?

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

	Date of Contract	Unexpired Term (months)
Moya Greene	15 July 2010	12
Matthew Lester	24 November 2010	12
Mark Higson	5 November 2007	n/a

The contracts have an indefinite term that may be terminated by either party on written notice. For new hires, this notice period would be set at 12 months or less. Copies of the Executive Directors' service contracts are available for inspection at the Company's AGM.

What happens if their conduct is inappropriate?

The Executive Directors can be dismissed immediately without notice if they are deemed to be guilty of gross misconduct or for any other material breach of the obligations under their employment contract. In other cases, the Company may dismiss the Executive Directors with a payment in lieu of notice, suspend the Executive Director or put them on a period of garden leave during which they will be entitled to salary, benefits and pension.

What payments will an Executive Director receive when they leave the Group?

Like any other Company, we would make the payments necessary to meet any contractual or other legal obligations.

Moya Greene's contract dates from her appointment to the Company in 2010. As disclosed in the Prospectus, her contract may be terminated immediately by the Company. Unless the Company terminates the contract due to gross misconduct or a material breach of the obligations under the service contract, it would be required to make a payment equalling 12 months' base salary and an annual bonus referable to the 12 month period in which the termination occurs. The assessment of the annual bonus award would be made in line with normal practice for determining bonuses.

Under Matthew Lester's service contract and the policy for future hires, the Company may terminate the contract by making a payment in lieu of any unexpired notice period.

The payment in lieu of notice is limited to a maximum of 12 months base salary

Payment in lieu of accrued holiday incidental expenses and outplacement services may be paid/provided for as appropriate. Outstanding awards under any all employee share plan would vest in accordance of the rules of the plan as approved by HMRC. Any statutory entitlements or sums to settle or compromise claims in connection with a termination (including at the discretion of the Committee reimbursement for legal advice) would be paid as the Committee considers necessary.

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

What happens to annual bonus and LTIP awards when an Executive Director leaves?

Outstanding incentive awards usually lapse when an employee leaves the Company. However, in certain circumstances including death, ill-health, disability and termination of employment (other than for gross misconduct or material breach of the obligations under an employment contract) awards could pay out on the normal date if performance conditions have been met. The size of the award would be pro-rated. The Committee may decide on an earlier pay out in exceptional circumstances. It can also decide not to apply pro-rating for LTIP awards if it considers it appropriate.

What happens if there is a change in the control of the Company?

The treatment of share awards on a change of control under the annual bonus and new LTIP is the same as that set out in the previous paragraph, except that the performance-testing period will automatically end on the date of the change in control. Under the old LTIP awards granted more than 12 months prior to a change in control would not be pro-rated. Awards granted less than 12 months prior to a change in control would typically be pro-rated, unless the Committee decides otherwise.

Are the Executive Directors allowed to hold external appointments?

The Board may allow Executive Directors to accept external appointments (e.g. a Non-Executive Director position in another company) provided the time and commitment are not excessive. The Directors are permitted to retain any fees that they receive from such appointments.

Our policy for Non-Executive Directors and the Chairman

We aim to set fee levels to attract and retain a Chairman and Non-Executive Directors with the right skills and experience.

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

Purpose and link to strategy	Operation	Maximum opportunity	Performance targets
To enable the Group to attract and retain a Chairman and Non-Executive Directors with appropriate skills and experience	The Chairman and Non-Executive Directors receive a fixed fee. Fees are set taking into account the time commitment and responsibilities of the role and to reflect the experience and expertise required. The fees for the Chairman are set by the Remuneration Committee (with the Chairman excluded from the process). The fees for the Non-Executive Directors are set by the Executive Directors in consultation with the Chairman.	Fees are subject to maximum aggregate limits as set out in the Company's Articles of Association (currently £1 million). Details of the current fees for the Chairman and Non-Executive Directors are set out in the Annual Report on Remuneration on page 69. The fees are reviewed periodically and may be increased as appropriate to take into account changes in time commitment and general market rates.	Not applicable

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

The Non-Executive Directors (including the Chairman) are appointed by rolling letters of appointment. Each of the Non-Executive Directors is entitled to receive a fee from the Company paid monthly. This fee covers their role as a Non-Executive Director or Chairman and all other Board duties (including Committee memberships and Chairs). In addition, the Chairman and Non-Executive Directors are entitled to be reimbursed for all reasonable travelling, hotel and other expenses incurred in the performance of the Non-Executive Director's duties.

The Non-Executive Directors are appointed for up to three years, subject to annual review

and re-election. One month's notice is required by either party (four months notice in the case of the Chairman). However, the appointment of a Non-Executive Director will end immediately, if they commit a material breach of their obligations under the appointment letter or fail to be re-elected at the AGM, in which case they will be paid accrued fees and expenses only.

The dates of the Chairman's and Non-Executive Directors' letters of appointment are set out in the table below.

What would happen if a new Non-Executive Director joined Royal Mail?

Fees for a new Chairman or Non-Executive Director would be set in accordance with the existing fee policy.

	Date of Contract	Unexpired Term (months) ¹
Donald Brydon	20 September 2013	36
John Allan	20 September 2013	36
Jan Babiak	20 September 2013	Resigned 29 April 2014
Nick Horler	20 September 2013	36
Cath Keers	20 September 2013	36
Paul Murray	20 September 2013	36
Orna Ni-Chionna	20 September 2013	36
Les Owen	20 September 2013	36

¹ All the Non-Executive Directors (including the Chairman) were appointed in 2013 for an initial term commencing on 20 September 2013 until the conclusion of the 2016 AGM approximately three years later.

Directors' remuneration report (continued)

Annual Report on Remuneration

This part of the Directors' remuneration report sets out how the remuneration policy has been applied for 2013-14. Detailed information about the Directors' remuneration, set out below and on pages 64, 66 and 67 has been audited by the Company's independent auditors, EY.

What did the Directors earn for the 2013-14 financial year? (Audited)

The table below sets out the remuneration received by the Directors for 2013-14 (or for performance periods ending in 2013-14 in respect of long term incentives) and, for the purposes of comparison, for 2012-13.

The disclosure of remuneration for 2013-14 relates to the remuneration received both as Directors of Royal Mail Group Ltd up until 20 September 2013 and as Directors of Royal Mail plc from 20 September 2013 (6 September 2013 for Donald Brydon, Moya Greene and Matthew Lester). Royal Mail plc was created as a new entity for the purposes of facilitating the privatisation.

£'000	Salary/Fees		Benefits ²		Pension ³		Short Term Incentive Plan		Long Term Incentive Plan ⁴		Other ⁵		Total	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Chairman														
Donald Brydon	200	200	-	-	-	-	-	-	-	-	-	-	200	200
Executive Directors														
Moya Greene	498	498	29	377	200	200	385	399	488	488	(250)	-	1,350	1,962
Mark Higson	428	428	15	15	171	171	245	245	420	420	-	-	1,279	1,279
Matthew Lester	428	428	15	15	171	171	328	344	419	419	-	-	1,361	1,377
Non-Executive Directors														
John Allan ⁶	40	8	-	-	-	-	-	-	-	-	-	-	40	8
Jan Babiak ⁷	40	3	-	-	-	-	-	-	-	-	-	-	40	3
Nick Horler	40	40	-	-	-	-	-	-	-	-	-	-	40	40
Cath Keers	40	40	-	-	-	-	-	-	-	-	-	-	40	40
Paul Murray	50	50	-	-	-	-	-	-	-	-	-	-	50	50
Orna Ni-Chionna	60	60	-	-	-	-	-	-	-	-	-	-	60	60
Les Owen	40	40	-	-	-	-	-	-	-	-	-	-	40	40
Total⁸	1,864	1,795⁹	59	407	542	542	958	988	1,327	1,327	(250)	-	4,500	5,059⁹

² Benefits include medical insurance and car allowance. The figure for Moya Greene also includes return flights to Canada.

³ Employer pension contributions to the Royal Mail Defined Contribution Plan and allowances in lieu of employer contributions.

⁴ The current year figure relates to the 2011 LTIP award. The prior year figure relates to the 2010 LTIP award which was based on performance to 31 March 2013. The 2010 LTIP award was subject to an additional deferral period.

⁵ Relates to a relocation payment made to Moya Greene. As previously disclosed, Moya Greene voluntarily offered to return the amount she received from this assistance. It was confirmed in Royal Mail's Prospectus (September 2013) that Royal Mail has received payment for the after tax amount and an additional amount representing an independent professional estimate of the unrealised gain associated with the assistance received.

⁶ John Allan joined the Board on 14 January 2013.

⁷ Jan Babiak joined the Board on 1 March 2013. She stood down from the Board on 29 April 2014, after the reporting period.

⁸ Amounts attributable directly to Royal Mail plc for 2014 can be calculated by time apportioning the 2014 figures from 6 or 20 September 2013 until 31 March 2014 (2013: £nil).

⁹ This figure excludes £17,000 of fees paid to David Currie, a former Director of Royal Mail Holdings.

How was the pay in the above table linked to performance in 2013-14?

A) Annual bonus

Annual bonus performance is measured over a single financial year against a range of financial and non-financial targets, as set out in the Corporate Balanced Scorecard, and against personal objectives. The maximum bonus opportunity for the CEO and CFO was 100 per cent of salary and the maximum bonus opportunity for the Managing Director Operations and Modernisation was 80 per cent of salary. The table below contains a summary of the corporate metrics under the Corporate Balanced Scorecard, which are used to determine 80 per cent of the bonus award.

Corporate Balanced Scorecard 2013-14			Target	Actual	Achievement	Payable out of a maximum of 80%
	Weighting					
Financial (45%)	5%	Total UK costs (£m)	7,418	7,242	Stretch	4.0%
	10%	Group operating profit (£m) ¹⁰	696	670	Above Threshold	4.3%
	10%	Free Cash Flow (£m)	357	398	Stretch	8.0%
	10%	Group revenue (£m) ¹¹	9,601	9,436	Above Threshold	2.7%
	10%	Collections, processing and delivery productivity (%)	2.5	1.7	Threshold	2.4%
Customer (30%)	10%	First Class Quality of Service (%)	93.0	93.3	Between Target and Stretch	6.7%
	10%	Mean business customer satisfaction	75	75	Target	4.8%
	5%	Customer complaints ('000)	5,099	4,587	Stretch	4.0%
	5%	Composite parcels quality of service (%)	95.1	95.1	Target	2.4%
People (25%)	10%	Safety lost time accident frequency rate	1.05	0.77	Stretch	8.0%
	10%	Employee engagement	51	54	Stretch	8.0%
	5%	Customer focus	66	69	Stretch	4.0%
Total	100%					59.4%

A minimum level of operating profit before transformation costs and other exceptional items must be achieved before an Executive Director becomes eligible for a payment. For the year in question this minimum profit level was £596 million; actual profit achieved was £670 million¹⁰.

20 per cent of the annual bonus is based on specific personal targets, which are set at the start of the year and are based on each Executive Director's area of responsibility. Personal targets for the CEO included specific objectives relating to performance of GLS, IT, investor relations and the commercial relationship with the Post Office. Objectives for the

other Executive Directors included specific targets relating to capital spend, project rollout, cost control and people measures. Performance against these objectives was reviewed by the Committee and the resulting aggregate annual bonus awards for 2013-14 were as follows:

- Moya Greene: £385,452, 77 per cent of salary
- Matthew Lester: £327,720, 77 per cent of salary
- Mark Higson: £244,616, 57 per cent of salary

¹⁰ Group operating profit before transformation costs and adjusted for foreign exchange

¹¹ Group revenue adjusted for foreign exchange

Directors' remuneration report (continued)

B) Long term incentive plan (LTIP)

The 2011 LTIP award was a cash-based award, based on performance in the third year of a three year period to 31 March 2014. It was subject to two performance conditions. The primary measure was operating profit before transformation costs.

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

The secondary measure was a downwards only adjustment, based on return on total assets (ROTA) targets. If ROTA was greater than 90 per cent of target, there was no adjustment. If ROTA was between 75 per cent of target and 90 per cent of target there was a 50 per cent reduction in the level of pay out. If ROTA was less than 75 per cent of target then there was no pay out.

The operating profit before transformation target was £528 million and the ROTA target was 170 per cent. Actual operating profit before transformation for 2013-14 was £670 million¹² and ROTA was 24.3 per cent. Accordingly, the total percentage of LTIP awards for 2013-14 vesting was 140 per cent (equivalent to 98 per cent of salary).

This resulted in the following cash awards to the Executive Directors: Moya Greene, £488,040, Matthew Lester £419,440, Mark Higson, £419,832.

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

The table below sets out details of the LTIP awards that were granted during the year and remain outstanding at the year end.

	Year	Type	Maximum value of award at grant (% salary)	Maximum value of award at grant (£'000)	% vesting at minimum performance	Final year of performance period	Number of shares	Notes
Moya Greene	2012	LTIP	98%	488	0%	2014-15	-	-
	2013	LTIP	98%	488	0%	2015-16	65,880	(a)
Mark Higson	2012	LTIP	98%	420	0%	2014-15	-	(b)
	2013	LTIP	98%	420	0%	2015-16	56,673	(a)(b)
Matthew Lester	2012	LTIP	98%	419	0%	2014-15	-	-
	2013	LTIP	98%	419	0%	2015-16	56,620	(a)

(a) As disclosed in the Prospectus 2013 LTIP awards were converted into conditional rights to acquire Ordinary Shares on 19 December 2013. The conversion was made at the Volume Weighted Average Price of the Ordinary Shares of the Company traded between the eighth and fourteenth days following Admission on 15 October 2013 (529.14p).

(b) As detailed on page 39 Mark Higson will be standing down from the Board on 24 July 2014. As Mark is a good leaver as defined in the LTIP rules his outstanding awards will not lapse when he leaves the Company. They will vest on the normal date subject to performance. The award will be reduced pro-rata to reflect the proportion of the performance period when Mark was in role.

The 2012 and 2013 LTIP awards are subject to the same performance measures and sliding scale of targets as the 2011 award. The precise operating profit and ROTA figures are deemed to be commercially sensitive. However full details of the targets and performance achieved against them will be disclosed on release of the award.

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

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

What about payments for Loss of Office? (Audited)

No payments were made in respect of loss of office during the year.

¹² Group operating profit before transformation costs and adjusted for foreign exchange

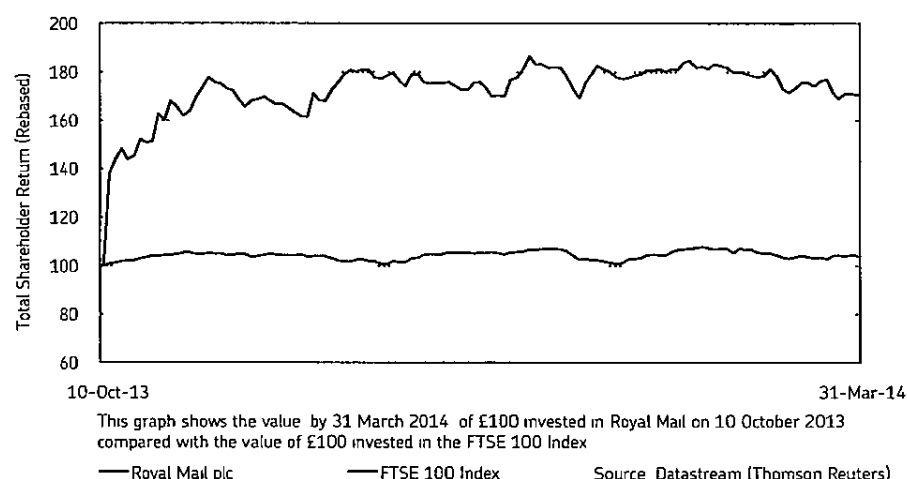
Is there a shareholding guideline for Executive Directors and what are their current shareholdings? (Audited)

A shareholding guideline has been introduced for the Executive Directors and is set out on page 62. The table opposite sets out details of the shareholdings of the Executive and Non-Executive Directors as at 31 March 2014. On 9 April a further 116 shares were provided to the Executive Directors, in respect of the final distribution of shares to all qualifying employees as part of the flotation.

	Interests in Shares (as % of Salary) ¹³	Interests in Shares ¹⁴	Maximum Scheme Interests Unvested ¹⁵	Total Potential Interests	Total Potential Interests (as % of Salary)
Chairman					
Donald Brydon	3,030	-	-	-	-
Executive Directors					
Moya Greene	3,643	4%	65,880	69,523	79
Mark Higson	3,643	5%	56,673	60,316	79
Matthew Lester	3,643	5%	56,620	60,263	79
Non-Executive Directors					
John Allan	3,030	-	-	-	-
Jan Babiak	3,030	-	-	-	-
Nick Horler	3,030	-	-	-	-
Cath Keers	3,030	-	-	-	-
Paul Murray	3,030	-	-	-	-
Orna Ni-Chionna	3,030	-	-	-	-
Les Owen	3,030	-	-	-	-

How does TSR compare to that of other similar companies?

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



How much does Royal Mail spend on pay?

The following table shows the Group's people costs relative to dividends, revenue and EBIT.

¹³ Includes interests in Ordinary Shares of persons connected with the relevant Director.

¹⁴ Valued using the share price on 31 March 2014 of £5.63.

¹⁵ Relates to the 2013 LTIP award which was converted into shares on 19 December 2013.

Directors' remuneration report (continued)

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

The table below shows the percentage change in the Chief Executive's salary, benefits and annual bonus between 2012-13 and 2013-14, compared to that for the average employee of the Group

	Chief Executive Moya Greene (£)			Average Employee (£) ¹⁶		
	2013-14	2012-13	% Change	2013-14	2012-13	% Change
Salary	498,000	498,000	0%	26,405	25,804	2.3%
Benefits	29,000	377,000	(77%)	117	115	1.7%
STIP	385,000	399,000	(4%)	514	479	7%

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

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

Remuneration of the Chief Executive Officer	Moya Greene			
	2010-11 ¹⁷	2011-12	2012-13	2013-14
Total remuneration (£ 000)	778	1,107	1,962	1,350
STIP award as % maximum	41%	74%	80%	77%
LTIP award as % maximum	-	-	100%	100%

Do the Executive Directors receive fees from external appointments?

The Executive Directors are entitled to receive fees from external appointments. Moya Greene is a Director at Tim Hortons Inc and received fees of £82,433 (sterling equivalent) for the last reported financial year. Matthew Lester is a Non-Executive Director at Man Group plc and received fees of £95,000 for the last reported financial year.

Who were the members of the Remuneration Committee in the year?

The members of the Committee during the last financial year were: Orna Ni-Chionna (Chair), Donald Brydon, Jan Babiak, Paul Murray, and Les Owen.

All of these were independent Non-Executive Directors as defined under the UK Corporate Governance Code, with the exception of the Company Chairman, who was independent on his appointment. Details of the number of meetings held during the year and the attendance of the members are provided on page 57.

What advice did the Committee receive?

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

Following a competitive tender process, New Bridge Street (NBS) was appointed by the Committee in 2011 to act as its independent adviser. NBS is a trading name of Aon Hewitt Limited, which is a subsidiary of Aon plc. Fees are normally charged on a time spent basis, with estimates provided in advance for particular projects. The total fees paid to NBS in respect of its services to the Committee during the year were £100,277 plus VAT. NBS also provided advice to the Company during the year in relation to the implementation of the all employee share schemes and long term incentive plan and on remuneration arrangements within GLS. NBS is a signatory to the Remuneration

Consultant's Code of Conduct and reports directly to the Chair of the Committee. The Committee Chair meets regularly with its advisors without management present and the Committee is satisfied that the advice that it receives from NBS is objective and independent.

¹⁶ Average of all employees

¹⁷ Moya Greene joined in July 2010

How will the Directors' remuneration policy be applied in practice?

This section sets out how the remuneration policy is currently being applied

Cash salary	<p>The current salary for Moya Greene is £498 000. This is unchanged since her appointment to the Company in July 2010.</p> <p>Subject to approval of the Policy Report at the AGM, Matthew Lester's salary will increase by six per cent to £454 065. This increase will take effect from the start of the financial year (31 March 2014). This is the first increase since he joined the Company in November 2010.</p>
Pension and benefits	As set out in the policy table
Annual bonus	The annual bonus opportunity for strong and exceptional performance is unchanged at 60 and 100 per cent of salary respectively. The forward looking targets are deemed to be commercially sensitive but they will be disclosed retrospectively in next year's remuneration report.
LTIP - long term performance share awards	<p>The first grant of awards under the 2014 LTIP will be made in July 2014, subject to shareholder approval. Performance metrics will be earnings per share (50 per cent), growth in operating profit margin (35 per cent) and relative total shareholder return (TSR) (15 per cent).</p> <p>A sliding scale of challenging adjusted EPS targets will be set. 12.5 per cent of the total award will vest at the threshold EPS target and 50 per cent of the total award will vest at the exceptional EPS target. The EPS range for the 2014 awards is still being finalised and will be released in a public announcement in advance of the AGM.</p> <p>The targets set for the operating profit margin before transformation costs performance condition are considered by the Board to be commercially sensitive. However, they will be disclosed retrospectively at the end of the performance period. A sliding scale of targets has been set with 8.75 per cent of the total award vesting at the threshold margin, increasing to 35 per cent of the total award vesting for achievement of the exceptional margin.</p> <p>The relative TSR performance target will compare the Company's TSR against other companies in the FTSE 100 index (excluding mining and financial companies). If Royal Mail's TSR performance is ranked at the middle of the group, 7.5 per cent of the total award will vest, increasing to full vesting (15 per cent of the total award) if performance is in the top quartile of FTSE 100 companies.</p>
Chairman & Non-Executive Director fees	<p>The fee for the Chairman and fee policy for the Non-Executive Directors have been reviewed and the fees for 2014-15 are set out below:</p> <p>Chairman - £210 000</p> <p>Base Board fee - £45,000</p> <p>Additional fees for Chairing the Audit or Remuneration Committee - £15,000</p> <p>Additional fees for Chairing the Pensions Committee - £10 000</p> <p>Additional fee for the role of Senior Independent Director - £10,000</p>
Mark Higson	<p>As announced on 13 January 2014, Mark Higson will be standing down from the Board and will cease employment with the Company on 24 July 2014. He continues to receive salary, benefits and pension up until the date of his departure, 24 July, when he will receive a payment in lieu of the remainder of his notice period (just over eight months), limited to base salary only. Mark will be eligible for a pro-rata bonus for 2014-15, which will be paid (subject to performance) in June 2015. As he is a good leaver as defined in the LTIP rules, outstanding LTIP awards will pay out, subject to performance and pro-rating, on the normal dates. He will be eligible to benefit from outplacement services paid for by the Company and the Company will reimburse legal costs.</p>

Approved by the Board on 6 June and signed by



Orna Ni-Chionna
Chair, Remuneration Committee

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¹ For the 52 weeks ended 30 March 2014 52 weeks ended 24 March 2013 and 53 weeks ended 31 March 2013

² For the 52 weeks ended 30 March 2014 and 53 weeks ended 31 March 2013

³ At 30 March 2014 and 31 March 2013

Consolidated income statement

For the 52 weeks ended 30 March 2014, 52 weeks ended 24 March 2013
and 53 weeks ended 31 March 2013

