Royal Mail plc

Financial report for the full year ended 27 March 2016

Thursday 19 May 2016

Highlights

Royal Mail plc (RMG.L) today announced its results for the full year ended 27 March 2016.

Moya Greene, Chief Executive Officer, commenting on the results said:

"We have delivered a resilient performance in challenging markets. Group revenue was up one per cent and our strategic focus on costs resulted in a one per cent decline in our UK underlying costs. We continue to invest in our transformation and initiatives to support growth.

"Our UK parcel revenue and volumes grew by one per cent and three per cent, respectively. Our addressed letter volumes declined by three per cent; total letter revenue by two per cent. GLS, our European parcel business, continued to perform strongly, supporting the overall Group revenue performance.

"We are introducing new and improved products and services and responding quickly to changing customer needs. These measures, alongside our emphasis on customer focus and delivering a value for money service, have helped us to maintain our pre-eminent position in UK letters and parcels and driven growth in GLS."

Group financial highlights

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

Business units

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

[1] All adjusted results are a non-International Financial Reporting Standards (IFRS) measure and exclude specific items. The commentary in this report, unless specified otherwise, focuses on the operating results on an adjusted basis. This is consistent with the way that financial performance is measured by Management and reported to the Board and assists in providing a meaningful analysis of the results of the Group

[2] All movements are on an underlying basis unless otherwise stated. Underlying change is calculated after adjusting for movements in foreign exchange in GLS, working days in UKPIL and other one-off items that distort the Group's underlying performance. For volumes, underlying movements are adjusted for working days in UKPIL and exclude elections in letter volumes

[3] Prepared in accordance with IFRS

Group financial performance

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

Business performance

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

Outlook

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

[4] Excluding election mailings

Chief Executive Officer's review

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

Our performance

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

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

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

Our strategy

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

Our strategic priorities are:

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

Enabled by:

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

Winning in parcels

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

Competitive marketplaces

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

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

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

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[2] All adjusted results are a non-IFRS measure and exclude specific items. The commentary in this report, unless specified otherwise, focuses on the operating results on an adjusted basis. This is consistent with the way that financial performance is measured by Management and reported to the Board and assists in providing a meaningful analysis of the results of the Group

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

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

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

Our performance

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

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

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

Winning in parcels: key points

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

Pursuing faster growing areas of the UK and international markets

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

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

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

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

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

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

Adding value by improving our products and services

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

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

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

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

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

Expanding and automating our networks

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

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

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

Defending letters

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

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

Defending letters: key points

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

Promoting the value of mail

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

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

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

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

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

Optimising mail handling

We continue to implement processes to ensure that mail is handled as efficiently as possible.

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

Regulation

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

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

Growing in new areas

Growing in new areas: key points

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

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

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

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

Strategic focus on costs

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

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

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

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

Technology and innovation

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

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

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

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

[7] Estimate based on analysis performed by OC&C Strategy Consultants
[8] Collections, processing and delivery in UKPIL core network

Engaged and motivated workforce

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

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

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

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

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

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

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

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

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

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

Outlook

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

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

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

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

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

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

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

Thank you

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

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

Moya Greene
Chief Executive Officer
18 May 2016

UK Parcels, International & Letters (UKPIL)

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

Revenue and volumes

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

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

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

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

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[2] All movements are on an underlying basis unless otherwise stated. Underlying change is calculated after adjusting for movements in foreign exchange in GLS, working days in UKPIL and other one-off items that distort the Group's underlying performance. For volumes, underlying movements are adjusted for working days in UKPIL and exclude elections in letter volumes

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

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

Operating costs

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

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

People costs declined by one per cent. This was driven by a 2.4 per cent improvement in productivity[4] and £40 million savings in relation to the management reorganisation programme implemented in 2014-15. These offset pay increases, largely the 2.8 per cent frontline pay award, and an increase in volume-driven costs in Parcelforce Worldwide. The improvement in productivity was achieved through a 2.0 per cent reduction in core network hours, despite an increase in workload, partly driven by an increase in tracked products and the increasing size of parcels. We continue to target productivity improvements of 2.0-3.0 per cent per annum.

As previously disclosed, as a result of the new single-tier state pension scheme introduced in April 2016, the Group expects to see an increase in its employer National Insurance contributions for employees participating in the Royal Mail Pension Plan (RMPP) of around £70 million from 2016-17. In addition, other wage legislation such as the Working Time Directive, Apprentice Levy and increased costs relating to redundancy payments will impact people costs in the future. We would expect to exclude the first year impact of such legislative changes from underlying movements