		52 weeks ended 30 March 2014			52 weeks ended 24 March 2013			53 weeks ended 31 March 2013
	Notes	Reported ¹ £m	Specific items ² £m	Excluding specific items £m	Adjusted ³ (unaudited) £m	Specific items ² (unaudited) £m	Excluding specific items (unaudited) £m	Reported ¹ £m
Continuing operations								
Revenue	2/3	9,456	–	9,456	9,146	–	9,146	9,279
Operating costs		(8,785)	–	(8,785)	(8,548)	–	(8,548)	(8,644)
People costs	12	(5,282)	–	(5,282)	(5,077)	–	(5,077)	(5,147)
Distribution and conveyance costs		(1,869)	–	(1,869)	(1,771)	–	(1,771)	(1,785)
Infrastructure costs		(1,051)	–	(1,051)	(1,047)	–	(1,047)	(1,052)
Other operating costs		(583)	–	(583)	(653)	–	(653)	(660)
Operating profit before transformation costs		671	–	671	598	–	598	635
Transformation costs	3	(241)	–	(241)	(195)	–	(195)	(195)
Operating profit after transformation costs		430	–	430	403	–	403	440
Operating specific items								
Royal Mail Pension Plan amendment	4	1,350	1,350	–	–	–	–	–
Transaction-related costs	4	(28)	(28)	–	(10)	(10)	–	(10)
Employee Free Shares costs	4	(94)	(94)	–	–	–	–	–
Business-related costs	4	(15)	(15)	–	(67)	(67)	–	(47)
Operating profit/(loss)		1,643	1,213	430	326	(77)	403	383
Non-operating specific items								
Profit on disposal of property, plant and equipment	4	19	19	–	4	4	–	16
Profit on disposal of associate undertaking	4	2	2	–	–	–	–	–
Earnings before interest and taxation		1,664	1,234	430	330	(73)	403	399
Finance costs	5	(71)	–	(71)	(104)	–	(104)	(104)
Finance income	5	4	–	4	27	22	5	27
Net pension interest (non-operating specific item)	4/8(c)	69	69	–	30	30	–	30
Profit/(loss) from continuing operations before taxation		1,666	1,303	363	283	(21)	304	352
Taxation (charge)/credit	6	(386)	(289)	(97)	246	336	(90)	246
Profit for the period from continuing operations		1,280	1,014	266	529	315	214	598
Discontinued operations								
Profit after taxation for the period from Post Office Limited		–	–	–	–	–	–	2
Profit for the period		1,280	1,014	266	529	315	214	600
Profit for the period attributable to								
Equity holders of the parent Company		1,277	1,014	263	525	315	210	596
Non-controlling interests		3	–	3	4	–	4	4
Notional earnings per share	9							
Basic and diluted – continuing operations		127.7p	101.4p	26.3p	52.5p	31.5p	21.0p	59.4p
Basic and diluted – total Group		127.7p	101.4p	26.3p	52.5p	31.5p	21.0p	59.6p

¹ Reported – prepared in accordance with International Financial Reporting Standards (IFRSs) requiring Post Office Limited (POL) to be consolidated up until its transfer to Royal Mail Holdings plc on 1 April 2012

² Specific items – see note 1 Basis of preparation

³ Adjusted – Reported 2012–13 results adjusted to exclude the consolidation of POL up to 1 April 2012 and the 53rd week's additional revenue and costs. In addition, £32 million of POL separation costs taken to equity in the Reported basis are taken through the income statement in the Adjusted basis. See note 1 Basis of preparation

Consolidated statement of comprehensive income

For the 52 weeks ended 30 March 2014 and 53 weeks ended 31 March 2013

	Notes	52 weeks 2014 Reported £m	53 weeks 2013 Reported £m
Profit for the period from continuing operations		1,280	598
Other comprehensive (expense)/income for the period			
Items that will not be subsequently reclassified to profit or loss			
Amounts relating to pensions accounting		(344)	(439)
IFRIC 14 adjustment relating to pension surplus	8	(8)	(5)
Remeasurements – defined benefit schemes assets/liabilities	8(c)	(453)	(246)
Taxation on above items	6	117	(188)
Items that may be subsequently reclassified to profit or loss			
Foreign exchange translation differences		(12)	(5)
Designated cash flow hedges		(19)	2
Losses on cash flow hedges deferred into equity		(24)	(1)
Losses on cash flow hedges released from equity to income		4	2
Gains on cash flow hedges released from equity to the carrying amount of non-financial assets		-	(1)
Taxation on above items	6	1	2
Release of gains held in equity on disposal of pension escrow gilts	5	-	(22)
Total comprehensive income for the period		905	134
Total comprehensive income for the period attributable to			
Equity holders of the parent Company		902	130
Non-controlling interests		3	4

Consolidated statement of cash flows

For the 52 weeks ended 30 March 2014 and 53 weeks ended 31 March 2013

The consolidated statement of cash flows for the 52 weeks ended 30 March 2014 and 53 weeks ended 31 March 2013 has been prepared on a Reported basis in accordance with IFRSs. The comparative information for 2012-13 is also presented on a non-GAAP basis, which excludes the Group's former POL subsidiary. The only difference between the Reported and non-GAAP presentation is the £820 million cash which belonged to POL, transferred to Royal Mail Holdings plc (subsequently renamed Postal Services Holding Company Limited) on 1 April 2012.

	Notes	52 weeks 2014 Reported £m	53 weeks 2013 Non-GAAP £m	53 weeks 2013 Reported £m
Cash flow from operating activities				
Operating profit before transformation costs		671	635	635
Adjustment for:				
Depreciation	21	241	238	238
Amortisation	23	33	43	43
Share of post-tax profit from associates	24	(3)	(1)	(1)
EBITDA before transformation costs		942	915	915
Working capital movements		83	142	142
Decrease in inventories		2	8	8
Decrease in receivables		81	25	25
Increase in payables		19	136	136
Net increase in derivative assets		(2)	(15)	(15)
Decrease in provisions		(17)	(12)	(12)
Difference between pension costs charged in operating profit and pension cash flows		58	(3)	(3)
Cash cost of transformation operating expenditure ¹		(201)	(230)	(230)
Cash cost of operating specific items		(35)	(26)	(26)
Cash inflow from operations		847	798	798
Income taxation paid		(38)	(37)	(37)
Net cash inflow from operating activities		809	761	761
Cash flows from investing activities				
Dividend received from associate undertaking	24	2	-	-
Finance income received		4	5	5
Proceeds from sale of property, plant and equipment (non-operating specific item)		33	52	52
Proceeds from sale of associate undertaking (non-operating specific item)		3	-	-
Purchase of property, plant and equipment ¹		(341)	(388)	(388)
Transformation investment – capital expenditure		(83)	(177)	(177)
Non-transformation investment – capital expenditure		(258)	(211)	(211)
Acquisition of business ¹		(2)	(3)	(3)
Purchase of intangible assets (software) ¹		(69)	(41)	(41)
Payment of deferred consideration in respect of prior years' acquisitions ¹		(4)	(3)	(3)
Net outflow from transfer of Post Office Limited to Royal Mail Holdings plc		-	-	(820)
Net sale of financial assets investments (non-current)		-	129	129
Net sale of financial assets investments (current)		-	30	30
Net cash outflow from investing activities		(374)	(219)	(1 039)
Net cash inflow/(outflow) before financing activities		435	542	(278)
Cash flows from financing activities				
Finance costs paid on refinancing of loan facilities		(45)	-	-
Other finance costs paid		(37)	(49)	(49)
Payment of capital element of obligations under finance lease contracts		(73)	(74)	(74)
Cash received on sale and leasebacks		109	58	58
New loans		600	-	-
Repayment of borrowings		(973)	(600)	(600)
Net cash outflow from financing activities		(419)	(665)	(665)
Net increase/(decrease) in cash and cash equivalents		16	(123)	(943)
Effect of foreign currency exchange rates on cash and cash equivalents		(1)	1	1
Cash and cash equivalents at the beginning of the period		351	473	1 293
Cash and cash equivalents at the end of the period	15	366	351	351


¹ Items included in total investment – see note 7

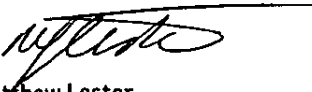
Consolidated balance sheet

At 30 March 2014 and 31 March 2013

	Notes	At 30 March 2014 Reported £m	At 31 March 2013 Reported £m
Non-current assets			
Property, plant and equipment	21	1,989	1,916
Leasehold land payment		3	3
Goodwill (mainly investment in GLS)	22	197	196
Intangible assets (mainly software)	23	195	139
Investments in associates	24	4	3
Financial assets – pension escrow investments	14/18	20	20
– derivatives	14/18	3	3
Retirement benefit asset – net of IFRIC 14 adjustment	8	1,723	825
Other receivables		13	8
Deferred taxation assets	6	9	112
		4,156	3,225
Non-current assets held for sale		3	2
Current assets			
Inventories		22	24
Trade and other receivables	25	926	1,004
Financial assets – derivatives	14/18	2	9
– short-term deposits	14/18	1	1
Cash and cash equivalents	14/15/18	366	351
		1,317	1,389
Total assets		5,476	4,616
Current liabilities			
Trade and other payables	26	(1,652)	(1,611)
Financial liabilities – obligations under finance leases	14/17/18	(87)	(79)
– derivatives	14/17/18	(12)	(2)
Income taxation payable		(14)	(14)
Provisions	20	(173)	(119)
		(1,938)	(1,825)
Non-current liabilities			
Financial liabilities – interest bearing loans and borrowings	14/16/17/18	(600)	(973)
– obligations under finance leases	14/17/18	(255)	(226)
– derivatives	14/17/18	(5)	(1)
Provisions	20	(95)	(127)
Other payables		(31)	(36)
Deferred taxation liabilities	6	(151)	(23)
		(1,137)	(1,386)
Total liabilities		(3,075)	(3,211)
Net assets		2,401	1,405
Equity			
Share capital	27	10	–
Retained earnings		2,332	1,318
Other reserves		52	83
Equity attributable to parent Company		2,394	1,401
Non-controlling interests		7	4
Total equity		2,401	1,405

The financial statements were approved and authorised for issue by the Board of Directors on 6 June 2014 and were signed on its behalf by


Moya Greene
 Chief Executive Officer


Matthew Lester
 Chief Finance Officer

Consolidated statement of changes in equity

For the 52 weeks ended 30 March 2014 and 53 weeks ended 31 March 2013

	Share premium £m	Share capital £m	Retained earnings £m	Financial assets reserve £m	Foreign currency translation reserve £m	Hedging reserve £m	Other reserves £m	Equity holders of the parent £m	Non- controlling interests £m	Total equity £m
Reported at 26 March 2012	3 784	-	(6 442)	22	78	8	47	(2 503)	-	(2,503)
Profit for the period from continuing operations	-	-	594	-	-	-	-	594	4	598
Other comprehensive income/(expense) for the period	-	-	(439)	(22)	(5)	2	-	(464)	-	(464)
Capital reduction	(3 784)	-	3 784	-	-	-	-	-	-	-
Pension deficit transfer to HM Government on 1 April 2012 (note 8(c))	-	-	4 012	-	-	-	-	4 012	-	4 012
Loss on transfer of subsidiary to parent Company (discontinued operation)	-	-	(191)	-	-	-	(47)	(238)	-	(238)
Reported at 31 March 2013	-	-	1,318	-	73	10	-	1,401	4	1,405
Profit for the period from continuing operations	-	-	1,277	-	-	-	-	1,277	3	1,280
Other comprehensive expense for the period	-	-	(344)	-	(12)	(19)	-	(375)	-	(375)
Share capital issue (note 10)	-	10	(10)	-	-	-	-	-	-	-
Employee Free Shares issue¹ (note 11)	-	-	91	-	-	-	-	91	-	91
Reported at 30 March 2014	-	10	2,332	-	61	(9)	-	2,394	7	2,401

¹ Excludes £3 million National Insurance charged to the income statement included in provisions on the balance sheet

A description of the reserves in the above table is included in note 27

Notes to the consolidated financial statements

Core notes to the consolidated financial statements

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

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1. Basis of preparation

This note explains how these Royal Mail plc Group (the Group) consolidated financial statements have been prepared including details of the incorporation of Royal Mail plc (the Company) specific items, the adjustment to the comparative year relating to the transfer of Post Office Limited (POL) to Royal Mail Holdings plc on 1 April 2012, and the adjustment for the 53rd week in 2012-13

Authorisation of financial statements and statement of compliance with IFRSs

The consolidated financial statements for the 52 weeks ended 30 March 2014 were authorised for issue by the Board on 6 June 2014 and the balance sheet (as at 30 March 2014) was signed on behalf of the Directors by Moya Greene and Matthew Lester

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and as they apply to the financial statements of the Group for the 52 weeks ended 30 March 2014 (2013 53 weeks ended 31 March 2013)

Basis of preparation and accounting

The incorporation of Royal Mail Limited on 6 September 2013, subsequently re-registered as Royal Mail plc (the Company) on 19 September 2013 has resulted in the Company becoming the immediate and ultimate parent of Royal Mail Group Limited (see note 10 for further details) The consolidated financial statements are therefore presented for Royal Mail plc and its subsidiaries, whereas the 2012-13 Annual Report and Special Purpose Financial Statements (Annual Report) and Prospectus in relation to the Initial Public Offering of Royal Mail plc, dated 27 September 2013 ('the Prospectus') were in respect of consolidated Royal Mail Group Limited Accordingly, all references to the 2012-13 Annual Report and Prospectus in this document relate to the consolidated Royal Mail Group Limited entity

The Company is incorporated in the United Kingdom (UK) and the financial statements are produced in accordance with the Companies Act 2006 and applicable IFRSs The UK is the Company's country of domicile

The Group consolidated financial statements are presented in Sterling as that is the currency of the primary economic environment in which the Group operates, and all values are rounded to the nearest whole million except where otherwise indicated The consolidated financial statements have been prepared on an historic cost basis, except for pension assets and derivative financial instruments, which have been measured at fair value

The results of POL have been consolidated and disclosed as a 'discontinued operation' in the income statement for the period 26 March 2012 up to 1 April 2012 at which point POL was transferred to Royal Mail Holdings plc (subsequently renamed Postal Services Holding Company Limited)

Presentation of results

The Group's significant accounting policies can be found after the notes to these Group financial statements

The consolidated financial statements have been prepared in accordance with IFRSs (i.e. on a Reported basis) The income statement and cash flow statement also include non-GAAP adjustments in respect of the following

Specific items

The Group previously disclosed items that in management's judgement needed to be shown separately by virtue of their nature as 'exceptional items' There are however, other items of income/expense, after 'operating profit after transformation costs' that management now discloses separately, which do not ordinarily meet the definition of 'exceptional items' (e.g. finance income on the sale of pension escrow gilts net pension interest and elements of taxation) The Group has decided, therefore, not to continue using the 'exceptional items' definition and instead to refer to such items of income/expense as 'specific items'

This new definition has been introduced on the basis that the financial results excluding these specific items are consistent with how financial and operational performance is measured by management in providing a meaningful analysis of the Groups trading results and cash flows These specific items may not be comparable with similarly-termed measures used by other companies

Items which are classified as specific are RMPP (Royal Mail (RM) section – see note 8) amendment credit transaction-related costs, Employee Free Shares costs, certain costs not associated with the transformation of the operational network, historical employment costs potential industrial diseases claims costs, certain property impairments, all profits from disposals of property and associate undertakings net pension interest the gain created on the sale of pension escrow investments, plus the related taxation effects of these items Taxation specific items include the impact of the pension transfer pursuant to the Postal Services Act 2011 and the impact of changes in taxation law

Impact of 53rd week in 2013

The 2012-13 comparative year was a 53 week year and, to provide meaningful comparisons of revenues and costs the income statement also includes comparative results on an Adjusted 52 week basis The adjustment eliminates the 53rd week's revenue and incremental operating costs associated with that revenue

GLS reports results for a 52 week year ending 31 March No adjustment has therefore been made for GLS

Transfer of Post Office Limited (POL)

The 2012-13 comparative Reported results in these financial statements relate to the 53 week year ended 31 March 2013 and include the full consolidated results of the Group, including the Group's former subsidiary, POL for the period 26 March 2012 to 31 March 2012 POL was subsequently transferred to Royal Mail Holdings plc on 1 April 2012

Notes to the consolidated financial statements (continued)

1. Basis of preparation (continued)

The 2012-13 comparative Adjusted results in the income statement exclude POL, and are consistent with those presented in the Prospectus with an adjustment to eliminate the 53rd week's revenue and costs (£37 million profit impact – see above and page F66 in the Prospectus). In excluding POL from these comparative results, costs incurred by the Group relating to the transfer of POL (£20 million IT separation costs and £12 million loss on transfer of properties) were deemed, for the purpose of providing Royal Mail Group excluding POL financial information, to be external, third party costs and were taken directly to the income statement.

On a Reported basis, these £32 million costs of POL separation have been treated, as required by IFRSs, as transactions with the parent (at the time Royal Mail Holdings plc) and taken directly through equity (included in 'Loss on transfer of subsidiary to parent Company (discontinued operation)' in the Consolidated statement of changes in equity) not through the income statement. Consequently, the Reported 'profit for the period from continuing operations' is £32 million higher than that in the Adjusted results, in addition to the £37 million higher profit impact of the 53rd week as explained above.

The comparative information in the consolidated statement of cash flows also includes non-GAAP disclosures which exclude the cash position of POL up to the date of its transfer to Royal Mail Holdings plc. The Directors believe that this presentation provides meaningful comparisons of cash flows and is consistent with how the cash flow statement was presented in the 2012-13 Annual Report and the Prospectus.

Other than the 'discontinued operation' disclosure in the income statement and the Reported cash flows in the cash flow statement, on the basis of materiality, no other disclosures (e.g. segment reporting) in respect of POL have been made in these financial statements for the period that it was still part of the Group.

Merger transaction of Royal Mail plc and Royal Mail Group Limited

As part of the Group reorganisation prior to the Initial Public Offering of shares, the Company acquired the entire share capital of Royal Mail Group Limited through issuance of its shares to the then parent Company, Royal Mail Holdings plc (subsequently renamed Postal Services Holding Company Limited). As there were no changes to the shareholder group at the time of this transaction and Royal Mail plc is not a business, this transaction did not classify as a business combination as defined under IFRS 3 Business Combinations. The consolidated financial statements of Royal Mail plc have therefore been prepared as a continuation of the existing Group.

Going concern

The Group's business activities, strategy and performance are outlined on pages 2 to 37.

In assessing the going concern status of the Group, the Directors are required to look forward by a minimum of 12 months from the end of the reporting year 30 March 2014, to ensure that there is sufficient headroom (determined by available cash and cash equivalents plus available unrestricted unused committed facilities) to enable the Group to pay its creditors as they fall due.

Notes 5 and 16 of these financial statements provide details of the Group's current loan structure and level of borrowings at 30 March 2014.

The Group also has finance lease obligations of £342 million at 30 March 2014 as shown in note 28 to the financial statements.

Letters of Credit of £112 million have been provided by the Group in support of certain leasing and insurance obligations. However, as these are currently uncollateralised, they are not included as part of reported net debt. Further details are provided in the Financial review on page 27.

The Directors have undertaken a review of, and expect to continue to review, the Group's cash headroom over a longer timeframe than the minimum requirement, under various downside scenarios.

The Directors have concluded from their review that, under the various downside scenarios, sufficient cash headroom exists for the foreseeable future and, accordingly, the consolidated financial statements have been prepared on a going concern basis.

2. Segment information

The Group's revenue, certain costs and profit before financing and taxation are segmented in this note, aligned with how the business is managed.

Business unit	Main statutory entities
UK Parcels, International & Letters (UKPIL) UK operations	Royal Mail Group Limited Royal Mail Estates Limited Royal Mail Investments Limited
General Logistics Systems (GLS) Other European operations	GLS Germany GmbH & Co. OHG GLS Italy S.p.A. GLS France S.A.S.
Other UK operations	Romec Limited (51% owned subsidiary) NDC 2000 Limited (51% owned subsidiary) Quadrant Catering Ltd (51% owned associate)

2. Segment information (continued)

The Group is structured on a geographic business unit basis and these business units report into the Chief Executives Committee and the Royal Mail plc Board. Each of these units has discrete revenue, costs, profit, cash flows, assets and people. Therefore, full and complete financial information is prepared and reviewed on a regular basis and compared with both historical and budget/forecast information as part of a rigorous performance management process.

In addition to providing segmental disclosures for profit after taxation, consistent with the requirements of accounting standards and how the Group is managed, the information below also includes details of free cash flow and EBITDA before transformation costs.

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

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

Reported 52 weeks ended 30 March 2014

	UK operations			Other European operations	Total £m
	UKPIL £m	Other £m	Total £m	GLS £m	
Continuing operations					
External revenue	7,787	18	7,805	1,651	9,456
Inter-segment revenue	-	176	176	- ¹	176
Total segment revenue	7,787	194	7,981	1,651	9,632
Operating profit before transformation costs	550	13	563	108	671
Transformation costs	(241)	-	(241)	-	(241)
Operating profit after transformation costs	309	13	322	108	430
Operating specific items					
Royal Mail Pension Plan amendment	1,350	-	1,350	-	1,350
Transaction-related costs	(24)	-	(24)	(4)	(28)
Employee Free Shares costs	(94)	-	(94)	-	(94)
Business-related costs	(15)	-	(15)	-	(15)
Operating profit	1,526	13	1,539	104	1,643
Non-operating specific items					
Profit on disposal of property, plant and equipment	19	-	19	-	19
Profit on disposal of associate undertaking	2	-	2	-	2
Earnings before interest and taxation	1,547	13	1,560	104	1,664
Net finance costs			(70)	3	(67)
Net pension interest (non-operating specific item)			69	-	69
Profit before taxation			1,559	107	1,666
Taxation – specific items	not reported at this level		(289)	-	(289)
– other			(56)	(41)	(97)
Profit for the period after taxation			1,214	66	1,280
EBITDA before transformation costs	791	10	801	141	942
Free cash flow²			338	60	398

¹ Trading between GLS and UKPIL is not material.

² Free cash flow is a non-GAAP measure used by management.

Notes to the consolidated financial statements (continued)

2. Segment information (continued)

Reported 53 weeks ended 31 March 2013

	UK operations			Other European operations	Total £m
	UKPIL £m	Other £m	Total £m	GLS £m	
Continuing operations					
External revenue	7766	15	7781	1 498	9 279
Inter-segment revenue	-	148	148	- ¹	148
Total segment revenue	7766	163	7929	1 498	9 427
Operating profit before transformation costs	526	8	534	101	635
Transformation costs	(195)	-	(195)	-	(195)
Operating profit after transformation costs	331	8	339	101	440
Operating specific items					
Transaction-related costs	(10)	-	(10)	-	(10)
Business-related costs	(47)	-	(47)	-	(47)
Operating profit	274	8	282	101	383
Non-operating specific items					
Profit on disposal of property, plant and equipment	16	-	16	-	16
Earnings before interest and taxation	290	8	298	101	399
Net finance costs			(82)	5	(77)
Net pension interest (non-operating specific item)			30	-	30
Profit before taxation	not reported at this level		246	106	352
Taxation - specific items			336	-	336
- other			(57)	(33)	(90)
Profit for the period after taxation			525	73	598
EBITDA before transformation costs	775	8	783	132	915
Free cash flow ²	not reported at this level		309	25	334

¹ Trading between GLS and UKPIL is not material

² Free cash flow is a non-GAAP measure used by management

The following amounts are included within operating profit before transformation costs

Reported 52 weeks ended 30 March 2014

	UK operations			Other European operations	Total £m
	UKPIL £m	Other £m	Total £m	GLS £m	
Depreciation	(212)	-	(212)	(29)	(241)
Amortisation of intangible assets (mainly software)	(29)	-	(29)	(4)	(33)
Share of post-tax profit from associates	-	3	3	-	3

Reported 53 weeks ended 31 March 2013

	UK operations			Other European operations	Total £m
	UKPIL £m	Other £m	Total £m	GLS £m	
Depreciation	(210)	(1)	(211)	(27)	(238)
Amortisation of intangible assets (mainly software)	(39)	-	(39)	(4)	(43)
Share of post-tax profit from associates	-	1	1	-	1

3. Transformation costs

Transformation costs are included within the cost base and profit that management monitors to assess financial and trading performance. These costs relate directly to the transformation programme that has spanned several years and therefore warrant separate disclosure as shown below.

	52 weeks 2014 Reported £m	53 weeks 2013 Reported £m
Voluntary redundancy – management reorganisation programme	(102)	-
Voluntary redundancy – other	(14)	(78)
Project and property costs (including £2m of management reorganisation programme costs)	(108)	(95)
Business transformation payments	(17)	(22)
Total transformation costs	(241)	(195)

The £17 million business transformation payments represent payments linked to the achievement of key milestones in transforming the network as part of the Business Transformation Agreement 2010.

4. Specific items before taxation

These are costs which fall outside the Group's normal trading activity and which in management's view need to be disclosed separately to provide greater visibility of the trading results of the business. This note also includes Adjusted (non-GAAP) comparative information which includes the costs of POL separation (see note 1 for further details).

	52 weeks 2014 Reported £m	52 weeks 2013 Adjusted £m	53 weeks 2013 Reported £m
Operating specific items			
Royal Mail Pension Plan amendment	1,350	-	-
Transaction-related costs	(28)	(10)	(10)
Employee Free Shares costs	(94)	-	-
Business-related costs	(15)	(67)	(47)
Potential industrial diseases claims	7	(28)	(28)
Impairments	-	(20)	(20)
Other	(22)	(19)	1
Total operating specific items	1,213	(77)	(57)
Non-operating specific items			
Profit on disposal of property, plant and equipment	19	4	16
Profit on disposal of associate undertaking	2	-	-
Finance income-release of gains held in equity on disposal of RMPP (RM section) escrow investments	-	22	22
Net pension interest	69	30	30
Total non-operating specific items	90	56	68
Total specific items before taxation	1,303	(21)	11

Other operating specific items of £22 million (2013 Adjusted £19 million) mainly comprise historical employment costs of £15 million (2013 Adjusted £nil) and £5 million POL separation costs (2013 Adjusted £20 million) relating to facilities management.

	52 weeks 2014 Reported £m	52 weeks 2013 Adjusted £m	53 weeks 2013 Reported £m
Taxation effect of above items	(301)	(7)	(7)
Taxation specific items	12	343	343
Impact of change in taxation law ¹	12	-	-
Impact of Postal Services Act 2011 ²	-	343	343
Total	(289)	336	336

¹ A taxation credit was recognised for the remeasurement of deferred taxation balances as a result of the change in UK statutory corporation taxation rates.

² The taxation credit shown in specific items for 2012-13 reflects the benefit of UK taxation attributes (including prior year taxation losses and deferred capital allowances) not previously recognised as deferred taxation assets. Deferred taxation assets are recognised only to the extent that the Group is expected to have future taxable profits and therefore obtain a real taxation saving from future taxation deductions. Following the Postal Services Act 2011 and the transfer of almost all of the RMPP's historic pension liabilities and pension assets, expectations of future profitability increased and it became appropriate to recognise a net deferred taxation asset in the UK. In addition to this one-off material deferred taxation credit, the Group also reported a one-off benefit from the utilisation of prior year taxation losses in 2012-13.

Notes to the consolidated financial statements (continued)

5. Net finance costs and net debt

This note provides details of

- Interest payable on loans and finance lease obligations and interest received from investments and loans. This analysis excludes net pension interest which is a non-cash item and is derived to comply with the requirements of the relevant accounting standard IAS 19, and
- Net debt – a non-GAAP measure which shows the Group's overall debt position by netting the value of financial liabilities (excluding derivatives) against its cash and other liquid assets. The balance sheet shows these items gross within the different categories of assets and liabilities

	52 weeks 2014 Reported £m	53 weeks 2013 Reported £m
Net finance costs		
Unwinding of discount relating to industrial diseases claims provision	(3)	(1)
Interest payable on financial liabilities	(68)	(103)
HM Government facilities		
Loans and borrowings	(47)	(82)
Unused facility fees	(2)	(5)
Other facility fees	(3)	(3)
Syndicated bank loan facility		
Loans and borrowings	(3)	-
Unused facility fees	(1)	-
Other facility fees	(2)	-
Finance leases	(10)	(13)
Finance costs	(71)	(104)
Release of gains held in equity on disposal of pension escrow gilts – specific item	-	22
Interest receivable on other financial assets	4	5
Finance income	4	27
Net finance costs	(67)	(77)

Net debt

		At 30 March 2014 Reported £m	At 31 March 2013 Reported £m
	Balance sheet category		
Obligations under finance leases	Current liabilities	(87)	(79)
Interest-bearing loans and borrowings	Non-current liabilities	(600)	(973)
Obligations under finance leases	Non-current liabilities	(255)	(226)
		(942)	(1 278)
Cash and cash equivalents and other financial assets			
Cash at bank and in hand	Current assets	51	136
Cash equivalent investments (short-term bank and local authority deposits/money market fund investments) and other financial assets	Current assets	316	216
Pension escrow investments (RMSEPP)	Non-current assets	20	20
Total net debt		(555)	(906)

5. Net finance costs and net debt (continued)

Excluding the balances relating to POL transferred to Royal Mail Holdings plc on 1 April 2012, net debt has decreased by £351 million during the year ended 30 March 2014 and by £280 million during the year ended 31 March 2013 as shown below

	2014 Reported £m	2013 Reported £m
Net debt brought forward at 1 April 2013 and 26 March 2012	(906)	(753)
Adjustment for transfer of POL to Royal Mail Holdings plc on 1 April 2012	-	(433)
Net debt brought forward excluding the POL subsidiary	(906)	(1 186)
Free cash flow	398	334
Finance costs paid on refinancing of loan facilities	(45)	-
Increase in loans and borrowings (roll-up interest on 12.0 per cent facility)	-	(51)
Increase in new finance lease obligations (non-cash)	(1)	(4)
Foreign currency exchange impact on cash and cash equivalents	(1)	1
Net debt carried forward at 30 March 2014 and 31 March 2013	(555)	(906)

At the date of the Company's listing on the London Stock Exchange £973 million of HM Government loans were repaid and £600 million of Syndicated bank loans were drawn down. Below is a summary of loans and borrowings at the year end, the respective average interest rates, and facilities available.

At 31 March 2014 Reported							
	Loans and borrowings £m	Further committed facility £m	Total facility £m	Average interest rate of loan drawn down %	Basis of interest rate at 30 March 2014 - LIBOR plus %	Average maturity date of loan drawn down year	Average maturity date of loan facility year
Syndicated bank loan facilities							
Term Loan A	300	-	300	1.5	1.00	2018	2018
Term Loan B	300	-	300	1.4	0.90	2016	2016
Revolving credit facilities	-	800	800	-	0.85	-	2018
Total	600	800	1,400	1.4		2017	2018

The Group's blended interest rate on loans and finance leases over the next five years is forecast to be as follows

	Interest rate %
Current average interest rate on drawn down loans (see table above)	1.4
Cost of fixing interest rates on £150 million of Term Loan A	0.3
Market expectation of interest rate rises over the next five years on remaining loans	0.9
	2.6
Add arrangement and commitment fees	0.9
Forecast blended interest rate on loans and finance leases over the next five years	3.5

Interest rates on £150 million of Term Loan A have been fixed over the life of the loan facility by entering into interest rate swaps as part of the Group's interest rate hedge programme.

As finance leases are currently at a similar interest rate to loans, the impact of finance leases on the blended interest rate is not material. Under the previous HM Government facilities, the equivalent blended interest rate was 8.8 per cent.

Notes to the consolidated financial statements (continued)

6. Taxation

This note provides details about current taxation charges/(credits) on profit and deferred taxation charges/(credits) relating to the impact of past events on expected future taxation. The note also provides the taxation impact of specific items.

	52 weeks 2014 Reported £m	53 weeks 2013 Reported £m
Taxation (charged)/credited in the income statement		
Current income taxation		
Current UK income taxation charge	(1)	(11)
Foreign taxation	(34)	(28)
Current income taxation charge	(35)	(39)
Amounts (under)/over provided in earlier years	(2)	1
Total current income taxation charge	(37)	(38)
Deferred income taxation		
Effect of change in taxation rates	12	-
Relating to origination and reversal of temporary differences	(368)	284
Amounts over provided in previous years	7	-
Taxation (charge)/credit in the consolidated income statement	(386)	246
Taxation on non-GAAP, specific items		
Taxation (charge)/credit relating to specific items	(289)	336
Taxation relating to items charged or credited to other comprehensive income		
Deferred taxation		
Actuarial gains/(losses) on defined benefit pension schemes	117	(188)
Net gains on revaluation of cash flow hedges	1	2
Total credit/(charge) in the consolidated statement of other comprehensive income	118	(186)

Reconciliation of the total taxation (charge)/credit

Reconciliations between the taxation (charge)/credit and the product of accounting profit multiplied by the UK rate of corporation taxation for the 52 weeks ended 30 March 2014 and 53 weeks ended 31 March 2013 are as follows:

	52 weeks 2014 Reported £m	53 weeks 2013 Reported £m
Profit before taxation	1,666	352
At UK standard rate of corporation taxation of 23% (2013 24%)	(383)	(84)
Effect of higher taxes on overseas earnings	(2)	(1)
Taxation over provided in prior years	5	1
Non-taxable income	-	9
Non-deductible expenses	(10)	(11)
Associate's profit after taxation charge included in Group pre-taxation profit	1	-
Net (increase)/decrease in taxation charge resulting from (derecognition)/recognition of deferred taxation assets	(9)	332
Effect of change in taxation rates	12	-
Taxation (charge)/credit in the income statement	(386)	246

6. Taxation (continued)

Deferred taxation

	Balance sheet		Income statement	
	At 30 March 2014 Reported £m	At 31 March 2013 Reported £m	52 weeks 2014 Reported £m	53 weeks 2013 Reported £m
Deferred taxation by balance sheet category				
Liabilities				
Accelerated capital allowances	(1)	-	-	1
Pensions temporary differences	(339)	(222)	(235)	(34)
Employee Free Shares Offer	(65)	-	(65)	-
Goodwill qualifying for taxation allowances	(28)	(23)	(5)	(6)
Deferred taxation liabilities	(433)	(245)		
Assets				
Deferred capital allowances	169	244	(76)	244
Provisions and other	30	37	(8)	33
Losses available for offset against future taxable income	90	51	40	46
Hedging derivatives temporary differences	2	2	-	-
Deferred taxation assets	291	334		
Net deferred taxation (liability)/asset (see below)	(142)	89		
Consolidated income statement			(349)	284

	Balance sheet	
	At 30 March 2014 Reported £m	At 31 March 2013 Reported £m
Deferred taxation – balance sheet presentation		
Liabilities		
GLS group	(30)	(23)
Net UK position	(121)	-
Deferred taxation liabilities	(151)	(23)
Assets		
GLS group	9	7
Net UK position	-	105
Deferred taxation assets	9	112
Net deferred taxation (liability)/asset	(142)	89

Effective taxation

The effective taxation rate on reported profit for the Group is 23 per cent

GLS pays taxation in a number of territories, with the majority of its profits in the period to 30 March 2014 earned in territories where the taxation rate is above the UK statutory taxation rate. Certain subsidiaries, notably GLS France, are not at this stage able to recognise taxation credits on losses made during the period and this contributes to GLS having a higher effective taxation rate for the period than the UK business.

Current taxation

Substantially all of the current taxation due for the Group for the period is in respect of GLS.

UK taxable profits in 2013-14 are almost fully covered by a combination of brought forward losses, capital allowance claims and a statutory deduction in respect of shares allocated to employees under the HM Revenue & Customs (HMRC)-approved Employee Free Shares Offer.

Owing to the above items and the RMPP (RM section) amendment credit, which does not give rise to a current taxation charge, the current taxation rate for the Group is two per cent.

Notes to the consolidated financial statements (continued)

6. Taxation (continued)

Deferred taxation

The UK deferred taxation liability is a net amount comprising a number of taxation assets and liabilities which will reverse in future periods. The UK position has changed from a net deferred taxation asset at 31 March 2013 to a net deferred taxation liability at 30 March 2014, primarily due to the effects of the Pensions Reform in the year. The pension surplus created as a result of the Pensions Reform gives rise to a deferred taxation liability that is expected to reverse over a much longer period than the other deferred taxation assets and liabilities. The RMPP (RM section) amendment credit of £1,350 million, included in profit before taxation, generates the majority of the deferred taxation charge in the income statement whilst the decrease in the pension surplus due to actuarial revaluation gives rise to a deferred taxation credit of £117 million in the consolidated statement of comprehensive income.

A new UK deferred taxation liability arises in 2013-14 in relation to the HMRC-approved Employee Free Shares Offer. As an HMRC-approved share incentive plan, a full taxation deduction is given for the value of the shares in the period in which they are first allocated to employees, whereas the accounting charge accrues over the life of the scheme. To the extent that the taxation deduction exceeds UK taxable profits in the period, the taxation losses carried forward are increased.

The deferred taxation balances within GLS arise in various jurisdictions, with reversal at varying times and rates and so balances in different jurisdictions are not offset against one another.

Under the Postal Services Act 2011, UK trading losses which arose due to employer's pension contributions paid which were unused at 31 March 2013 are extinguished. Losses and deferred taxation assets carried forward are stated above, net of the extinguished amount.

At 30 March 2014, the Group had unrecognised deferred taxation assets of £63 million (2013 £66 million) comprising £63 million (2013 £54 million) relating to taxation losses, mainly in GLS, that are available for offset and £nil (2013 £12 million) relating to other temporary differences.

The Group has capital losses carried forward, the taxation effect of which is £5 million (2013 £4 million) and temporary differences relating to capital losses of £61 million (2013 £73 million). The Group has rolled over capital gains of £43 million (2013 £53 million), no taxation liability would be expected to crystallise should the assets into which the gains have been rolled be sold at their residual value, as it is anticipated that a capital loss would arise.

In the 2012 Autumn Statement, the Chancellor of the Exchequer announced that the main rate of corporation taxation would be 21 per cent for the year commencing 1 April 2014 and in the March 2013 Budget, he announced that the rate would be further reduced to 20 per cent with effect from 1 April 2015. Both of these rate changes were included in the Finance Act 2013, which was substantively enacted on 2 July 2013. In accordance with accounting standards, the effect of these rate reductions on deferred tax balances has been reflected in these accounts. A net UK deferred taxation liability is recognised and measured at the future rates, dependent on when temporary differences are expected to reverse.

Non-GAAP analysis of taxation (charge)/credit (unaudited)

Below, we present current and deferred taxation between the reported, specific and excluding specific items columns on a 52 week basis only. The break out of taxation between current and deferred taxation between the specific and excluding specific items columns requires estimation and assumptions and is non-GAAP information. Management believes that this provides additional information on movements relating to one-off items and the movements relating to the trading results (which the excluding specific items column represents).

	52 weeks 2014			52 weeks 2013		
	Reported £m	Specific items £m	Excluding specific items £m	Adjusted (unaudited) £m	Specific items (unaudited) £m	Excluding specific items (unaudited) £m
Profit before taxation	1,666	1,303	363	283	(21)	304
Current taxation	(37)	12	(49)	(38)	-	(38)
Deferred taxation	(349)	(301)	(48)	284	336	(52)
Profit for the period	1,280	1,014	266	529	315	214

The taxation credit shown in the specific items column for 2012-13 reflects the benefit of UK taxation attributes (including prior year taxation losses and deferred capital allowances) not previously recognised as deferred taxation assets. Deferred taxation assets are recognised only to the extent that the Group is expected to have future taxable profits and therefore obtain a real taxation saving from future taxation deductions.

Following the Postal Services Act 2011 and the transfer of the historic pension deficit, expectations of future profitability increased and it became appropriate to recognise a net deferred taxation asset in the UK. In addition to this one-off material deferred taxation credit, the Group also reported a one-off benefit from the utilisation of prior year taxation losses in 2012-13.

In 2013-14, the current and deferred taxation amounts shown in the excluding specific items column are based on an assumption of what the taxation charge and allocation would have been, excluding the taxation impact of specific items. For example, excluding the taxation consequences of the specific items in 2013-14, we would have utilised brought forward losses against taxable profits arising to the extent available.

7. Cash flow

The Company uses free cash flow to monitor and manage its cash performance. This measure eliminates inflows/outflows between net debt items (see note 5) and includes finance cash costs paid. This note provides a reconciliation of net cash inflow/(outflow) before financing activities in the consolidated statement of cash flows to 'free cash inflow/(outflow)' which is a non-GAAP measure.

This note also includes non-GAAP information for the 2012-13 comparative year (the only difference between this and the Reported information being the exclusion of the £820 million POL cash balance on its transfer to Royal Mail Holdings plc – see note 1 Basis of preparation for further details) and non-GAAP information relating to specific items.

	52 weeks 2014 Reported £m	53 weeks 2013 Non-GAAP £m	53 weeks 2013 Reported £m
EBITDA before transformation costs (see consolidated statement of cash flows)	942	915	915
Trading working capital movements	(57)	(60)	(60)
Difference between pension costs charged in operating profit and pension cash flows	58	(3)	(3)
Total Group ongoing pension costs in the income statement	479	434	434
Total Group cash flows relating to ongoing pension costs	(411)	(409)	(409)
Deficit correction payments	(10)	(28)	(28)
Total investment ¹	(617)	(665)	(665)
Business transformation payments	(19)	(55)	(55)
Voluntary redundancy	(71)	(75)	(75)
One-off project and property costs	(111)	(100)	(100)
Transformation investment – operating expenditure	(201)	(230)	(230)
Transformation investment – capital expenditure	(83)	(177)	(177)
Total transformation investment	(284)	(407)	(407)
Non-transformation investment – capital expenditure	(333)	(258)	(258)
Taxation paid	(38)	(37)	(37)
Net finance costs paid (excluding finance costs paid on refinancing of loan facilities)	(33)	(44)	(44)
Dividend received from associate undertaking	2	–	–
Underlying cash inflow	257	106	106
Transfer of POL (discontinued operation) to Royal Mail Holdings plc	–	–	(820)
One-off working capital movements	140	202	202
Cash cost of operating specific items	(35)	(26)	(26)
Proceeds from disposal of property, plant and equipment and associate undertaking (non-operating specific items)	36	52	52
Free cash inflow/(outflow)	398	334	(486)

¹ Total investment is represented by several different line items in the consolidated statement of cash flows.

Notes to the consolidated financial statements (continued)

7. Cash flow (continued)

Working capital movements

	52 weeks 2014 Reported £m	53 weeks 2013 Non-GAAP £m	53 weeks 2013 Reported £m
One-off working capital movements			
Buy forward of stamps	20	87	87
Unwinding of prior year buy forward of stamps	(30)	-	-
Impact of applying VAT to postal products in 2012-13	-	75	75
Unwinding of pension prepayment made in March 2012	150	40	40
Total one-off working capital movements	140	202	202
Trading working capital movements	(57)	(60)	(60)
Total working capital movements	83	142	142

Free cash flow reconciliation

The following analysis provides a reconciliation of net cash inflow/(outflow) before financing activities in the consolidated statement of cash flows and free cash inflow/(outflow)

	52 weeks 2014 Reported £m	53 weeks 2013 Non-GAAP £m	53 weeks 2013 Reported £m
Net cash inflow/(outflow) before financing activities	435	542	(278)
Net sale of gilts and Treasury bills (financial asset investments - non-current)	-	(129)	(129)
Net sale of bank deposits (financial asset investments - current)	-	(30)	(30)
Other finance costs paid	(37)	(49)	(49)
Free cash inflow/(outflow)	398	334	(486)

8. Employee benefits – pensions

At 30 March 2014, a pension asset of £1,723 million has been recognised compared with £825 million at 31 March 2013. This increase mainly reflects the impact of the Pensions Reform as explained further in this note.

Summary pension information

	52 weeks 2014 Reported £m	53 weeks 2013 Reported £m
Pension costs		
Ongoing		
UK defined benefit scheme (income statement rates ¹ 20.3% 18.2%)	(448)	(412)
UK defined contribution scheme	(25)	(17)
Total UK ongoing pension costs	(473)	(429)
Total GLS defined contribution type scheme costs	(6)	(5)
Total Group ongoing pension costs	(479)	(434)
Difference between ongoing income statement charge and cash flows (cash flow rates ² 17.1% for both years)	68	25
Total Group pension cash outflows relating to ongoing pension costs	(411)	(409)
	At 30 March 2014 '000	At 31 March 2013 '000
UK pension schemes – active membership		
UK defined benefit scheme	106	112
UK defined contribution scheme	36	33
Total	142	145

¹ This service cost is charged to the income statement. It represents the cost (as a percentage of pensionable payroll) of the increase over the year in the defined benefit obligation due to members earning one more year of pension benefits. It is calculated in accordance with IAS 19 and is based on market yields (high quality corporate bonds and inflation) at the beginning of the Company's reporting year.

² This is the employer contribution rate which forms part of the payroll expense and is paid into the Royal Mail Pension Plan (RMPP) (RM section). The contribution rate is set following each actuarial funding valuation, usually every three years. These actuarial valuations are required to be carried out on assumptions determined by the Trustee and agreed by Royal Mail.

8. Employee benefits – pensions (continued)

UK Defined Contribution Scheme

The Group operates the Royal Mail Defined Contribution Plan, which was launched in April 2009 and is open to employees who joined the Company from 31 March 2008 following closure of the Royal Mail Pension Plan (RMPP) to new members

UK Defined Benefit schemes

Royal Mail Group Limited had one of the largest defined benefit pension schemes in the UK (based on membership and assets) called the RMPP. On 1 April 2012 (one week into the 2012-13 reporting year) – after the granting of State Aid approval by the European Commission to HM Government on 21 March 2012 – almost all of the historic pension liabilities and pension assets of RMPP, built up until 31 March 2012, were transferred to a new HM Government pension scheme, the Royal Mail Statutory Pension Scheme (RMSPS).

On this date, RMPP was also sectionalised, with Royal Mail Group Limited and POL each responsible for their own sections from 1 April 2012 onwards.

The transfer left the Royal Mail section of the RMPP (RM section) fully funded on an actuarial basis. This means that, using long-term actuarial assumptions agreed at that date, it was predicted the Company would have to make no further cash deficit correction payments.

Royal Mail Pension Plan (RMPP)

The RMPP (RM section) is funded by the payment of contributions to separate trustee administered funds. RMPP (RM section) includes sections A, B and C, each with different terms and conditions.

Section A is for members (or beneficiaries of members) who joined before 1 December 1971.

Section B is for members (or beneficiaries of members) who joined on or after 1 December 1971 and before 1 April 1987 or for members of Section A who chose to receive Section B benefits, and

Section C is for members (or beneficiaries of members) who joined on or after 1 April 1987 and before 1 April 2008.

Benefits provided are based on career salary blocks for years' service, revalued annually.

Following conclusion of the March 2012 actuarial valuation, the regular future service contribution rate for RMPP (RM section) expressed as a percentage of pensionable pay remained at 17.1 per cent (2013: 17.1 per cent). Following the State Aid clearance granted on 21 March 2012 and the subsequent transfer of almost all of the RMPP assets and liabilities to HM Government on 1 April 2012, no RMPP (RM section) cash deficit correction payment was made during the year. The Group expects to contribute around £400 million to the RMPP (RM section) in respect of normal cash service costs in 2014-15.

Royal Mail Senior Executives Pension Plan (RMSEPP)

The Group also contributes to a smaller defined benefit scheme for executives, Royal Mail Senior Executives Pension Plan (RMSEPP) – which closed in December 2012 to future accrual. The 2012-13 contributions were made at 35.9 per cent until 31 December 2012. The Company and the Trustee have reached agreement over the March 2012 actuarial valuation. As the plan is closed to future accrual, there will be no regular future service contributions. The Company is required to continue to make deficit correction payments of £10 million per annum until at least the date on which the 2018 valuation is completed (no later than 30 September 2018) as part of a funding agreement with the Trustee. Deficit correction payments in 2013-14 were £10 million (2013: £28 million including a special one-off payment of £19 million).

On 25 March 2013, the Group placed £20 million into a money market fund investment established to provide security to RMSEPP as part of a funding agreement with the RMSEPP Trustee. This is treated as an investment in the Group's balance sheet.

A liability of £1 million (2013: £1 million) has been recognised for future payment of pension benefits to a past Director.

Pensions Reform

In June 2013, the Company began a consultation with RMPP (RM section) members on a proposal to ensure the RMPP (RM section) could remain open to future accrual, subject to certain conditions, at least until the conclusion of the next periodic review in March 2018. Subsequently, on 26 September 2013, the Company agreed with the RMPP Trustee to implement a Pensions Reform with effect from 1 April 2014.

Under the Pensions Reform, basic pay elements of members' pensionable pay (after subtraction of the Lower Earnings Deduction for Section C members) will increase by RPI (up to five per cent) each year regardless of whether employees' actual basic pay increases by more or less, subject to potential additional increases to take account of certain increments or progressions within pay groups.

The agreed changes due to the Pensions Reform are considered to be a 'plan amendment' which meets the IAS 19 definition of a past service cost, and as such £1,350 million has been recognised in the income statement of the Group for the year ended 30 March 2014.

Notes to the consolidated financial statements (continued)

8. Employee benefits – pensions (continued)

Accounting and actuarial surplus/(deficit) position (RMPP (RM section) and RMSEPP)

	Accounting (IAS 19)		Actuarial/cash funding	
	At 30 March 2014 Reported £m	At 31 March 2013 Reported £m	At 31 March 2014 Reported £m	At 31 March 2013 Reported £m
Fair value of schemes assets (see (b) below)	3,833	3,343	3,873	3,343
Present value of schemes liabilities	(2,097)	(2,513)	(2,451)	(3,505)
Surplus/(deficit) in schemes (pre IFRIC 14)	1,736	830	1,422	(162)
IFRIC 14 adjustment	(13)	(5)	n/a	n/a
Surplus/(deficit)	1,723	825	1,422	(162)

There is no element of the present value of the schemes' liabilities above that arises from schemes that are wholly unfunded

The surplus in RMSEPP is assumed to be available as a refund as per IFRIC 14 and, as such, is shown net of withholding taxation

The surplus in RMPP (RM section) is assumed to be recoverable as a reduction to future employer contributions. Therefore, no IFRIC 14 adjustment is required. The Directors do not believe that the current excess of pension scheme assets over the liabilities on an accounting basis will result in an excess of pension assets on a funding basis. However, the Directors are required to account for the pension scheme based on their legal right to benefit from a surplus using long-term actuarial assumptions current at the reporting date, as required by IFRSs.

The actuarial/cash funding surplus of £1,422 million (2013 deficit of £162 million) allows the RMPP (RM section) to remain open for the benefit of the members at least until March 2018, subject to certain conditions (as part of the Pensions Reform agreement), without requiring either the Company or individuals to make unaffordable increases to their cash contributions.

The following disclosures relate to the major assumptions, sensitivities, gains/losses and surplus/deficit in the RMPP (RM section) and RMSEPP defined benefit schemes.

IAS 19 Accounting

a) Major long-term assumptions – RMPP (RM section) and RMSEPP

The major assumptions used to calculate the accounting position of the pension schemes were as follows:

	At 30 March 2014 Reported % p a	At 31 March 2013 Reported % p a
Retail Price Index (RPI)	3.4	3.3
Consumer Price Index (CPI)	2.4	2.3
Discount rate		
– nominal	4.5	4.8
– real (nominal less RPI) ³	1.1	1.5
Rate of increase in pensionable salaries ⁴	RPI-0.1%	RPI+1%
Rate of increase for deferred pensions – RMSEPP members transferred from Section A or B of RMPP ⁵	CPI	RPI
Rate of increase for deferred pensions – all other members	CPI	CPI
Rate of pension increases – RMPP (RM section) Sections A/B	CPI	CPI
Rate of pension increases – RMPP (RM section) Section C ⁴	RPI-0.1%	RPI-0.1%
Rate of pension increases – RMSEPP members transferred from Section A or B of RMPP ⁵	CPI	RPI
Rate of pension increases – RMSEPP all other members ⁴	RPI-0.1%	RPI-0.1%
Life expectancy from age 60 – for a current 40/60 year old male RMPP (RM section) member	29/27 years	29/26 years
Life expectancy from age 60 – for a current 40/60 year old female RMPP (RM section) member	32/30 years	32/29 years

³ The real discount rate used reflects the long duration of the RMPP (RM section) scheme of around 28 years.

⁴ The rate of increase in salaries and the rate of pension increase for Section C members (who joined RMPP on or after April 1987) and RMSEPP all other members is capped at five per cent which results in the average long-term pension increase assumption being 10 basis points lower than the RPI long-term assumption.

⁵ This rate of increase is set by reference to CPI following a High Court ruling on 11 June 2013.

Mortality

The mortality assumptions for RMPP (RM section) are based on the latest Self Administered Pension Scheme (SAPS) S1 mortality tables with appropriate scaling factors (106 per cent for male pensioners and 101 per cent for female pensioners). Future improvements are based on the CMI 2012 core projections with a long-term trend of 1.25 per cent per annum.

8. Employee benefits – pensions (continued)

Sensitivity analysis for RMPP (RM section) liabilities

The RMPP (RM section) liabilities are sensitive to changes in key assumptions. The potential impact of the largest sensitivities on the RMPP (RM section) liabilities is shown in the table below.

Key assumption change	Potential increase in liabilities £m
Additional one year of life expectancy	50
Increase in inflation rate (both RPI and CPI simultaneously) of 0.1% p.a.	50
Decrease in discount rate of 0.1% p.a.	50
Increase in CPI assumption (assuming RPI kept constant) of 0.1% p.a.	15

This sensitivity analysis has been determined based on a method that assesses the impact on the defined benefit obligation resulting from reasonable changes in key assumptions occurring at the end of the reporting year. Changes opposite to those in the table (e.g. an increase in discount rate) would have the opposite effect on liabilities.

The average duration of the RMPP (RM section) obligation is 28 years (2013: 28 years).

b) Schemes' assets – RMPP (RM section) and RMSEPP

	At 30 March 2014			At 31 March 2013 ^a		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Equities						
UK	28	82	110	80	88	168
Overseas	321	–	321	371	–	371
Bonds						
Fixed interest – UK	101	8	109	75	–	75
– Overseas	371	–	371	270	–	270
Index linked – UK	156	–	156	287	–	287
– Overseas	–	–	–	3	–	3
Pooled investments						
Managed funds	303	–	303	80	–	80
Unit Trusts	1,864	–	1,864	1,298	–	1,298
Property (UK)	250	–	250	218	–	218
Cash and cash equivalents	345	–	345	553	–	553
Other	5	–	5	20	–	20
Derivatives	(1)	–	(1)	–	–	–
Total schemes' assets	3,743	90	3,833	3,255	88	3,343

^a The categorisation of the schemes' assets at 31 March 2013 has been restated as a result of IAS 19 Employee Benefits (revised).

There were no open equity derivatives within this portfolio at 30 March 2014 (at 31 March 2013: £nil). Included within the pension assets are £2.0 billion (2013: £1.4 billion) of HM Government Bonds. The schemes' assets do not include property occupied by the Group, the Group's own shares or assets used by the Group.

Risk exposure and investment strategy

The investment strategy of the RMPP Trustee aims to safeguard the assets of the scheme and to provide, together with contributions, the financial resource from which benefits are paid. Investment is inevitably exposed to risks. The investment risks inherent in the investment markets are partially mitigated by pursuing a widely diversified approach across asset classes and investment managers. The RMPP (RM section) uses derivatives (such as swaps and futures) to reduce risks whilst maintaining expected investment returns. The RMPP Trustee recognises that there is a natural conflict between improving the potential for positive return and limiting the potential for poor return. The RMPP Trustee has specified objectives for the investment policy that balance these requirements.

The RMPP Trustee has elected to use interest rate and inflation rate swaps ('derivatives') to deliver the investment strategy whilst managing risk. These derivatives are recorded at market value within the table above and are commonly used by pension funds. The interest rate and inflation rate swaps are used to hedge the exposure to movements in interest rates and inflation (which are key long-term assumptions used to estimate future pension liabilities). The economic exposure of these 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 30 March 2014 is £3.8 billion (March 2013: £1.5 billion).

The spread of investments continues to balance security and growth in order to pay the RMPP (RM section) benefits when they become due.

Notes to the consolidated financial statements (continued)

8. Employee benefits – pensions (continued)

c) Movement in schemes' assets, liabilities and net position – RMPP (RM section) and RMSEPP

Changes in the present value of the defined benefit pension liabilities, fair value of the schemes' assets and the net defined benefit asset/(obligation) are analysed as follows

	Defined benefit asset		Defined benefit liability		Net defined benefit asset/(liability)	
	At 30 March 2014 Reported £m	At 31 March 2013 Reported £m	At 30 March 2014 Reported £m	At 31 March 2013 Reported £m	At 30 March 2014 Reported £m	At 31 March 2013 Reported £m
Opening net retirement benefit surplus/(deficit) – pre IFRIC 14 adjustment	3,343	30,745	(2,513)	(33,667)	830	(2,922)
Amounts included in the income statement						
Ongoing UK defined benefit pension scheme costs (included in people costs – see note 12)	–	–	(448)	(412)	(448)	(412)
Royal Mail Pension Plan amendment	–	–	1,350	–	1,350	–
Pension interest income/(cost) ⁷	172	159	(103)	(129)	69	30
Total included in profit from continuing operations before taxation	172	159	799	(541)	971	(382)
Amounts included in other comprehensive income – remeasurement gains/(losses)						
Actuarial gain/(loss) arising from						
Demographic assumptions	–	–	4	–	4	–
Financial assumptions	–	–	(256)	(865)	(256)	(865)
Experience adjustment	–	–	2	101	2	101
Return on schemes' assets (excluding interest income) ⁸	(203)	518	–	–	(203)	518
Total actuarial (losses)/gains on defined benefit schemes	(203)	518	(250)	(764)	(453)	(246)
Amounts taken directly to equity						
Transfer of historic pension deficit to HM Government	–	(28,438)	–	32,450	–	4,012
Transfer of Post Office Limited subsidiary to parent	–	(193)	–	145	–	(48)
Total included in the statement of changes in equity	–	(28,631)	–	32,595	–	3,964
Other						
Employer contributions	407	435	–	–	407	435
Employee contributions	136	136	(136)	(136)	–	–
Benefits paid	(25)	(17)	25	17	–	–
Curtailment costs	–	–	(20)	(17)	(20)	(17)
Movement in pension-related accruals	3	(2)	(2)	–	1	(2)
Total other movements	521	552	(133)	(136)	388	416
Closing net retirement benefit surplus/(deficit) – pre IFRIC 14 adjustment	3,833	3,343	(2,097)	(2,513)	1,736	830

⁷ The pension interest income is the result of applying the schemes' discount rate at 31 March 2013 to the schemes' assets at that date. Similarly the pension interest cost results from applying the schemes' discount rate as at 31 March 2013 to the schemes' liabilities at that date. The pension interest for the position at 31 March 2013 has been restated for the effect of IAS 19 Employee Benefits (revised) – see Significant accounting policies section.

⁸ Includes asset returns, movements on pension prepayments and changes to brought forward estimates.

In addition to the above items which affect the defined benefit asset, additional curtailment costs of £34 million (2013 £11 million) were recognised in the income statement on a consistent basis with the associated redundancy costs. Estimates of both are included in any redundancy provision raised.

9. Notional earnings per share

This note explains the calculation of the Groups earnings per share. The calculation for both reporting years is based on the 1,000,000,000 shares that were issued in September 2013 and which were subsequently listed on the London Stock Exchange in October 2013. It is therefore deemed to be 'notional' earnings per share as the shares were not in existence for the whole of the reporting years. The note also includes non-GAAP information relating to specific items.

	52 weeks 2014		52 weeks 2013		53 weeks 2013
	Reported ¹	Excluding specific items	Adjusted ² (unaudited)	Excluding specific items (unaudited)	Reported ¹
Profit from continuing operations attributable to equity holders of the parent (£m)	1,277	263	525	210	594
Number of shares (million)	1,000	1,000	1,000	1,000	1,000
Basic and diluted notional earnings per share (pence) ³	127.7	26.3	52.5	21.0	59.4

¹ Prepared in accordance with IFRSs

² Prepared in accordance with IFRSs, except for the non-consolidation of POL and excluding the impact of the 53rd week in 2013

³ The basic and diluted notional earnings per share have been calculated based on the one billion shares in issue at 30 March 2014 being in existence for the entirety of both reporting years

In future reporting periods earnings per share will be calculated using the weighted average number of shares in issue over the relevant period

10. Organisation structure and share capital changes

This note explains the incorporation of Royal Mail plc and the subsequent changes in share capital following the Company's listing on the London Stock Exchange on 15 October 2013

A new company Royal Mail Limited, was incorporated on 6 September 2013 with share capital of 100 Ordinary Shares of £1.50 each (total £150) issued to Royal Mail Holdings plc. Royal Mail Holdings plc was renamed Postal Services Holding Company plc on 11 September 2013 (and was subsequently renamed Postal Services Holding Company Limited (PSH) on 12 December 2013). On 12 September 2013 the special share in Royal Mail Group Limited, held by HM Government, was redeemed at par value of £1.

Subsequently, also on 12 September 2013, share capital of 999,999,900 Ordinary Shares of £1.50 each (total £1,499,999,850) was issued by Royal Mail Limited to PSH in consideration for the transfer from PSH of the entire issued share capital of Royal Mail Group Limited (50,001 £1.00 shares).

Following this transfer, and therefore as at 12 September 2013 the issued share capital of Royal Mail Limited comprised 1,000,000,000 Ordinary Shares of £1.50 each (total £1,500,000,000).

On 17 September 2013, Royal Mail Limited approved a reduction of capital by way of solvency statement to cancel £1.49 from each issued Ordinary Share of £1.50. This reduction of capital was registered on 18 September 2013 and reduced share capital from £1,500 million to £10 million and increased distributable reserves by £1,490 million.

Following this reduction and therefore as at 18 September 2013, the issued share capital of Royal Mail Limited comprised 1,000,000,000 Ordinary Shares of £0.01 each (total £10,000,000). On 19 September 2013, Royal Mail Limited was re-registered as Royal Mail plc. Royal Mail plc subsequently listed on the premium segment of the official list and the main market of the London Stock Exchange on 15 October 2013.

11. Share-based payment

This note provides details about the Free Shares allocated to employees, including the associated accounting charge to the Group's income statement under IFRS 2 and the number of shares held in the Share Incentive Plan (SIP) at the end of the reporting year. Details of shares awarded under the Long Term Incentive Plan (LTIP) are also included.

Employee Free Shares

Ordinary Shares representing ten per cent of the value of the Company were granted free of charge to eligible employees on 15 October 2013, the date of the Initial Public Offering. These Free Shares are held on behalf of employees in an HM Revenue and Customs (HMRC)-approved SIP administered by Equiniti Share Plan Trustees Limited (Equiniti) and it was expected that each eligible full-time employee would receive a total of 725 free shares at the date of the Initial Public Offering. However, under HMRC rules at the time of flotation, employees can only be given a maximum of £3,000 worth of free shares in any taxation year.

Notes to the consolidated financial statements (continued)

11. Share-based payment (continued)

Employee Free Shares (continued)

The initial market value of the award was measured at the closing mid-price of the Company's shares on 15 October 2013 (489 pence per share). This valued an eligible full-time employee's award at £3 545 25, in excess of the £3 000 maximum. Accordingly 613 shares were awarded to each eligible full-time employee as their 2013 SIP allocation. The Company allocated a further 116 shares (729 in total – see below) to eligible full-time employees on 9 April 2014 as a 2014 SIP allocation, subject to them remaining employees of Royal Mail Group Limited.

The 729 total shares awarded to eligible full-time employees comprises the 725 initial, expected allocation of shares and an additional four shares resulting from the reallocation of shares forfeited by certain employees who left the Group.

Part-time eligible employees have been allocated a pro-rata number of shares.

All allocated shares will be equity-settled.

The fair value of the award of Free Shares is £490 million, which will be charged to the income statement on a straight line basis, adjusted for 'good leavers', over the period of vesting (three years for the 2013 SIP and four years for the 2014 SIP, in each case from the award date).

A charge to the Group income statement of £94 million (including £3 million National Insurance) has been made for the year ended 30 March 2014 for both SIP allocations as they were granted as one award.

The Free Shares are held in a Trust funded by Royal Mail and may only be distributed to, or for the benefit of, eligible employees. The Trust is under the control of the Company and is operating for its benefit. At March 2014 the Trust has been included in these consolidated financial statements.

A reconciliation of the Ordinary Shares held in the SIP at 30 March 2014 is shown below.

	Number of shares
Initial shares awarded on 15 October 2013	84 415 327
Shares transferred out of SIP – 'good leavers'	(809 247)
Remaining shares to be allocated	15 744 673
Total shares remaining in SIP at 30 March 2014	99 350 753

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

As a result of the flotation in October 2013, and as permitted under the rules of the LTIP, the award granted to the Executive Directors and Senior Leadership Population in 2013 was converted from a cash award into an award of a total of around 2.2 million shares, based on a volume weighted average price of 529.14 pence. These shares are not part of the SIP explained above and will be acquired separately by the Company from the market. The performance conditions applying to this award will be measured in 2015–16.

The award will be accounted for as cash-settled, in accordance with the requirements of IFRS 2 'Share-based payment'.

Other notes – income statement

The notes in this section provide details of people costs and numbers and other operating costs (e.g. pensions, depreciation and amortisation and operating lease charges)

12 People information

13 Operating costs

Notes to the consolidated financial statements (continued)

12. People information

Of the total Group operating costs, 60 per cent (2013 60 per cent) relate to our people. This note provides a breakdown of our people costs and numbers.

People costs (for continuing operations)

	52 weeks 2014 Reported £m	53 weeks 2013 Reported £m
Wages and salaries	(4,426)	(4,354)
UK based	(4,120)	(4,072)
GLS	(306)	(282)
Pensions	(479)	(434)
Defined benefit UK	(448)	(412)
Defined contribution UK	(25)	(17)
GLS	(6)	(5)
Social security	(377)	(359)
UK based	(322)	(309)
GLS	(55)	(50)
Group total	(5,282)	(5,147)
Defined benefit pension rate		
Income statement	20.3%	18.2%
Cash flow	17.1%	17.1%
Defined contribution pension average rate		
Income statement and cash flow ¹	4%	4%

¹ Employer contribution rates are one per cent for employees in the entry level category and five per cent to seven per cent for those in the standard level category, depending on the employees' selected contribution rate.

People numbers (for continuing operations):

The number of people employed during the period, on a headcount basis, was as follows:

	Period end		Average employees	
	52 weeks 2014	53 weeks 2013	52 weeks 2014	53 weeks 2013
UKPIL	148,441	149,940	149,172	149,710
GLS	13,811	13,646	13,592	13,569
UK partially owned subsidiaries	3,999	4,030	4,049	4,013
Group total	166,251	167,616	166,813	167,292

Directors' emoluments:

	52 weeks 2014 Reported £000	53 weeks 2013 Reported £000
Directors' emoluments ²	(3,173)	(3,753)
Amounts earned under Long Term Incentive Plans (LTIP) ³	(2,654)	–
Number of Directors accruing benefits under defined benefit schemes	–	–

² These amounts include any cash supplements received in lieu of pension.

³ The 2014 LTIP amount consists of £1,327,000 for each of the 2010 and 2011 LTIP awards that vested at 30 March 2014.

13. Operating costs

Below is an analysis of operating costs in the income statement that because of their materiality or nature require separate disclosure under IFRSs

Operating profit from continuing operations, before transformation costs, is stated after charging the following operating costs

	52 weeks 2014 Reported £m	53 weeks 2013 Reported £m
Ongoing pension costs (note 8) (included in people costs)	(479)	(434)
Post Office Limited charges (included in other operating costs)	(358)	(371)
Depreciation and amortisation (included in infrastructure costs)	(274)	(281)
Depreciation of property plant and equipment (note 21)	(241)	(238)
Amortisation of intangible assets (mainly software – note 23)	(33)	(43)
Charges from overseas postal administrations (included in distribution and conveyance costs)	(322)	(313)
Costs of inventories expensed	(177)	(184)
Fuel stock (included in distribution and conveyance costs)	(130)	(132)
Other inventory (included in other operating costs)	(47)	(52)
Operating lease charges	(158)	(153)
Property plant and equipment (included in other operating costs)	(146)	(141)
Vehicles (included in distribution and conveyance costs)	(12)	(12)

Research and development expenditure during the year amounted to £nil (2013 £nil)

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

	52 weeks 2014 Reported £m	53 weeks 2013 Reported £m
Regulatory body costs		
Ofcom	(4)	(5)
Consumer Futures	(3)	(3)
Total	(7)	(8)

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

	52 weeks 2014 Reported £000	53 weeks 2013 Reported £000
Auditor's fees		
Audit of statutory financial statements	(402)	(402)
Other fees to auditor		
Statutory audits for subsidiaries	(1,423)	(1,566)
Other services (including regulatory audits)	(257)	(208)
Transaction-related support services	(4,025)	–
Taxation services	(178)	(228)
Total	(6,285)	(2,404)

The Group paid £90,000 additional amounts in 2013–14 in respect of the 2012–13 audit (£80,850 in 2012–13 in respect of the 2011–12 audit)

Notes to the consolidated financial statements (continued)

Other notes – financial assets, financial liabilities and hedging programmes

The notes in this section explain how the Group is financed including details of associated risks, interest rates, additional loan facilities available and hedging programmes in place to mitigate volatility in commodity prices and foreign currency exchange rates

14 Financial assets and liabilities – summary and management of financial risk

15 Cash and cash equivalents

16 Loans and borrowings

17 Financial liabilities – net and gross maturity analysis

18 Financial assets and liabilities – additional analysis

19 Hedging programmes

14. Financial assets and liabilities – summary and management of financial risk

Below is a summary of financial assets (e.g. cash, investments and deposits) and liabilities (e.g. loans and finance lease obligations) and details of how the various risks associated with these assets and liabilities are managed. Subsequent notes in this section provide more detailed disclosures on specific financial assets and liabilities.

The Group's financial assets and liabilities are shown in the table below.

	At 30 March 2014 Reported			At 31 March 2013 Reported		
	Non-current £m	Current £m	Total £m	Non-current £m	Current £m	Total £m
RMSEPP Pension escrow investments	20	–	20	20	–	20
Cash and cash equivalents	–	366	366	–	351	351
Other bank and local authority deposits	–	1	1	–	1	1
Derivative assets	3	2	5	3	9	12
Total financial assets	23	369	392	23	361	384
Syndicated bank loans	(600)	–	(600)	–	–	–
HM Government loans	–	–	–	(973)	–	(973)
Total loans and borrowings	(600)	–	(600)	(973)	–	(973)
Finance leases obligations	(255)	(87)	(342)	(226)	(79)	(305)
Derivative liabilities	(5)	(12)	(17)	(1)	(2)	(3)
Total financial liabilities	(860)	(99)	(959)	(1 200)	(81)	(1 281)

Financial assets and liabilities – financial risk management objectives and policies

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

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

It is and has been throughout the year under review, the Group's policy that no speculative trading in financial instruments shall be undertaken.

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

Interest rate risk

The Group's exposure to market risk for changes in interest rates arises from the Group's loans, leases and interest bearing financial assets. The drawn HM Government loans were at a fixed rate from the dates they were originally drawn until they were repaid at the Company's listing date. The drawings under the Syndicated bank loan facilities are £600 million (2013: £nil) but interest rates on £150 million of Term Loan A have been fixed over the life of the loan facility by entering into interest rate swaps. The combined average maturity date is 2017 (2013: the drawn HM Government loans had an average maturity date of 2019). The finance lease obligations of £342 million are all at a fixed rate (2013: £305 million all at fixed rate). The total interest bearing financial assets of the Group (excluding the non-current investments) of £395 million (2013: £336 million) which consist of the fixed and floating rate cash and cash equivalent investments, plus the current financial asset investments, are at short-dated fixed or variable interest rates with average maturity three days (2013: average maturity nine days). These short-dated financial instruments are maturity managed to obtain the best value out of the interest yield curve.

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

Foreign currency transaction risk

The Group is exposed to foreign currency risk due to trading with overseas postal operators for carrying UK mail abroad and delivering foreign origin mail in the UK, and various purchase contracts denominated in foreign currency (all of these exposures are in UKPIL). GLS reporting currency is the Euro and most of its revenues and profits are Euro based. There is some exposure to non-Euro currencies, principally in emerging European markets.

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

Notes to the consolidated financial statements (continued)

14. Financial assets and liabilities – summary and management of financial risk (continued)

Foreign currency risk translational risk

The Group's functional currency is the pound Sterling. GLS' functional currency is the Euro. GLS Euro profits are converted at the average exchange rate for the year, which can result in reported growth or decline which does not relate to underlying performance. GLS' balance sheet is converted at year end rates and movements related to foreign currency translation are taken to equity.

UKPIL's obligation to settle with overseas postal operators is denominated in Special Drawing Rights (SDRs) – a basket of currencies comprised of US Dollar, Japanese Yen, Sterling and Euro. Group Treasury operates a rolling 18-month hedge programme, which is subsequently reviewed on a quarterly basis.

UKPIL's obligations to settle conveyance charges in US Dollar have been hedged to April 2015.

UKPIL has two hedge programmes (one of which was completed during the reporting year) covering obligations to settle Euro invoices on automation projects.

The Group does not hedge the translation exposure created by the net assets of its overseas subsidiaries (mainly GLS). However, it does hedge the transactional exposure created by inter-company loans with these subsidiaries and uses the translational exposure arising from GLS Euro profits to offset with other transactional exposures.

Commodity price risk

UKPIL is exposed to fuel price risk arising from operating one of the largest vehicle fleets in Europe, which consumes over 130 million litres of fuel per year, and a jet fuel price risk arising from the purchasing of air freight services. The Group's fuel risk management strategy aims to reduce uncertainty created by the movements in the oil and foreign currency markets. The strategy uses over-the-counter derivative products (in both US Dollar commodity price and US Dollar/Sterling exchange rate) to manage these exposures.

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

As the GLS business model works using subcontractors, responsible for purchasing their own fuel, GLS has no direct exposure to diesel costs. The only other significant commodity exposure within GLS is power, which is fragmented across its European bases. In view of the other highly hedged positions in Royal Mail, the Group takes the view that the unhedged exposure arising from the commodities in GLS does not add significant risk to the Group.

Credit risk

UKPIL considers that a fair and equitable credit policy is in operation for all its account customers. The level of credit granted is based on a customer's risk profile assessed by an independent credit referencing agent. The credit policy is applied rigidly within the regulated products area so as to ensure that UKPIL is not in breach of compliance legislation. Assessment of credit for the non-regulated products is based on commercial factors, which are commensurate with the Group's appetite for risk.

UKPIL has a dedicated credit management team, which sets and monitors credit limits and takes corrective action as and when appropriate. The level of bad debt incurred for the whole Group is 0.1 per cent (2013 0.1 per cent) of turnover.

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

GLS operates a decentralised credit management model whereby each country is responsible for managing the credit risk associated with their customers. Where appropriate, external credit checks are performed for new and existing customers, taking into account the customer profile, expected volume of business and consequent risk to the Company.

Liquidity risk

The Group's primary objective is to ensure that the Group has sufficient funds available to meet its financial obligations as they fall due. This is achieved by aligning short-term investments and borrowing facilities with forecast cash flows. Typical short-term investments include money market funds and term deposits with approved counterparties. Borrowing facilities are regularly reviewed to ensure continuity of funding.

The unused facilities for the Group of £800 million expire in 2018 (2013 £900 million expiring in 2014).

Capital management

The Group aims to maintain debt and equity levels consistent with an investment grade credit profile. The Group intends to pursue a progressive dividend policy having regard to the normalised earnings progression of the Group.

Sensitivity

As a result of the mix of fixed and variable rate financial instruments and the currency and commodity hedge programmes in place, the Group has no material exposure to operating profit risk from interest rate risk, exchange rate risk or commodity price risk (2013 £nil). The Group has an exposure to the exchange rate risk on translating the GLS net assets into Sterling on consolidation. The impact of a five per cent strengthening of Sterling would have been to reduce the Group net assets by £34 million (2013 £31 million).

15. Cash and cash equivalents

This note summarises the cash and cash equivalents balances held by the Group

Cash and cash equivalents at 30 March 2014 and at 31 March 2013 are as follows

	At 30 March 2014 Reported £m	At 31 March 2013 Reported £m
Cash at bank and in hand	51	136
Cash equivalent investments Short-term bank and local authority deposits and money market fund investments	315	215
Total cash and cash equivalents	366	351

Cash and cash equivalents comprise amounts held physically in cash, bank balances available on demand and deposits for three months or less dependent on the immediate cash requirements of the Group Where interest is earned, this is either at floating or short-term fixed rates based upon bank deposit rates

16. Loans and borrowings

Details of loans and borrowings, including interest rates additional loan facilities available and any security provided against the loans are provided below

On 12 September 2013, the Group entered into new Syndicated bank loan facilities On the date of the Company's listing on the London Stock Exchange 15 October 2013, drawdowns of £600 million were made against these new facilities and used along with £418 million of surplus cash to repay all existing HM Government debt (£973 million) and accrued interest

Below is a summary of loans and borrowings at the year end the average interest rate, facility availability and security granted

	At 30 March 2014 Reported					Average maturity date of loan drawn down year	Average maturity date of loan facility year
	Loans and borrowings £m	Further committed facility £m	Total facility £m	Average interest rate of loan drawn down %	Basis of interest rate chargeable at 30 March 2014 – LIBOR plus %		
Syndicated bank loan facilities							
Term Loan A	300	–	300	1.5	1.00	2018	2018
Term Loan B	300	–	300	1.4	0.90	2016	2016
Revolving credit facilities	–	800	800	–	0.85	–	2018
Total	600	800	1,400	1.4		2017	2018

	At 31 March 2013 Reported					Average interest rate of loan drawn down %	Average maturity date of loan drawn down year
	Loans and borrowings £m	Further committed facility £m	Total facility £m				
HM Government facilities	973	900	1,873			8.8	2019

The Group's blended interest rate on loans and finance leases over the next five years is forecast to be 3.5 per cent, as shown in note 5

The undrawn committed facilities in respect of which all conditions precedent had been met at the balance sheet date expire as follows

	At 30 March 2014 Reported £m	At 31 March 2014 Reported £m
Expiring in one year or less	–	900
Expiring in more than one year but not more than two years	–	–
Expiring in more than two years	800	–
Total	800	900

Notes to the consolidated financial statements (continued)

16. Loans and borrowings (continued)

There is no security in place under the new Syndicated bank loan facilities

The following securities applied to the HM Government facilities at 31 March 2013

	2013 Facility £m	2013 Facility end date	Security
Royal Mail Group Limited senior debt facility	900	2014	Fixed charges over Royal Mail Holdings plc's shares in Royal Mail Group Limited and Royal Mail Group Limited's shares in Royal Mail Estates Limited. Floating charges over all assets of Royal Mail Holdings plc, Royal Mail Group Limited and Royal Mail Estates Limited
Royal Mail Group Limited shareholder loan facility	473	2016	None
Royal Mail Group Limited other drawn down loans	500	2021-25	Fixed charges over any Royal Mail Group Limited loans to General Logistics Systems BV, any Royal Mail Group Limited loans to subsidiaries of General Logistics Systems BV and Royal Mail Investments Limited's shares in General Logistics Systems BV. Floating charge over non-regulated assets of Royal Mail Group Limited
Total	1 873		

The 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 Group is at risk of breaching any of these obligations.

17. Financial liabilities – net and gross maturity analysis

This note focuses on loans and borrowings, finance leases and derivatives and provides further details of when amounts fall due, both for principal and for total (i.e. including interest) contractual payments.

Below is a summary of when all the financial liabilities fall due

	At 30 March 2014 Reported			
	Loans and borrowings £m	Finance leases £m	Derivative liabilities £m	Total £m
Amounts falling due in:				
One year or less or on demand (current)	-	87	12	99
More than one year (non-current)	600	255	5	860
More than one year but not more than two years	-	76	5	81
More than two years but not more than five years	600	151	-	751
More than five years	-	28	-	28
Total	600	342	17	959

	At 31 March 2013 Reported			
	Loans and borrowings £m	Finance leases £m	Derivative liabilities £m	Total £m
Amounts falling due in:				
One year or less or on demand (current)	-	79	2	81
More than one year (non-current)	973	226	1	1 200
More than one year but not more than two years	-	56	1	57
More than two years but not more than five years	473	139	-	612
More than five years	500	31	-	531
Total	973	305	3	1 281

17. Financial liabilities – net and gross maturity analysis (continued)

Obligations under finance leases are either unsecured or secured on the leased assets. The average interest rate is 3.4 per cent (2013 3.7 per cent). The average maturity date is more than five years (2013 more than five years).

The tables below set out the gross (undiscounted) contractual cash flows of the Group's financial liabilities. For overdrafts, loans and finance lease contracts, these cash flows represent the undiscounted total amounts payable including interest. For derivatives that are settled gross, these cash flows represent the undiscounted gross payment due and do not reflect the accompanying inflow. For derivatives that are settled net, these cash flows represent the undiscounted forecast outflow.

At 30 March 2014 Reported						
	Gross loans and borrowings commitments £m	Gross finance lease instalments £m	Sub-total £m	Gross payments on derivatives settled gross £m	Gross payments on derivatives settled net £m	Total £m
Amounts falling due in:						
One year or less or on demand (current)	9	94	103	188	11	302
More than one year (non-current)	642	356	998	–	5	1,003
More than one year but not more than two years	13	82	95	–	5	100
More than two years but not more than five years	629	161	790	–	–	790
More than five years	–	113	113	–	–	113
Total	651	450	1,101	188	16	1,305
Less interest	(51)	(108)	(159)	n/a	n/a	n/a
Net total	600	342	942	n/a	n/a	n/a

At 31 March 2013 Reported						
	Gross loans and borrowings commitments £m	Gross finance lease instalments £m	Sub-total £m	Gross payments on derivatives settled gross £m	Gross payments on derivatives settled net £m	Total £m
Amounts falling due in:						
One year or less or on demand (current)	29	87	116	120	2	238
More than one year (non-current)	1,435	330	1,765	2	1	1,768
More than one year but not more than two years	29	61	90	2	1	93
More than two years but not more than five years	752	147	899	–	–	899
More than five years	654	122	776	–	–	776
Total	1,464	417	1,881	122	3	2,006
Less interest	(491)	(112)	(603)	n/a	n/a	n/a
Net total	973	305	1,278	n/a	n/a	n/a

Notes to the consolidated financial statements (continued)

18. Financial assets and liabilities – additional analysis

This note provides an analysis of the pound Sterling carrying values of the financial assets and liabilities held in various foreign currencies along with details of interest rates, interest rate risk and maturity timescales

Table 1 shows all the financial assets and liabilities in detail and on a net basis. Table 2 shows the net amount by currency. Table 3 shows the respective assets/liabilities by whether they are fixed floating or non-interest bearing. Table 4 shows the effective interest rate and maturity analysed as fixed rate floating rate and non-interest bearing.

Carrying amounts and fair values

Trade receivables, payables, prepayments, accruals and client payables have been omitted from this analysis on the basis that carrying value is a reasonable approximation of fair value. Pension scheme assets and liabilities are also excluded. Fair values have been calculated using current market prices (forward exchange rates/commodity prices) and discounted using appropriate discount rates. There are no material differences between the fair value (transaction price) of all financial instruments at initial recognition and the fair value calculated using these valuation techniques. The fair value of the HM Government loans (non-current) is £nil at 30 March 2014 (2013 HM Government loans £1 165 million). The fair value of total 'Obligations under finance leases' is £341 million (2013 £308 million). For all other financial instruments fair value is equal to the carrying amount. The tables below also set out the carrying amount of the currency of the Group's financial instruments.

The following tables show the currency, classification, maturity and effective interest rate of the Group's financial assets and liabilities.

			At 30 March 2014 Reported £m	At 31 March 2013 Reported £m
Table 1	Level	Classification		
Financial assets				
Cash at bank, in hand			51	136
Cash equivalent investments			315	215
Money market funds		Loans and receivables	255	88
Short-term deposits – local government		Loans and receivables	–	7
Short-term deposits – bank		Loans and receivables	60	120
Cash and cash equivalents			366	351
Financial assets – investments (current) – local government deposit		Loans and receivables	1	1
Financial assets – pension escrow investments (non-current) – RMSEPP pension escrow – Money market funds		Loans and receivables	20	20
Derivative assets – current	2		2	9
Derivative assets – non-current	2		3	3
Total financial assets			392	384
Financial liabilities				
Obligations under finance leases (current)		Amortised cost	(87)	(79)
Financial liabilities – loans and borrowings (non-current)			(600)	(973)
Syndicated bank loans		Amortised cost	(600)	–
HM Government loans		Amortised cost	–	(973)
Obligations under finance leases (non-current)		Amortised cost	(255)	(226)
Derivative liabilities – current	2		(12)	(2)
Derivative liabilities – non-current	2		(5)	(1)
Total financial liabilities			(959)	(1 281)
Net total financial liabilities			(567)	(897)

There are no financial assets or liabilities designated at fair value through the income statement on initial recognition.

18. Financial assets and liabilities – additional analysis (continued)

The Level classification in the above table is described in the Fair value measurement of financial instruments' accounting policy

Derivative assets £2 million current, £3 million non-current (2013 £9 million current, £3 million non-current) and liabilities £12 million current, £5 million non-current (2013 £2 million current, £1 million non-current) are valued at fair value. Effective changes in the fair value of derivatives, which are part of a designated cash flow hedge under IAS 39, are deferred into equity. All other changes in derivative fair value are taken straight to the income statement.

None of the financial assets listed above is either past due or considered to be impaired. The net total financial assets are held in various different currencies as summarised in the table below. The majority of the non-Sterling financial assets are held within cash at bank, in hand.

Table 2	Sterling £m	US\$ £m	Euro £m	Other £m	Total £m
Net total financial assets/(liabilities) at 30 March 2014 Reported	(638)	(4)	57	18	(567)
Net total financial assets/(liabilities) at 31 March 2013 Reported	(1 005)	5	66	37	(897)

Interest rate risk

Interest on financial instruments classified as floating rate is re-priced at intervals of less than one year. Interest on financial instruments classified as fixed rate (including £150 million of the Syndicated bank loans that have been fixed by entering into interest rate swaps) is fixed until the maturity of the instrument. The rate in table 4 (below) for the fixed £150 million of Syndicated bank loans is shown inclusive of the interest rate swap rate to show the total rate of interest payable.

The tables below set out the carrying amount by maturity of the Group's financial instruments that are exposed to interest rate risk. The pension escrow investment of £20 million at 30 March 2014 represents a money market fund investment established to provide security to the Royal Mail Senior Executives Pension Plan (RMSEPP) in support of a deficit recovery plan agreed with the Trustee in June 2013. The next scheduled review point in the agreement is 30 September 2018 and therefore the investment is disclosed as maturing in two to five years.

Table 3	At 30 March 2014 Reported			
	Fixed rate £m	Floating rate £m	Non- interest bearing £m	Total £m
Cash	17	62	(28)	51
Cash equivalent investments	60	255	-	315
Financial asset investments (current)	1	-	-	1
RMSEPP pension escrow investments	-	20	-	20
Derivative – assets	-	-	5	5
– liabilities	-	-	(17)	(17)
Syndicated bank loans	(150)	(450)	-	(600)
Obligations under finance leases	(342)	-	-	(342)
Net total financial liabilities	(414)	(113)	(40)	(567)

Table 3	At 31 March 2013 Reported			
	Fixed rate £m	Floating rate £m	Non- interest bearing £m	Total £m
Cash	18	102	16	136
Cash equivalent investments	127	88	-	215
Financial asset investments (current)	1	-	-	1
RMSEPP pension escrow investments	-	20	-	20
Derivative – assets	-	-	12	12
– liabilities	-	-	(3)	(3)
HM Government loans	(973)	-	-	(973)
Obligations under finance leases	(305)	-	-	(305)
Net total financial (liabilities)/assets	(1 132)	210	25	(897)

Notes to the consolidated financial statements (continued)

18. Financial assets and liabilities – additional analysis (continued)

Table 4	At 30 March 2014 Reported					
	Average effective interest rate %	Within 1 year £m	1-2 years £m	2-5 years £m	More than 5 years £m	Total £m
Fixed rate						
Cash at bank	1.0	17	-	-	-	17
Cash equivalent investments – short-term deposits – bank	0.4	60	-	-	-	60
Financial assets – investments (current) – local government deposit	7.7	1	-	-	-	1
Financial liabilities						
Syndicated bank loans	2.5	-	-	(150)	-	(150)
Obligations under finance leases	3.4	(87)	(76)	(151)	(28)	(342)
Total		(9)	(76)	(301)	(28)	(414)
Floating rate						
Cash at bank	0.4	62	-	-	-	62
Cash equivalent investments – Money market funds	0.4	255	-	-	-	255
Financial assets – pension escrow investments (non-current)						
RMSEPP pension escrow – Money market funds	0.4	-	-	20	-	20
Financial liabilities						
Syndicated bank loans	1.4	-	-	(450)	-	(450)
Total		317	-	(430)	-	(113)
Non-interest bearing						
Cash at bank or in hand		(28)	-	-	-	(28)
Derivative assets		2	-	3	-	5
Derivative liabilities		(12)	(5)	-	-	(17)
Total		(38)	(5)	3	-	(40)
Net total financial assets/(liabilities)		270	(81)	(728)	(28)	567

Table 4	At 31 March 2013 Reported					
	Average effective interest rate %	Within 1 year £m	1-2 years £m	2-5 years £m	More than 5 years £m	Total £m
Fixed rate						
Cash at bank	3.2	18	-	-	-	18
Cash equivalent investments – short-term deposits – bank	0.4	120	-	-	-	120
Short-term deposits – HM Government/local government	0.4	7	-	-	-	7
Financial assets – investments (current)						
Short-term deposits – HM Government/local government	7.7	1	-	-	-	1
Financial liabilities						
HM Government loans	8.8	-	-	(473)	(500)	(973)
Obligations under finance leases	3.6	(79)	(56)	(139)	(31)	(305)
Total		67	(56)	(612)	(531)	(1,132)
Floating rate						
Cash at bank	0.6	102	-	-	-	102
Cash equivalent investments – Money market funds	0.4	88	-	-	-	88
Financial assets – pension escrow investments (non-current)						
RMSEPP pension escrow – Money market funds	0.3	-	-	-	20	20
Total		190	-	-	20	210
Non-interest bearing						
Cash at bank or in hand		16	-	-	-	16
Derivative assets		9	3	-	-	12
Derivative liabilities		(2)	(1)	-	-	(3)
Total		23	2	-	-	25
Net total financial assets/(liabilities)		280	(54)	(612)	(511)	(897)

19. Hedging programmes

Information regarding the various hedging programmes in place to mitigate volatility in commodity prices and foreign currency exchange rates is provided below

The hedging programmes use a number of financial derivative products to manage volatility in commodity prices, interest rates and foreign exchange. If these hedges are 'in the money', ie hedged rates are better than the current market rate, then a derivative asset is recognised, and if they are 'out of the money' a derivative liability is recognised. Full disclosures are provided in this note even though the balance sheet amounts are not material in the context of the Group's total assets and liabilities.

The purpose of the Group's hedging programmes is to mitigate volatility in commodity prices, interest rates and foreign exchange rates thereby providing certainty for planning. There are no significant concentrations of credit risk. Accounting rules require the Company to choose whether to designate cash flow hedge programmes or not (subject to various tests). The impact of not designating a cash flow hedge programme is that all gains or losses on the derivatives in the programme have to be taken immediately to the income statement and cannot be deferred into equity.

The Group had the following designated cash flow hedge programmes during the current and previous reporting years

Hedging activities

- i) The diesel fuel hedge programme uses forward commodity price swaps in US Dollar or Sterling and forward currency purchase contracts to hedge the exposure arising from commodity price and US Dollar/Sterling exchange rates for forecast diesel fuel purchases
- ii) The jet fuel hedge programme uses forward commodity price swaps and forward currency purchase contracts to hedge the exposure arising from commodity price and US Dollar/Sterling exchange rates for forecast jet fuel usage
- iii) The air conveyance hedge programme uses US Dollar forward currency purchase contracts to hedge the exposure arising from US Dollar/Sterling exchange rates for forecast air conveyance purchases
- iv) Two capital programmes (one of which completed during 2013-14) use Euro forward currency purchase contracts to hedge the exposure arising from Sterling/Euro exchange rates for contracted capital expenditure on automation projects
- v) The electricity hedge programme uses forward commodity price swaps to hedge the exposure arising from electricity prices
- vi) The gas hedge programme uses forward commodity price swaps to hedge the exposure arising from gas prices
- vii) The interest rate hedge programme uses interest rate swap contracts to hedge the exposure arising from interest rates on borrowings under the Syndicated bank loan facilities
- viii) The UKPIL overseas postal operations hedge programme uses US Dollar and Japanese Yen forward currency purchase contracts to hedge the exposure arising from the US Dollar/Sterling and Japanese Yen/Sterling exchange rates elements of the forecast future net purchases of delivery services in SDRs from overseas postal operators. This hedge programme covers the exposure up until the purchases are incurred and recognised on the balance sheet

The Group had undesignated cash flow hedge programmes for the transactional exposure created by inter-company loans with GLS and the exposure of UKPIL to overseas postal operator liabilities for the period after the purchases have been incurred and recognised on the balance sheet until the time when they are settled. The derivative balances of these programmes are not material.

Commodity price hedging

The Group's normal operating activities result in the consumption of fuel (both diesel and jet), electricity and gas. The prices of these commodities can be volatile so the Group enters into price swap contracts to lock future purchases (at an agreed volume) into a known price. For diesel fuel and jet fuel these price swaps are sometimes entered into on the US Dollar price for the commodity (based upon available market prices), in which case the Group uses forward foreign currency contracts to lock into a combined Sterling price for the commodity.

The following table shows the commodity risk and the percentage of the expected consumption hedged. The Group hedges the cost of the underlying commodity and any irrecoverable VAT that is incurred on this cost. It does not hedge any fuel duty. The exposures shown in the following table exclude the costs of fuel duty and are based upon the hedges in place combined with market prices at the balance sheet date for the unhedged amounts. Fuel duty (and the associated VAT) adds an additional cost of c £100 million to diesel costs each reporting year. Total fuel costs for 2014-15 are estimated to be £185 million.

Commodity	Risk	Exposure (excluding fuel duty) and expected consumption hedged 2014					
		52 weeks 2015		52 weeks 2016		52 weeks 2017	
		Exposure £m	% hedged	Exposure £m	% hedged	Exposure £m	% hedged
Diesel fuel	US\$ price and \$/£ exchange rate movements	76	94%	74	81%	71	9%
Jet fuel	US\$ price and \$/£ exchange rate movements	13	86%	12	82%	11	-
Electricity	£ price movement	17	83%	18	65%	17	7%
Gas	£ price movement	15	75%	15	66%	14	-

Notes to the consolidated financial statements (continued)

19. Hedging programmes (continued)

Commodity	Risk	Exposure (excluding fuel duty) and expected consumption hedged 2013					
		52 weeks 2014		52 weeks 2015		52 weeks 2016	
		Exposure £m	% hedged	Exposure £m	% hedged	Exposure £m	% hedged
Diesel fuel	US\$ price and \$/£ exchange rate movements	80	93%	82	79%	83	8%
Jet fuel	US\$ price and \$/£ exchange rate movements	16	92%	16	–	16	–
Electricity	£ price movement	18	83%	18	54%	19	6%
Gas	£ price movement	14	81%	14	56%	14	7%

Foreign currency hedging for non-commodity items

As highlighted in note 14 the Group where possible, nets exposure to foreign currency internally. The remaining net exposure is hedged with external forward foreign currency contracts. For existing currency liabilities the underlying exposures (e.g. the foreign postal administration liabilities) and the derivatives are both revalued to current market prices at the balance sheet date meaning that no net gains or losses arise in the income statement. For forecast future currency exposures, the derivatives are revalued at the balance sheet date and effective movements in value are deferred into equity until the hedged transaction occurs.

The following table shows for each hedge programme, the risk and the percentage hedged of the next 12 months' exposure.

Hedge programme	Risk	Percentage of next 12 months' exposure that has been hedged	
		At 30 March 2014	At 31 March 2013
		Reported	Reported
Air conveyance	US\$/£ exchange rate movements	94%	92%
Capital programmes	€/£ exchange rate movements	100%	95%
Overseas postal operator	SDR/£ exchange rate movements	59%	17%
GLS inter-company loan	€/£ exchange rate movements	100%	100%

The next 12 months' exposure is calculated as the combination of the cost of settling liabilities during the next 12 months and the cost of revaluing unsettled liabilities at the end of 12 months.

As highlighted in note 14, the Company does not hedge the translational exposure created by the net assets of its overseas subsidiaries mainly GLS.

Derivative values

At any point in time, the derivatives in these cash flow hedge programmes are either 'in the money' which means the hedged rates are better than current market rates or 'out of the money' which means the hedged rates are worse than current market rates. The gains ('in the money') and losses ('out of the money') as at the balance sheet date are deferred into equity (where the hedge is effective) and an associated financial asset or financial liability is created in the balance sheet. The financial asset/liability is released when the derivative matures. The amounts deferred into equity are released when the hedged transaction occurs. The following tables show the derivative contracts entered into at 30 March 2014 and 31 March 2013 and the associated derivative assets and liabilities.

19. Hedging programmes (continued)

	Commodity/ currency	Nominal amount	Maturity date	Average contracted commodity price/ exchange rate/ interest rate	Derivative asset non- current fair value £m	Derivative asset current fair value £m	Derivative liability non- current fair value £m	Derivative liability current fair value £m
At 30 March 2014 Reported								
Diesel fuel	Diesel fuel	215m litres	Apr 14 – Apr 16	US\$ 0.77/litre	-	1	(1)	(1)
Diesel fuel	US\$	\$188m	Apr 14 – Jan 17	US\$1.58/£	-	-	-	(1)
Diesel fuel	Diesel fuel	80m litres	Apr 14 – Oct 16	£0.5/litre	-	-	(3)	(3)
Jet fuel	Jet fuel	44m litres	Apr 14 – Mar 16	US\$ 0.76/litre	-	-	-	-
Jet fuel	Jet fuel	\$33m	Apr 14 – Mar 16	US\$1.55/£	-	-	-	(1)
Air conveyance	US\$	\$7m	Apr 14 – Apr 15	US\$1.59/£	-	-	-	-
Capital programmes	Euro	€0.2m	Oct 14	£0.8/€	-	-	-	-
Electricity	Electricity	528k MWH	Apr 14 – Oct 16	£55/MWH	-	-	-	(2)
Gas	Gas	33m therms	Apr 14 – Apr 16	£0.70/therm	-	-	(1)	(2)
Overseas postal operators	US\$	\$43m	Apr 14	US\$1.66/£	-	-	-	-
Overseas postal operators	JPY	780m JPY	Apr 14	JPY172/£	-	-	-	-
Interest rate swaps	GBP	£150m	Apr 14 – Sep 18	1.5% vs 1 month LIBOR	3	-	-	(2)
Cash flow hedges					3	1	(5)	(12)
Other derivatives					-	1	-	-
Total					3	2	(5)	(12)

	Commodity/ currency	Nominal amount	Maturity date	Average contracted commodity price/ exchange rate	Derivative asset non- current fair value £m	Derivative asset current fair value £m	Derivative liability non- current fair value £m	Derivative liability current fair value £m
At 31 March 2013 Reported								
Diesel fuel	Diesel fuel	215m litres	Apr 13 – Apr 15	US\$ 0.79/litre	-	3	(1)	(1)
Diesel fuel	US\$	\$169m	Apr 13 – Apr 15	US\$1.56/£	1	2	-	-
Diesel fuel	Diesel fuel	93m litres	Apr 13 – Oct 15	£0.5/litre	2	-	-	-
Jet fuel	Jet fuel	20m litres	Apr 13 – Dec 13	US\$ 0.81/litre	-	-	-	-
Jet fuel	Jet fuel	\$17m	Apr 13 – Dec 13	US\$1.56/£	-	-	-	-
Air conveyance	US\$	\$29m	Apr 13 – May 14	US\$1.60/£	-	1	-	-
Capital programmes	Euro	€4m	Jun 13 – Oct 14	£0.82/€	-	-	-	-
Electricity	Electricity	535k MWH	Apr 13 – Oct 15	£55/MWH	-	1	-	(1)
Gas	Gas	33m therms	Apr 13 – Oct 15	£0.70/therm	-	1	-	-
Cash flow hedges					3	8	(1)	(2)
Other derivatives					-	1	-	-
Total					3	9	(1)	(2)

Other derivatives represent hedges by the Group of other foreign exchange and commodity price exposures, which are not designated under IAS 39 (including the hedge of the trading balance with overseas postal operators and the hedge of inter-company loans with overseas subsidiaries)

There are timing differences between the maturity of the derivatives and the maturity of the underlying hedged transaction. For example, diesel derivatives that hedge the exposure to purchasing fuel in March 2013 mature in April 2013. Hence, at 31 March 2013, the balance sheet includes the market value of these derivatives, but the cumulative gains and losses on these derivatives have been released from the hedge reserve to the income statement to match the exposure to purchasing fuel in March 2013. Therefore, there are differences between derivative balances (shown above) and the balance on the hedging reserve.

Notes to the consolidated financial statements (continued)

Other notes – balance sheet

The notes in this section provide additional information regarding certain assets and liabilities on the Group balance sheet most notably provisions – mainly in relation to transformation costs and fixed and intangible assets and goodwill

20 Provisions

21 Property plant and equipment

22 Goodwill

23 Intangible assets

24 Investments in associates

25 Current trade and other receivables

26 Current trade and other payables

27 Issued share capital and reserves

28 Commitments

29 Related party information

20. Provisions

A summary of the provisions that have been made in the accounts, including in relation to transformation costs, is shown below

	Transformation costs				Total £m
	Management reorganisation programme £m	Other £m	Specific items £m	Other £m	
Reported at 1 April 2013	-	(105)	(87)	(54)	(246)
Arising during the period					
- charged in transformation costs and operating specific items	(102)	(14)	(7)	-	(123)
- charged in other operating costs	-	-	-	(19)	(19)
Unused amounts reversed	-	2	7	10	19
Utilised in the period	-	83	3	18	104
Discount rate adjustment	-	-	(3)	-	(3)
Reported at 30 March 2014	(102)	(34)	(87)	(45)	(268)
Disclosed as					
Current at 30 March 2014	(102)	(24)	(19)	(28)	(173)
Non-current at 30 March 2014	-	(10)	(68)	(17)	(95)
	(102)	(34)	(87)	(45)	(268)
Current at 31 March 2013	-	(69)	(18)	(32)	(119)
Non-current at 31 March 2013	-	(36)	(69)	(22)	(127)
	-	(105)	(87)	(54)	(246)

Transformation provisions (charged as transformation costs)

Transformation cost provisions of £136 million (2013 £105 million) principally comprise redundancy schemes of £134 million (2013 £92 million), including £102 million charged in respect of the management reorganisation programme. A further £2 million (2013 £13 million) relates to onerous property contracts associated with restructuring. Current transformation provisions of £126 million are expected to be utilised in 2014-15, with the remainder within two to three years.

Specific items

The specific items provisions of £87 million at 30 March 2014 (2013 £87 million) include £62 million (2013 £67 million) for potential industrial diseases claims relating to both current and former employees of the Group.

Royal Mail Group's liability in respect of former employees arose in 2010 as a result of a Court of Appeal judgement that held the Group liable for diseases claims brought by individuals who were employed in the General Post Office telecommunications division and whose employment ceased prior to October 1981. Consequently, a provision was first recognised in 2010-11.

The Group has derived its current provision by using estimates and ranges calculated by its actuary which are based on current experience of claims, and an assessment of potential future claims: the majority of which are expected to be received over the next 25 to 30 years. The Group has a rigorous process of ensuring that only valid claims are accepted. £3 million of this provision is expected to be utilised in 2014-15.

The remaining £25 million (2013 £20 million) mainly relates to IT systems costs associated with Post Office Limited separation of which £12 million is expected to be utilised in 2014-15, with the remainder expected to be utilised in the following year. An additional £7 million is in respect of a German property tax liability of £4 million, expected to be utilised in 2014-15 and employer's National Insurance associated with the award of Employee Free Shares of £3 million expected to be utilised within three to five years.

Other provisions (charged as operating costs)

'Other' provisions of £45 million (2013 £54 million) mainly comprise onerous lease obligations, decommissioning costs and estimated exposures resulting from legal claims incurred in the normal course of business. The majority of 'Other' provision amounts are expected to be utilised in 2014-15, with £3 million onerous lease obligations and decommissioning costs expected to be utilised within two to three years, £2 million within three to five years and a further £12 million over a period greater than five years.

Notes to the consolidated financial statements (continued)

21. Property, plant and equipment

Below are details of the Group's property, equipment and vehicles, which are recorded at their historic cost (what we paid for them) less accumulated depreciation (reflecting their usage within the business over their useful life – from 3 to 50 years)

	Land and buildings			Plant and machinery £m	Motor vehicles £m	Fixtures and equipment £m	Total £m
	Freehold £m	Long leasehold £m	Short leasehold £m				
Cost							
Reported at 1 April 2013	1 622	262	650	1 187	538	362	4 621
Exchange rate movements	(5)	–	–	(2)	(1)	(2)	(10)
Reclassification	(26)	1	22	–	–	3	–
Additions	121	3	39	22	117	36	338
Disposals	(40)	(1)	(19)	(23)	(45)	(20)	(148)
Reclassification to non-current assets held for sale	(23)	–	–	–	–	–	(23)
Reported at 30 March 2014	1,649	265	692	1,184	609	379	4,778
Depreciation and impairment							
Reported at 1 April 2013	835	162	432	718	289	269	2 705
Exchange rate movements	(2)	–	–	(1)	–	(2)	(5)
Reclassification	(1)	–	1	–	–	–	–
Depreciation (see note 13)	45	6	45	68	48	29	241
Disposals	(34)	(1)	(15)	(23)	(41)	(20)	(134)
Reclassification to non-current assets held for sale	(18)	–	–	–	–	–	(18)
Reported at 30 March 2014	825	167	463	762	296	276	2,789
Net book value							
Reported at 30 March 2014	824	98	229	422	313	103	1,989
Reported at 1 April 2013	787	100	218	469	249	93	1 916

Depreciation rates are disclosed within accounting policies. No depreciation is provided on freehold land which represents £210 million (2013 £196 million) of the total cost of properties. The net book value of the Group's property, plant and equipment held under finance leases amounts to £382 million (2013 £378 million) comprising £227 million (2013 £208 million) vehicles, £132 million (2013 £146 million) plant and machinery and £23 million (2013 £24 million) land and buildings. The net book value of the Group's property, plant and equipment includes £116 million (2013 £206 million) in respect of assets in the course of construction. The net book value of the Group's land and buildings includes £424 million (2013 £382 million) in respect of building fit-out.

The £338 million (2013 £392 million) additions include borrowing costs capitalised in relation to specific qualifying assets of £nil (2013 £nil).

21. Property, plant and equipment (continued)

	Land and buildings					Fixtures and equipment £m	Total £m
	Freehold £m	Long leasehold £m	Short leasehold £m	Plant and machinery £m	Motor vehicles £m		
Cost							
Reported at 26 March 2012	1 598	276	747	1 228	482	1 037	5 368
Transfer of Post Office Limited on 1 April 2012	(70)	(17)	(114)	(4)	(34)	(709)	(948)
Exchange rate movements	4	-	-	2	1	2	9
Reclassification	(29)	1	27	1	-	-	-
Additions	176	4	19	47	110	36	392
Disposals	(33)	(2)	(29)	(87)	(21)	(4)	(176)
Legal entity transfer to Post Office Limited during the year	(22)	-	-	-	-	-	(22)
Reclassification to non-current assets held for sale	(2)	-	-	-	-	-	(2)
Reported at 31 March 2013	1 622	262	650	1 187	538	362	4 621
Depreciation and impairment							
Reported at 26 March 2012	869	173	517	739	296	949	3 543
Transfer of Post Office Limited on 1 April 2012	(68)	(16)	(114)	(4)	(34)	(709)	(945)
Exchange rate movements	1	-	-	2	-	1	4
Reclassification	-	-	(1)	-	1	-	-
Depreciation	40	6	46	68	46	32	238
Impairment (see note 4)	21	-	-	-	-	-	21
Disposals	(16)	(1)	(16)	(87)	(20)	(4)	(144)
Legal entity transfer to Post Office Limited during the year	(11)	-	-	-	-	-	(11)
Reclassification to non-current assets held for sale	(1)	-	-	-	-	-	(1)
Reported at 31 March 2013	835	162	432	718	289	269	2 705
Net book value							
Reported at 31 March 2013	787	100	218	469	249	93	1 916
Reported at 26 March 2012	729	103	230	489	186	88	1 825

22. Goodwill

This note provides details of the goodwill at the start and end of the reporting year, most of which relates to the Group's acquisition of its overseas subsidiary General Logistics Systems (GLS)

	2014 £m	2013 £m
Cost		
Reported at 1 April 2013 and 26 March 2012	611	599
Exchange rate movements	(9)	8
Acquisition of businesses	4	4
Disposal of business	(37)	-
Reported at 30 March 2014 and 31 March 2013	569	611
Impairment		
Reported at 1 April 2013 and 26 March 2012	415	410
Exchange rate movements	(6)	5
Disposal of business	(37)	-
Reported at 30 March 2014 and 31 March 2013	372	415
Net book value		
Reported at 30 March 2014 and 31 March 2013	197	196
Reported at 1 April 2013 and 26 March 2012	196	189

The carrying value of goodwill arising on business combinations of £197 million (2013 £196 million) at the balance sheet date includes £195 million (2013 £194 million) relating to the General Logistics Systems (GLS) business segment. In line with the Group's accounting policy (see accounting policies) this goodwill has been reviewed for impairment. An impairment loss is recognised for the amount by which the carrying value of an asset or cash generating unit exceeds the recoverable amount. The recoverable amount is the higher of net realisable value and value in use. The carrying value of GLS, excluding interest bearing and tax related assets and liabilities, is £492 million (2013 £487 million) at 30 March 2014 and the operating profit before transformation costs items is £108 million (2013 £101 million) for the period (note 2).

Notes to the consolidated financial statements (continued)

22. Goodwill (continued)

The disposal of business relates to the sale of G3 Worldwide Mail NV (Spring), an associate company, on 2 April 2013

The carrying value of GLS (£492 million) represents a multiple of 4.6 (2013 4.8) of operating profit before transformation costs. The net realisable value of GLS, for the purposes of the impairment review (i.e. the 'fair value less costs of disposal'), has been assessed with reference to earnings multiples for quoted entities in a similar sector of 6.6. On this basis, the net realisable value has been assessed to be in excess of the carrying value. The earnings multiples referenced would need to reduce by more than 47 per cent to 3.5 to reduce the net realisable value to below the carrying value.

23. Intangible assets

Intangible assets, mainly software, are recorded in much the same way as our physical assets such as property and vehicles, but with shorter useful lives over which they are amortised (three to six years)

	2014				2013			
	Master franchise licences £m	Customer listings £m	Software £m	Total £m	Master franchise licences £m	Customer listings £m	Software £m	Total £m
Cost								
Reported at 1 April 2013 and 26 March 2012	23	32	287	342	23	30	431	484
Transfer of Post Office Limited on 1 April 2012	-	-	-	-	-	-	(183)	(183)
Additions	-	-	88	88	-	-	44	44
Disposals	-	-	(5)	(5)	-	-	(5)	(5)
Acquisition of business	-	1	-	1	-	2	-	2
Exchange rate movements	-	(1)	-	(1)	-	-	-	-
Reported at 30 March 2014 and 31 March 2013	23	32	370	425	23	32	287	342
Amortisation and impairment								
Reported at 1 April 2013 and 26 March 2012	23	28	152	203	23	26	300	349
Transfer of Post Office Limited on 1 April 2012	-	-	-	-	-	-	(183)	(183)
Impairment (note 4)	-	-	-	-	-	-	(1)	(1)
Amortisation (note 13)	-	1	32	33	-	2	41	43
Disposals	-	-	(5)	(5)	-	-	(5)	(5)
Exchange rate movements	-	(1)	-	(1)	-	-	-	-
Reported at 30 March 2014 and 31 March 2013	23	28	179	230	23	28	152	203
Net book value								
Reported at 30 March 2014 and 31 March 2013	-	4	191	195	-	4	135	139
Reported at 1 April 2013 and 26 March 2012	-	4	135	139	-	4	131	135

The intangible assets outlined above, none of which has been internally generated, have finite lives and are being written down on a straight-line basis.

24. Investments in associates

This note provides details of the Group's associate companies, including the Group's share of the revenue, profit and net assets of these entities.

In early March 2013 it was announced that G3 Worldwide Mail NV (Spring), one of only two associate companies of the Group, was to be sold and accordingly, the Group's investment in the company (£1 million) was held within the 'non-current assets held for sale' category on the Group balance sheet at 31 March 2013. The Group's investment in the company, held by Royal Mail Investments Limited, was subsequently sold on 2 April 2013. The Group's share of the company's revenue and profits for the period up to 2 April 2013 was not material and the Group's share of the net assets of the company at that date was £1 million.

Quadrant Catering Limited ('Quadrant'), the Group's sole remaining 51% owned associate company, has a reporting date as the last day of September each year. Accordingly, to ensure that the reported share of the profit of this company aligns with the Group's reporting year ended 30 March 2014 (2013 period ended 31 March 2013), the cumulative profit figure for this period is taken from the company's management reporting systems, although this includes an estimated profit figure for the month of March.

The majority of Board membership and voting power in Quadrant, a company incorporated in the United Kingdom, providing catering services for the UK businesses, is held by the other investor company, hence it is not a subsidiary. The Group's investment in Quadrant is held by Royal Mail Group Limited. There are no significant restrictions on the ability of Quadrant Catering Limited to transfer funds to the Group in the form of cash dividends, repayment of loans or advances.

24. Investments in associates (continued)

The Group's share of Quadrant's revenue for the reporting year was £19 million (2013 £22 million) and its share of Quadrant's profit after tax was £3 million (2013 £1 million). The Group's share of the net assets of Quadrant at 30 March 2014 was £4 million (at 31 March 2013 £3 million). During the reporting year the Group received a £2 million dividend (2013 £nil) from Quadrant.

25. Current trade and other receivables

The following details relate to amounts owed to the Group by third parties (including Post Office Limited) and also the level of bad and doubtful debts that the Company has provided for in the financial statements.

	At 30 March 2014 Reported £m	At 31 March 2013 Reported £m
Trade receivables	809	758
Prepayments and accrued income	111	241
Income tax receivable	6	5
Total	926	1,004

Movements in the provision for bad and doubtful debts were as follows:

	At 30 March 2014 Reported £m	At 31 March 2013 Reported £m
At 1 April 2013 and 26 March 2012	(30)	(40)
Transfer of Post Office Limited	-	5
Receivables provided for during the period	(8)	(11)
Release of provision	4	10
Utilisation of provision	7	6
At 30 March 2014 and 31 March 2013	(27)	(30)

The amount of trade receivables that were past due but not impaired are shown below:

	At 30 March 2014 Reported £m	At 31 March 2013 Reported £m
Past due not more than one month	61	93
Past due more than one month and not more than two months	8	8
Past due more than two months	14	29
Total past due but not impaired	83	130
Provided for or not yet overdue	753	658
Provision for bad and doubtful debts	(27)	(30)
Total	809	758

Notes to the consolidated financial statements (continued)

26. Current trade and other payables

The following details relate to amounts owed by the Group to third parties (including Post Office Limited)

	At 30 March 2014 Reported £m	At 31 March 2013 Reported £m
Trade payables and accruals	(1,156)	(1,076)
Advance customer payments (mainly for stamps held not yet used by customers)	(322)	(375)
Social security	(104)	(102)
Capital expenditure payables	(60)	(48)
Other	(10)	(10)
Total	(1,652)	(1,611)

The fair value of trade and other payables is not materially different from the carrying value

27. Issued share capital and reserves

	At 30 March 2014 Reported £m	At 31 March 2013 Reported £m
Authorised share capital		
1,000,000,000 Ordinary Shares of £0.01 each	10	–
Total	10	–

	At 30 March 2014 Reported £m	At 31 March 2013 Reported £m
Issued and fully paid share capital		
1,000,000,000 Ordinary Shares of £0.01 each	10	–
Total	10	–

For EPS purposes the 1,000,000,000 Ordinary Shares are deemed to have been authorised and in issue for the entirety of both reporting years (see notes 9 and 10 for further details)

Reserves included in the consolidated statement of changes in equity

Financial assets reserve

The Financial assets reserve is used to record fair value changes on available for sale financial assets

Foreign currency translation reserve

The Foreign currency translation reserve is used to record the gains and losses arising from 29 March 2004 on translation of assets and liabilities of subsidiaries denominated in currencies other than the reporting currency

Hedging reserve

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

Other reserves

These reserves related to Post Office Limited (POL) associate and joint venture investments and were therefore included in the loss on the transfer of POL to Royal Mail Holdings plc on 1 April 2012, taken through equity in the comparative year 2012-13

Share premium account

This account established as part of the dissolution of The Post Office Corporation in 2001-02, was subject to a capital reduction on 27 June 2012. The capital reduction was approved by a special resolution of Royal Mail Group Limited, supported by a solvency statement made by its Directors pursuant to section 642 of the Companies Act 2006

28. Commitments

The information below includes details of committed future rental payments for the use of assets which the Group does not legally own and are either not recognised on the Group's balance sheet (operating leases) or are recognised on the Group's balance sheet (finance leases) on the basis that the risks and rewards incidental to ownership of the finance leased assets lie with Royal Mail plc Group

Operating lease commitments

The Group is committed to the following future minimum lease payments under non-cancellable operating leases

	Land and buildings		Vehicles and equipment		IT equipment		Total	
	At 30 March 2014 Reported £m	At 31 March 2013 Reported £m	At 30 March 2014 Reported £m	At 31 March 2013 Reported £m	At 30 March 2014 Reported £m	At 31 March 2013 Reported £m	At 30 March 2014 Reported £m	At 31 March 2013 Reported £m
Within one year	(115)	(125)	(12)	(13)	(9)	(8)	(136)	(146)
Between one and five years	(373)	(391)	(12)	(14)	(10)	(17)	(395)	(422)
Beyond five years	(470)	(507)	(8)	-	-	-	(478)	(507)
Total	(958)	(1 023)	(32)	(27)	(19)	(25)	(1,009)	(1 075)

Existing leases for UK land and buildings have an average term of 16 years and lease renewals are agreed with the lessor as appropriate. Existing land and buildings leased overseas by the GLS subsidiary have an average lease term of eight years. Vehicle leases generally have a term of between one and seven years depending on the asset class, with the average term being two years – the existing leases have an average term remaining of one year. The majority of the IT commitments relate to 10-year contracts with an average term remaining of three years.

Finance lease commitments

	At 30 March 2014 Reported		At 31 March 2013 Reported	
	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	(94)	(87)	(87)	(79)
Between one and five years	(243)	(227)	(208)	(195)
Beyond five years	(113)	(28)	(122)	(31)
Total minimum lease payments	(450)	(342)	(417)	(305)
Less future finance charges	108	-	112	-
Total finance lease obligations	(342)	(342)	(305)	(305)

The Group has finance lease contracts for vehicles, land and buildings and plant and equipment. The leases have no terms of renewal, purchase options, escalation clauses or restrictions concerning dividends, borrowings or additional leases. Vehicle leases have a term of between one and seven years depending on the class of vehicle, with the average term being four years. Property leases have a term of between 10 and 104 years with the average term being 46 years. The terms of the plant and equipment leases range from five to eight years with the average being five years.

Capital commitments

The Group has commitments of £35 million at 30 March 2014 (31 March 2013 £42 million), which are contracted for but not provided for in the financial statements.

Notes to the consolidated financial statements (continued)

29. Related party information

This note provides details of amounts owed to and from related parties which include the Royal Mail Pension Plan (RMPP), the Group's associate companies and payments to key management personnel. Details of the Group's principal subsidiaries and associates are also provided.

Related party transactions

During the reporting year the Group entered into transactions with related parties. The transactions were in the ordinary course of business and included administration and investment services recharged to the Group's pension plans by Royal Mail Pension Trustees Limited of £6 million (2013 £5 million) and services charged to the Group by its associate company, Quadrant Catering Limited (Quadrant) of £22 million (2013 £26 million). Amounts owed by the Group to Quadrant at 30 March 2014 were £2 million (at 31 March 2013 £1 million owed by Quadrant to the Group).

The Group also trades with numerous HM Government bodies on an arm's length basis. HM Government has retained a c 30 per cent stake in Royal Mail plc on the Company's stock market flotation. HM Government still owns 100 per cent of Post Office Limited through its Postal Services Holding Company Limited entity. Transactions with HM Government entities, including Post Office Limited, are not disclosed owing to the significant volume of transactions that are conducted.

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

Key management compensation

	52 weeks 2014 Reported £000	53 weeks 2013 Reported £000
Short-term employee benefits	(3,173)	(3,753)
Post-employment benefits	-	-
Other long-term benefits ¹	(2,654)	-
Total compensation earned by key management	(5,827)	(3,753)

¹ The 2014 other long-term benefits amount consists of £1,327,000 for each of the 2010 and 2011 LTIP awards that vested at 30 March 2014.

Key management comprises Executive and Non-Executive Directors of Royal Mail plc at 30 March 2014.

The ultimate parent and principal subsidiaries

Royal Mail plc is the ultimate parent Company of the Group. The consolidated financial statements include the financial results of Royal Mail Group Limited and the other principal subsidiaries listed below.

Company	Principal activities	Country of incorporation	% equity interest 2014	% equity interest 2013
General Logistics Systems BV	Parcel services holding company	Netherlands	100	100
Royal Mail Estates Limited	Property holdings	United Kingdom	100	100
Royal Mail Investments Limited	Holding company	United Kingdom	100	100
Romec Limited	Facilities management	United Kingdom	51	51

Associates

Company	Principal activities	Country of incorporation	% ownership 2014	% ownership 2013
Quadrant Catering Limited	Catering services	United Kingdom	51	51
G3 Worldwide Mail NV (Spring)	Mail services	Netherlands	32.45	32.45

The majority of Board membership and voting power in Quadrant Catering Limited is held by the other investor company, hence it is not a subsidiary.

The investment in Quadrant Catering Limited is held by Royal Mail Group Limited, the investment in G3 Worldwide Mail NV (Spring) was held by Royal Mail Investments Limited until its disposal on 2 April 2013.

The Company has taken advantage of the exemption under section 410 of the Companies Act 2006, a schedule of interests in all undertakings will be filed with the Annual Return.

Significant accounting policies

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiary undertakings. The financial statements of the major subsidiaries are prepared for the same reporting year as the Company, using consistent accounting policies.

All intra-Group balances and transactions, including unrealised profits arising from intra-Group transactions, have been eliminated in full. Transfer prices between business segments are set on a basis of charges reached through negotiation with the respective businesses.

Subsidiaries are consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is no longer held by the Group. Where the Group ceases to hold control of a subsidiary, the consolidated financial statements include the results for the part of the reporting year during which the Group held control.

Non-controlling interests represents the portion of profit/loss, gains/losses and net assets relating to subsidiaries that are not attributable to members of the Company. The non-controlling interest balance is presented within equity in the consolidated balance sheet, separately from parent shareholders' equity.

Changes in accounting policy and disclosures

The accounting policies applied in the preparation of these financial statements are consistent with those in the Annual Report for the year ended 31 March 2013, except for the adoption of amended/revised and new accounting standards with effect from 1 April 2013 and new accounting policies relating to 'Merger accounting', 'Share-based payments' and 'Earnings per share' as detailed below.

IAS 1 'Presentation of Items of Other Comprehensive Income' (amended)

This amendment relates only to disclosure and requires the Group to present items in other comprehensive income (OCI) based on whether they can potentially be subsequently classified to profit or loss. Taxation associated with items presented before taxation must also be shown separately in OCI, depending on whether or not they can potentially be subsequently reclassified to profit or loss.

IAS 19 'Employee Benefits' (revised)

The key impact of this revision has been to replace the separate assumptions for expected return on schemes' assets and discounting of schemes liabilities, and replace them with one single discount rate for the net surplus or deficit. This net interest income/cost is measured based on the schemes' discount rate. Asset returns greater or less than the accounting discount rate are recognised in the Statement of Comprehensive Income (SOC). The effect of this change has been to recognise a net pension interest credit of £30 million for the year ended 31 March 2013, compared with the £34 million recognised previously in the 2012-13 Annual Report.

IFRS 13 'Fair Value Measurement'

This new standard applies to existing IFRSs that require or permit fair value measurements or disclosures. This standard requires additional disclosures but has no impact on the financial performance or position of the Group.

Annual Improvements to IFRSs 2009 - 2011 Cycle

These improvements clarify the requirements of IFRSs and eliminate inconsistencies within and between standards. The only impact on the Group of these improvements will be when the Group makes distributions to holders of equity instruments and the recognition of income tax relating to the distribution and associated transaction costs will be accounted for in accordance with IAS 12 'Income Taxes' and not IAS 32 'Financial Instruments: Presentation'.

Merger transaction of Royal Mail plc and Royal Mail Group Limited

As part of the Group reorganisation prior to the Initial Public Offering, Royal Mail plc acquired the entire share capital of Royal Mail Group Limited through issuance of its shares to the then parent Company, Royal Mail Holdings plc (subsequently renamed Postal Services Holding Company plc on 11 September 2013). As there were no changes to the shareholder group at the time of this transaction and Royal Mail plc is not a business, this transaction did not classify as a business combination as defined under IFRS 3 'Business Combinations'. The consolidated financial statements of Royal Mail plc have therefore been prepared as a continuation of the existing Group.

Share-based payment (equity-settled transactions)

The cost of equity-settled transactions with employees is measured by reference to the fair value of equity instruments at the date on which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award.

No expense is recognised for awards that do not ultimately vest. At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of service conditions and of the number of equity instruments that will ultimately vest. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity.

Earnings per share (EPS)

Basic earnings per share (EPS) from continuing operations is calculated by dividing the profit or loss from continuing operations (adjusted for non-controlling interests' share of profit) by the weighted average number of Ordinary Shares. The Group EPS is calculated in the same way except that it also includes profit or loss from discontinued operations.

Diluted EPS is only relevant if the Group has potential ordinary shares, e.g. financial liabilities or equity instruments, including preference shares that are convertible into Ordinary Shares, options (including employee share options) and shares that would be issued in satisfaction of certain conditions that result from contractual arrangements.

Significant accounting policies (continued)

Key sources of estimation, uncertainty and critical accounting judgements

Pensions

The value of the pension plan liabilities is determined by long-term actuarial assumptions which include inflation rates and mortality rates. Differences arising from actual experience or future changes in assumptions will be reflected in the Group's consolidated statement of comprehensive income. The Group exercises its judgement in determining the assumptions to be adopted after discussion with its actuary.

Deferred revenue

The Group recognises advance customer payments on its balance sheet (see note 26) relating to stamps and meter credits purchased by customers but not used at the balance sheet date. The valuation of this deferred revenue is based on a number of different estimation and sampling methods using external specialist resource as appropriate, the results of which are reviewed by management in order to make a judgement of the carrying amount of the accrual. The total accrual is held within current trade and other payables but a portion (which cannot be measured) will relate to stamps and meter credits used one year or more after the balance sheet date.

Deferred taxation

Assessment of the deferred tax asset requires an estimation of future profitability. Such estimation is inherently uncertain in a market subject to various competitive pressures. Should estimates of future profitability change in future years, the amount of deferred tax recognised will also change accordingly. The carrying values of the deferred tax assets and liabilities are included within note 6.

Provisions

Due to the nature of provisions, a significant part of their determination is based upon estimates and/or judgements concerning the future. Restructuring provisions including for redundancy and property costs are derived based upon the most recent business plan for direct expenditure where plans are sufficiently detailed and appropriate communication to those affected has been undertaken. This includes the expected number of employees impacted, rate of compensation per employee, rental costs and expected period of properties remaining vacant and dilapidation costs. The industrial diseases claims provision is based on the best information available as at the year end including independent expert advice.

Revenue

Revenue reported in the income statement is net of value added tax and comprises turnover which principally relates to the rendering of services as follows:

UK Parcels, International & Letters

Account revenue is derived from specific contracts and recognised when the delivery of an item is complete. Prepaid revenue mainly relating to stamp and meter income is recognised when the sale is made, adjusted to reflect a value of stamp and meter credits held but not used by the customer.

General Logistics Systems

Revenue is derived from specific contracts and is recognised at the time of delivery.

Distribution and conveyance costs

Distribution and conveyance costs relate to non-people costs incurred in transporting and delivering mail. These include conveyance by rail, road, sea and air, together with costs incurred by international mail carriers and Parcelforce Worldwide delivery operators and GLS. These costs are disclosed separately on the face of the income statement.

Specific items

The Group previously disclosed items that in management's judgement needed to be shown separately by virtue of their size, nature or incidence as 'exceptional items'. There are, however, other items of income/expense, that management now discloses separately, which do not ordinarily meet the definition of 'exceptional items' (e.g. finance income on the sale of pension escrow gilts, pension interest and elements of taxation). The Group decided, therefore, not to continue using the 'exceptional items' definition and, instead, to refer to items of income/expense that are considered as requiring separate disclosure as specific items.

This new definition has been introduced on the basis that the financial results excluding these specific items are consistent with how financial and operational performance is measured by management in providing a meaningful analysis of the Group's trading results and cash flows. These specific items may not be comparable to similarly termed measures used by other companies.

Employee shares scheme

The Group operates an equity settled share-based compensation plan under which the Group receives services from employees as consideration for equity instruments (shares) of the Company. The fair value of the employee services received in exchange for the grant of the shares is recognised as an expense in the income statement, with a corresponding credit entry in equity, as per the requirements of IFRS 2 'Share-based Payment'. The total amount expensed is determined by reference to the fair value of the shares granted.

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. The social security contributions payable in connection with the grant of shares is considered an integral part of the grant itself, and the charge is treated as a cash-settled transaction.

Operating profit

Operating profit is the profit arising from the normal recurring operations of the business and after charging operating specific items defined above. It excludes the non-operating specific items for profit or loss on disposal of businesses and profit or loss on disposal of property, plant and equipment. These items are not part of the normal recurring operations of the business but are material, so are presented separately on the face of the income statement to allow a better understanding of financial performance in the reporting year, in comparison to prior years.

Income taxation and deferred taxation

The charge for current taxation 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 enacted or substantively enacted at the balance sheet date.

Deferred income taxation assets and liabilities are recognised for all taxable and deductible temporary differences and unused taxation 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 taxation 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 taxation assets is reviewed at each balance sheet date and increased or reduced to the extent that it is probable that sufficient taxable profit will be available to allow them to be utilised.

Deferred taxation assets and liabilities are measured at the taxation rates that are expected to apply to the period when the taxation 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 taxation is charged or credited directly to equity if it relates to items that are credited or charged directly to equity; otherwise it is recognised in the income statement.

Segment information

The Group's operating segments are organised and managed separately according to the nature of the products and services provided, with each segment representing a business unit that offers different products and serves largely different markets. Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on EBITDA before transformation costs.

There is no aggregation of operating segments. The operating units that make up the three operating segments are detailed in note 2.

The operating segments comprise operations in both the UK and other parts of Europe, the latter being relevant to the GLS business segment. The UK operations include the remaining two operating segments plus the 'Other' segments.

Segment revenues have been attributed to the respective countries based on the location of the customer.

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

There are no differences in the measurement of the respective segments' profit/loss and the consolidated financial statements prepared under IFRSs.

Property, plant and equipment

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

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

Significant accounting policies (continued)

Goodwill

Business combinations on or after 29 March 2004 are accounted for under IFRS 3 'Business Combinations' using the purchase method. Any excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities at the date of acquisition is recognised in the balance sheet as goodwill and is not amortised.

After initial recognition, goodwill is stated at cost less any accumulated impairment losses. Goodwill arising from business combinations is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

An impairment loss is recognised in the income statement for the amount by which the carrying value of the asset (or cash generating unit) exceeds its recoverable amount, which is the higher of an asset's net realisable value and its value in use. For the purpose of such impairment reviews, goodwill is allocated to the relevant cash generating units.

Goodwill arising on the acquisition of equity accounted entities is included in the cost of those entities and therefore not reported in the balance sheet as goodwill.

Intangible assets

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

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

Customer listings	3 to 4 years
Software	3 to 6 years

Investments in associates

The Group's investments in its associates are accounted for under the equity method of accounting. Under the equity method, the investment is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of the net assets of the associates, less any impairment in value. The income statement reflects the Group's share of post-tax profits from the associates.

Any goodwill arising on acquisition of an associate, representing the excess of the cost of the investment compared to the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities acquired, is included in the carrying amount and not amortised.

Non-current assets held for sale and discontinued operations

Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Following their classification as held for sale, non-current assets (including those in a disposal group) are not depreciated. The results of operations disposed during the reporting year are included in the consolidated statement of comprehensive income up to the date of disposal.

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale, that has been disposed of, has been abandoned or that meets the criteria to be classified as held for sale. Discontinued operations are presented in the consolidated statement of comprehensive income as a single line which comprises the post-tax profit or loss of the discontinued operation along with the post-tax gain or loss recognised on the remeasurement to fair value less costs to sell or on disposal of the assets or disposal groups constituting discontinued operations.

Impairment reviews

Unless otherwise disclosed in these accounting policies, assets are reviewed for impairment if events or changes in circumstances indicate that the carrying value may be impaired. The Group assesses at each reporting date whether such indications exist. Where appropriate, an impairment loss is recognised in the income statement for the amount by which the carrying value of the asset (or cash generating unit) exceeds its recoverable amount, which is the higher of an asset's net realisable value and its value in use.

Leases

Finance leases, where substantially all the risks and rewards incidental to ownership of the leased item have passed to the Group, are capitalised at the inception of the lease with a corresponding liability recognised for the fair value of the leased item or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and capital element of the lease liability to achieve a constant rate of interest on the remaining balance of the liability. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term.

Leases (continued)

Leases where substantially all the risks and rewards of ownership of the asset are retained by the lessor, are classified as operating leases and rentals are charged to the income statement over the lease term. The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

A leasehold land payment is an upfront payment to acquire a long-term leasehold interest in land. This payment is stated at cost and is amortised on a straight-line basis over the period of the lease.

Trade receivables

Trade receivables are recognised and carried at the original invoice amount less an allowance for any non-collectable amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off when identified.

Financial instruments

Financial assets within the scope of IAS 39 'Financial Instruments: Recognition and Measurement' are classified as financial assets at fair value through the income statement (held for trading), held to maturity investments, loans and receivables or available for sale financial assets as appropriate. Financial liabilities within the scope of IAS 39 are classified as either financial liabilities at fair value through the income statement or financial liabilities measured at amortised cost.

The Group determines the classification of its financial instruments at initial recognition and re-evaluates this designation at each reporting date. When financial instruments are recognised initially, they are measured at fair value, being the transaction price plus, in the case of financial instruments not at fair value through the income statement, any directly attributable transactional costs.

The subsequent measurement of financial instruments depends on their classification as follows:

Loans and receivables

Non-derivative financial assets with fixed or determinable payments, that are not quoted on an active market, do not qualify as trading assets and have not been designated as either fair value through the income statement or available for sale, are carried at amortised cost using the effective interest rate method if the time value of money is significant. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available for sale financial assets

'Available for sale financial assets' are non-derivative financial assets that are designated as such or are not classified in any of the three preceding categories. After initial recognition, interest is taken to the income statement using the effective interest rate method and the assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is deemed to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

Financial liabilities at fair value through the income statement (held for trading)

Derivatives liabilities are classified as held for trading unless they are designated as hedging instruments. They are carried in the balance sheet at fair value with gains or losses recognised in the income statement.

Financial liabilities measured at amortised cost

All non-derivative financial liabilities are classified as financial liabilities measured at amortised cost. Non-derivative financial liabilities are initially recognised at the fair value of the consideration received, less directly attributable issue costs. After initial recognition, non-derivative financial liabilities are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the liabilities are derecognised or impaired, as well as through the amortisation process.

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits (cash equivalents) with an original maturity date of three months or less. In addition, the Group uses money market funds as a readily available source of cash and these funds are also categorised as cash equivalents.

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of bank overdrafts.

Cash equivalents are classified as loans and receivables financial instruments.

Financial assets – pension escrow investments

Financial assets – pension escrow investments comprise cash at bank, conventional gilt edged securities, index-linked gilt edged securities, Treasury bills and a money market fund investment established to provide security to the Royal Mail Senior Executive Pension Plan (RMSEPP) in support of a deficit recovery plan agreed with the Trustee in 2013.

Conventional gilt edged securities, index-linked gilt edged securities and Treasury bills are classified as available for sale financial instruments on the basis that they are quoted investments that are not held for trading and may be disposed of prior to maturity.

Financial assets – other investments

Financial assets – other investments comprise short-term deposits (other investments) with HM Government, local government or banks with an original maturity of three months or more. Short-term deposits are classified as loans and receivables financial instruments.

Financial liabilities – interest-bearing loans and borrowings

All loans and borrowings are classified as financial liabilities measured at amortised cost.

Significant accounting policies (continued)

Financial liabilities – obligations under finance leases

All obligations under finance leases are classified as financial liabilities measured at amortised cost

Derivative financial instruments

The Group uses derivative instruments such as foreign currency contracts in order to manage the risk profile of any underlying risk exposure of the Group in line with the Group's treasury management policies. Such derivative financial instruments are initially stated at fair value.

For the purpose of hedge accounting, hedges are classified as cash flow hedges where they hedge exposure to variability in cash flows that is attributable either to a particular risk associated with a recognised asset or liability or to a highly probable forecast transaction.

In relation to cash flow hedges to hedge the interest rate, foreign exchange or commodity price risk of firm commitments that meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to relate to an effective hedge is recognised directly in equity and the ineffective portion is recognised in the income statement.

When the hedged firm commitment results in the recognition of a non-financial asset or non-financial liability, then at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in equity are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability. For all other cash flow hedges, the gains or losses that are recognised in equity are transferred to the income statement in the same reporting year in which the hedged firm commitment affects the net profit/loss, for example when the hedged transaction actually occurs.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the income statement in the period.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point, any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement for the reporting year.

Fair value measurement of financial instruments

The fair value of quoted investments (including conventional gilt edged securities, index-linked gilt edged securities and Treasury bills) is determined by reference to bid prices at the close of business on the balance sheet date. Hence the conventional gilt edged securities, index-linked gilt edged securities and Treasury bills are within Level 1 of the fair value hierarchy as defined within IFRS 13.

Where there is no active market, fair value is determined using valuation techniques. These include using recent arm's length market transactions, reference to the current market value of another instrument which is substantially the same, and discounted cash flow analysis and pricing models. Specifically, in the absence of quoted market prices, derivatives are valued by using quoted forward prices for the underlying commodity/currency and discounted using quoted interest rates (both as at the close of business on the balance sheet date). Hence derivative assets and liabilities are within Level 2 of the fair value hierarchy as defined within IFRS 13.

For the purposes of disclosing the fair value of investments held at amortised cost in the balance sheet, in the absence of quoted market prices, fair values are calculated by discounting the future cash flows of the financial instrument using quoted equivalent interest rates as at close of business on the balance sheet date.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at an appropriate pre-taxation rate.

Pensions and other post-retirement benefits

The pension assets for the defined benefit schemes are measured at fair value. Liabilities are measured on an actuarial basis using the projected unit credit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term. The resulting defined benefit asset or liability is presented separately on the face of the balance sheet. Full actuarial valuations are carried out at intervals not normally exceeding three years as determined by the Trustees and, with appropriate updates and accounting adjustments at each balance sheet date, form the basis of the deficit disclosed. All active members of defined benefit schemes are contracted out of the earnings-related part of the State Second pension scheme.

For defined benefit schemes, the amounts charged to operating profit are the current service costs and any gains and losses arising from settlements, curtailments and past service costs. The amount resulting from applying the Plan's discount rate (for liabilities) to the pension surplus at the beginning of the reporting year is recognised as net pension interest in the income statement. Due to the substantial change in the RMPP surplus resulting from the Pensions Reform, the net pension interest was recalculated at the half year to £69 million (2013 £30 million) for the full year. Actuarial gains and losses are recognised immediately in the statement of comprehensive income. Any deferred tax movement associated with the actuarial gains and losses is also recognised in the statement of comprehensive income.

For defined contribution schemes, the Group's contributions are charged to operating profit within people costs in the period to which the contributions relate. Overseas subsidiaries make separate arrangements for the provision of pensions and other post-retirement benefits.

Foreign currencies

The functional and presentational currency of Royal Mail plc is Sterling (£). The functional currency of the overseas subsidiaries in Europe is mainly the Euro (€).

The assets and liabilities of foreign operations are translated at the rate of exchange ruling at the balance sheet date. The trading results of foreign operations are translated at the average rates of exchange for the reporting year, being a reasonable approximation to the actual transaction rate. The exchange rate differences arising on the translation, since the date of transition to IFRSs, are taken directly to the Foreign currency translation reserve in equity.

Transactions in foreign currencies are initially recorded in the functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. Currently hedge accounting is not claimed for any monetary assets and liabilities. All differences are therefore taken to the income statement, except for differences on monetary assets and liabilities that form part of the Group's net investment in a foreign operation. These are taken directly to equity until the disposal of the net investment occurs, at which time they are recognised in profit or loss.

Non-monetary items that are measured in terms of historic cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in foreign currency are translated using the exchange rates at the date when the fair value is determined.

Accounting standards issued but not yet applied

The following new and revised accounting standards are relevant to the Group and are in issue but were not effective (and in some instances have not yet been adopted by the EU) at the balance sheet date:

IAS 19 (Amended) Employee benefits Employee contributions

IAS 27 (Amended) Separate Financial Statements

IAS 28 (Amended) Investments in Associates and Joint Ventures

IAS 36 (Amended) Impairment of Assets

IAS 39 (Amended) Financial Instruments Recognition and Measurement

IFRS 9 Financial Instruments Classification and Measurement

IFRS 10 Consolidated Financial Statements

IFRS 11 Joint Arrangements

IFRS 12 Disclosure of Interests in Other Entities

Annual Improvements 2010-2012 and Annual Improvements 2011-2013

The Directors do not expect that the adoption of the standards listed above will have a material impact on the financial performance or position of the Group in future periods.

Group five year summary (unaudited)

The following information has been prepared on a 52-week basis and excludes for the comparative years the Group's former Post Office Limited (POL) subsidiary which was transferred to Royal Mail Holdings plc (subsequently renamed Postal Services Holding Company Limited) on 1 April 2012 (see note 1 for further details). The Directors are of the view that this non-GAAP presentation provides a meaningful comparative history of the current Group excluding POL.

	Financial reporting year (52 weeks) ending March				
	2014 £m	2013 £m	2012 £m	2011 £m	2010 £m
Income statement					
Revenue	9,456	9,146	8,764	8,415	8,547
Operating profit before transformation costs	671	598	381	210	332
Transformation costs	(241)	(195)	(229)	(192)	(185)
Operating profit after transformation costs	430	403	152	18	147
Operating specific items	1,213	(77)	(57)	(48)	4
Non-operating specific items	21	4	182	106	2
Earnings before interest and taxation (EBIT)	1,664	330	277	74	153
Finance income/(costs) – mainly net pension interest (non-operating specific item)	69	52	(230)	(419)	(306) ¹
Finance costs – other	(67)	(99)	(100)	(84)	(82)
Profit/(loss) before taxation from continuing operations	1,666	283	(53)	(429)	(235)
Taxation (specific items and other)	(386)	246	(51)	(123)	(87)
Profit/(loss) after taxation from continuing operations	1,280	529	(104)	(552)	(322)
¹ This net pension cost has not been adjusted in accordance with IAS 19 revised as adopted during the 2013-14 reporting year					
Free cash flow²	2014 £m	2013 £m	2012 £m	2011 £m	2010 £m
EBITDA before transformation costs	942	915	681	493	595
Trading working capital movements	(57)	(60)	(19)	(58)	31
Difference between ongoing pension costs and pension cash flows	58	(3)	(45)	(292)	(395)
Transformation investment – operating and capital expenditure	(284)	(407)	(429)	(379)	(325)
Non-transformation investment – capital expenditure	(333)	(258)	(150)	(176)	(234)
Other (dividends taxation interest)	69	(81)	(87)	(59)	(64)
Underlying cash inflow/(outflow)	257	106	(49)	(471)	(392)
One-off working capital movements	140	202	-	-	-
Cash cost of operating specific items	(35)	(26)	(37)	(5)	(8)
Disposal of assets/business	36	52	240	230	10
Free cash inflow/(outflow)	398	334	154	(246)	(390)
² An explanation of free cash flow is provided in note 7					
Balance sheet	2014 £m	2013 £m	2012 £m	2011 £m	2010 £m
Property, plant and equipment	1,989	1,916	1,822	1,829	1,932
Intangible assets (mainly software)	195	139	135	126	99
Inventories	22	24	32	33	32
Trade and other receivables	939	1,012	1,036	906	911
Trade and other payables	(1,683)	(1,647)	(1,548)	(1,423)	(1,536)
Other net (liabilities)/assets	(20)	-	4	40	10
Provisions	(268)	(246)	(217)	(252)	(233)
Goodwill (mainly relates to GLS)	197	196	189	197	197
Investments in associates	4	3	3	9	46
Net operating assets and investments in associates	1,375	1,397	1,456	1,465	1,458
Cash and cash equivalents	366	351	473	319	171
Pension escrow investments	20	20	149	87	178
Loans and borrowings	(600)	(973)	(1,522)	(1,478)	(1,183)
Other net financial liabilities	(341)	(304)	(286)	(200)	(123)
Net debt	(555)	(906)	(1,186)	(1,272)	(957)
Deferred taxation (liabilities)/assets	(142)	89	(9)	(2)	90
Net assets before pension deficit and pension escrow investments	679	580	261	191	591
Pension surplus/(deficit)	1,723	825	(2,716)	(4,185)	(7,477)
Net assets/(liabilities)	2,401	1,405	(2,455)	(3,944)	(6,886)
People numbers – period end employees	2014	2013	2012	2011	2010
UKPIL	148,441	149,940	151,156	155,181	160,291
GLS	13,811	13,646	13,362	13,167	12,885
UK partially owned subsidiaries	3,999	4,030	3,926	4,254	4,217
Group total	166,251	167,616	168,444	172,602	177,393

Statement of Directors' responsibilities in respect of the Group financial statements

The Directors are responsible for preparing the Annual Report and Financial Statements in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each reporting year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation. Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to

- Select suitable accounting policies and then apply them consistently
- Make judgements and accounting estimates that are reasonable and prudent,
- State that the Group has complied with IFRS as adopted by the EU, subject to any material departures disclosed and explained in the financial statements and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's and Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for preparing the Directors' report, the Corporate Governance report and the Directors' remuneration report in accordance with the Companies Act 2006 and applicable regulations, including the Listing Rules and the Disclosure and Transparency Rules.

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


Responsibility statement


Each of the Directors whose names and functions are disclosed on page 38 confirms that to the best of their knowledge

- The financial statements prepared in accordance with applicable accounting standards give a true and fair view of the assets, liabilities, financial position and profit of the Company and the Group taken as a whole and
- The Management report which is incorporated into the Strategic report, and the Directors' report includes a fair review of the development and performance of the business and the Group taken as a whole, together with a description of the principal risks and uncertainties that they face

In addition, the Board considers that the Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

By Order of the Board


Moya Greene
 Chief Executive Officer
 6 June 2014


Matthew Lester
 Chief Finance Officer

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

We have audited the financial statements of Royal Mail plc for the period ended 30 March 2014 which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated statement of changes in equity, the Consolidated balance sheet, the Consolidated statement of cash flows statement and the related notes 1 to 29. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditor

As explained more fully in the statement of Directors' responsibilities set out on page 127, the Directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the Group financial statements

An audit involves obtaining evidence about the amounts and disclosures in the Group financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the Group financial statements. In addition, we read all the financial and non-financial information in the Annual Report 2014 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the Group financial statements

- Give a true and fair view of the state of the Group's affairs as at 30 March 2014 and of its profit for the period then ended,
- Have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- Have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Our assessment of risks of material misstatement

We identified the following risks that have had the greatest effect on the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team:

- Revenue recognition across the Group's operations, specifically in relation to the accounting for stamps and meters deferred revenue and the risk of management override
- Accounting and valuation of the Group's pension scheme, and
- Completeness and measurement of the Group's provisions, including the recognition of severance provisions and industrial diseases claims

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements on our audit and on the financial statements. For the purposes of determining whether the financial statements are free from material misstatement we define materiality as the magnitude of misstatement that makes it probable that the economic decisions of a reasonably knowledgeable person, relying on the financial statements, would be changed or influenced. We also determine a level of performance materiality which we use to determine the extent of testing needed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole. We determined planning materiality for the Group to be £270 million, which is approximately 5 per cent of adjusted profit before tax (2013: 0.5 per cent of revenue). This provided a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement is that overall performance materiality for the Group should be 75 per cent of planning materiality, namely £203 million. Our objective in adopting this approach is to ensure that total detected and undetected audit differences do not exceed our planning materiality of £270 million for the financial statements as a whole.

We agreed with the Audit and Risk Committee that we would report to the Committee all adjusted and unadjusted audit differences in excess of £1.4 million. We also agreed to report differences below those thresholds that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

Following our assessment of the risk of material misstatement to the Group financial statements, we selected eleven components which represent the principal business units within the Group's reportable segments and account for 95 per cent of the Group's revenue and 99 per cent of the Group's profit before tax. Two of these components were subject to a full audit, four were subject to audits of specific account balances and five were subject to review procedures. For the remaining components we performed other procedures to confirm there were no significant risks of material misstatement in the Group financial statements.

The audit work for some of the locations and the statutory audits were executed at levels of materiality applicable to each individual entity which were much lower than Group materiality.

The Group audit team continued to follow a programme of planned visits that has been designed to ensure that the Senior Statutory Auditor or his designate visits each of the two full scope locations at least once a year. This year, the Group audit team visited the UK and overseas full scope locations. For all full scope entities, the Group audit team reviewed key working papers and participated in the component team's planning including the component team's discussion of fraud and error.

Our response to the risks of material misstatement included the following procedures:

- We performed controls testing over revenue recognition, including the timing of revenue recognition, challenged management's underlying assumptions and methodology used in its stamps and meters deferred revenue calculations, as well as assessing whether the revenue recognition policies adopted complied with IFRSs. We performed analytical procedures and journal entry testing in order to identify and test the risk of fraud arising from management override of controls.
- Using the knowledge and expertise of our own actuarial specialists we challenged management's key assumptions and estimates used in its pension accounting to evaluate the appropriateness of the methodology. We also considered whether the Group's pension disclosures are appropriate and in accordance with IFRSs, and
- We reviewed the Group's provisions to understand the appropriateness of assumptions supporting management's estimates, challenging management's accounting treatment and disclosures. We also assessed the completeness of the Group's provisions and contingent liabilities and compliance with IFRSs recognition and measurement criteria.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- The information given in the Strategic report and the Directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements, and
- The part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- Materially inconsistent with the information in the audited financial statements, or
- Apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit, or
- Is otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the Annual Report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the Audit & Risk Committee which we consider should have been disclosed.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- Returns adequate for our audit have not been received from branches not visited by us, or
- The part of the Directors' remuneration report to be audited is not in agreement with the accounting records and return, 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.

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

Under the Listing Rules we are required to review

- The Directors' statement, set out on page 46, in relation to going concern and
- The part of the Corporate governance statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review

Other matter

We have reported separately on the parent Company financial statements of Royal Mail plc for the period ended 30 March 2014 and on the information in the Directors' remuneration report that is described as having been audited



Richard Wilson (Senior statutory auditor)
for and on behalf of Ernst and Young LLP
Statutory Auditor
London
6 June 2014

Royal Mail plc – parent Company financial statements

The majority of the Annual Report and Financial Statements relates to the Royal Mail plc Group consolidated accounts which comprise the aggregation of all the Group's trading entities (subsidiaries and associated undertakings). This mandatory section reports the individual balance sheet and notes of the ultimate holding company Royal Mail plc (the Company).

Company balance sheet

At 30 March 2014

	Notes	At 30 March 2014 £m
Fixed assets		
Investment in subsidiary	6	1,591
Total fixed assets		1,591
Current assets		
Debtors – amounts falling due in less than one year	7	-
Current liabilities		
Creditors – amounts falling due in less than one year		(4)
Provisions for liabilities and charges	8	-
Net current assets		(4)
Net assets		1,587
Capital and reserves		
Called up share capital	9	10
Retained earnings	10	1,577
Shareholders' funds		1,587

The balance sheet was approved and authorised for issue by the Board of Directors on 6 June 2014 and signed on its behalf by



Matthew Lester
Chief Finance Officer

Notes to the parent Company financial statements

1. Parent Company accounting policies

Financial reporting year

The Company was incorporated on 6 September 2013 (see note 9 for further details)

The financial reporting year ends on the last Sunday in March and accordingly, these financial statements are made up for the period 6 September 2013 to 30 March 2014

Basis of preparation

The financial statements of the Company were authorised for issue by the Board on 6 June 2014

The financial statements and notes on pages 131 to 133 have been prepared in accordance with applicable UK accounting standards and law including the requirements of the Companies Act 2006. Unless otherwise stated in the accounting policies below, the financial statements have been prepared under the historic cost accounting convention.

The Company has not presented its own profit and loss account as permitted by section 408 of the Companies Act 2006. However, the results of the Company are presented in notes 4 and 10 to the financial statements.

The Company has taken advantage of paragraph 2D of FRS 29 (IFRS 7) 'Financial Instruments' and has not disclosed information required by that standard as the Group's consolidated financial statements, in which the Company is included, provide equivalent disclosures for the Group under IFRS 7.

No new UK accounting standards which affect the presentation of these financial statements have been issued.

Investment in subsidiary

The investment in subsidiary is stated at cost less any accumulated impairment losses.

Debtors

Debtors are recognised with an allowance for any non-collectable amounts, including where collection is no longer probable.

2. Directors' emoluments

The Directors of the Company are not paid any fees by the Company for their services as Directors of the Company. The Directors are paid fees by other companies of the Group. These emoluments are disclosed in the Group financial statements.

3. Auditor's remuneration

The auditor of the Company is not paid fees by the Company. The auditor of the Company is paid fees by other companies of the Group. This remuneration is disclosed in the Group financial statements (see note 13).

4. Profit and loss account

The Company is a non-trading company. The loss for the period of £4 million (2013: £nil) is in respect of transaction-related costs.

5. Taxation

There is no taxation charge/credit for the period.

6. Investment in subsidiary

	£m
At 12 September 2013	1,500
Investment in subsidiary – cost of Employee Free Shares	91
At 30 March 2014	1,591

The investment in subsidiary at 12 September 2013 relates to the transfer of Royal Mail Group Limited (see note 9).

7. Debtors – amounts falling due within one year

This balance includes the share capital issued at incorporation (see note 9).

8. Provisions for liabilities and charges

In connection with the transfer of Royal Mail Group Limited (see note 9), a provision for liabilities and charges of less than £1 million is recognised.

9. Called up share capital

	At 30 March 2014 £m
Authorised	
1 000 000 000 Ordinary Shares of £0.01 each	10
Total	10
Allotted and issued	
1 000 000 000 Ordinary Shares of £0.01 each	10
Total	10

The Company was incorporated as Royal Mail Limited on 6 September 2013 with share capital of 100 Ordinary Shares of £1.50 each (£150) issued to Royal Mail Holdings plc. Royal Mail Holdings plc was renamed Postal Services Holding Company plc (PSH) on 11 September 2013. Subsequently on 12 September 2013, share capital of 999,999,900 Ordinary Shares of £1.50 each (£1,499,999,850) was issued by the Company to PSH in consideration for the transfer from PSH of the entire issued share capital of Royal Mail Group Limited. Following this transfer, and therefore as at 12 September 2013, the issued share capital of the Company comprised 1,000,000,000 Ordinary Shares of £1.50 each (£1,500,000,000). In connection with the transfer, a provision for liabilities and charges has been recognised (see note 8 above). This is included in the cost of investment.

On 17 September 2013, Royal Mail Limited (subsequently re-registered as Royal Mail plc on 19 September 2013) approved a reduction of capital by way of solvency statement to cancel £1.49 from each issued Ordinary Share of £1.50. This reduction of capital was registered on 18 September 2013 and reduced share capital from £1,500 million to £10 million and increased distributable reserves by £1,490 million.

Postal Services Holding Company plc was subsequently renamed Postal Services Holding Company Limited ('PSH') on 12 December 2013.

10. Shareholders' funds


	Called up share capital £m	Retained earnings £m	2014 Total £m
At 6 September 2013 (incorporation – see note 9)	–	–	–
Loss for the period	–	(4)	(4)
Issue of shares in consideration for the transfer of Royal Mail Group Limited shares	1,500	–	1,500
Reduction of capital (see note 9)	(1,490)	1,490	–
Investment in subsidiary	–	91	91
At 30 March 2014	10	1,577	1,587

Statement of Directors' responsibilities in respect of the parent Company financial statements

The Directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland') and applicable law. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently
- Make judgements and accounting estimates that are reasonable and prudent
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.



Matthew Lester
6 June 2014

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

We have audited the parent Company financial statements of Royal Mail plc for the period ended 30 March 2014 which comprise the parent Company balance sheet and the related notes 1 to 10. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' responsibilities statement set out on page 134, the Directors are responsible for the preparation of the parent Company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the parent Company financial statements sufficient to give reasonable assurance that the parent Company financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the parent Company financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the parent Company financial statements:

- Give a true and fair view of the state of the Company's affairs as at 30 March 2014,
- Have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- Have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion:

- The part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006, and
- The information given in the Strategic report and the Directors' report for the financial period for which the financial statements are prepared is consistent with the parent Company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- Adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us, or
- The parent Company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns, or
- Certain disclosures of Directors' remuneration specified by law are not made, or
- We have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the Group financial statements of Royal Mail plc for the period ended 30 March 2014.



Richard Wilson (Senior statutory auditor)
for and on behalf of Ernst and Young LLP
Statutory Auditor
London
6 June 2014

Shareholder information

Financial calendar

Interim Management Statement – 22 July 2014

Annual General Meeting – 24 July 2014

Dividend dates

Ex-dividend date – 2 July 2014

Record date – 4 July 2014

Payment date – 31 July 2014

Shareholder information online

The Company's registrars, Equiniti, are able to notify shareholders by email of the availability of an electronic version of shareholder information

Whenever new shareholder information becomes available, such as the Company's interim and full-year results Equiniti will notify you by email and you will be able to access read and print documents at your own convenience

To take advantage of this service for future communications, please go to www.shareview.co.uk and select 'Shareholder Services' where full details of the shareholder portfolio service are provided When registering for this service you will need to have your 11-digit shareholder reference number to hand, which is shown on your dividend tax voucher, share certificate or form of proxy

Should you change your mind at a later date you may amend your request to receive electronic communication by entering your shareview portfolio online and amending your preferred method of communication from email to 'post'

Shareholder fraud

Fraudsters use persuasive and high-pressure tactics to lure investors into scams They may offer to sell shares that turn out to be worthless or non-existent, or to buy shares at an inflated price in return for an upfront payment While high profits are promised, if you buy or sell shares in this way you will probably lose your money

5,000 people contact the Financial Conduct Authority (FCA) about share fraud each year with victims losing an average of £20 000 If you are approached by fraudsters please tell the FCA using the share fraud reporting form at www.fca.org.uk/scams, where you can find out more about investment scams You can also call the FCA Consumer Helpline on 0800 111 6768 If you have already paid money to share fraudsters you should contact Action Fraud on 0300 123 2040

Advisers

Corporate Brokers and Financial Advisers

Barclays Bank plc, The North Colonnade London E14 4BB

Independent Auditor

Ernst & Young LLP 1 More London Place London SE1 2AF

Trustee of The Royal Mail Share Incentive Plan

Equiniti Share Plan Trustees Limited Aspect House Spencer Road Lancing West Sussex BN99 6DA

www.royalmailemployeeshares.co.uk

Tel 0800 012 1213

Information for investors

Information for investors is provided on the internet as part of the Groups website which can be found at www.royalmailgroup.com/investor-centre

Investor enquiries

Enquiries can be directed via our website or by contacting

Registrars

Equiniti

Aspect House Spencer Road, Lancing, West Sussex BN99 6DA

www.shareview.co.uk

Tel 0871 384 2656 (from outside the UK +44 (0)121 415 7086)

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Calls to this number cost 8p per minute from a BT landline other providers costs may vary Lines are open 8 30am to 5 30pm UK time, Monday to Friday

Registered office

Royal Mail plc

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London EC4Y 0HQ

Registered in England and Wales

Company number 08680755

Corporate websites

Information made available on the Groups websites does not and is not intended to, form part of these Results

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Forward looking statements

Disclaimers

This document contains certain forward looking statements concerning the Group's business financial condition, results of operations and certain of the Group's plans objectives, assumptions, projections expectations or beliefs with respect to these items. Forward looking statements are sometimes but not always identified by their use of a date in the future or such words as 'anticipates', 'aims', 'due', 'could', 'may', 'will', 'should', 'expects', 'believes', 'intends', 'plans', 'potential' targets' 'goal' or 'estimates'.

Forward looking statements involve known and unknown risks uncertainties and other factors which may cause the Group's actual financial condition performance and results to differ materially from the plans, goals, objectives and expectations set out in the forward looking statements included in this document. Accordingly, readers are cautioned not to place undue reliance on forward looking statements.

By their nature forward looking statements relate to events and depend on circumstances that will occur in the future and are inherently unpredictable. Such forward looking statements should therefore be considered in light of various important factors that could cause actual results and developments to differ materially from those expressed or implied by these forward looking statements. These factors include, among other things, changes in the economies and markets in which the Group operates, changes in the regulatory regime within which the Group operates, changes in interest and exchange rates, the impact of competitive products and pricing, the occurrence of major operational problems, the loss of major customers, undertakings and guarantees relating to pension funds, contingent liabilities, the impact of legal or other proceedings against or which otherwise affect the Group, and risks associated with the Group's overseas operations.

All written or verbal forward looking statements made in this document or made subsequently, which are attributable to the Group or any persons acting on their behalf are expressly qualified in their entirety by the factors referred to above. No assurance can be given that the forward looking statements in this document will be realised. Actual events or results may differ materially as a result of risks and uncertainties facing the Group. Subject to compliance with applicable law and regulation, the Company does not intend to update the forward looking statements in this document to reflect events or circumstances after the date of this document and does not undertake any obligation to do so.

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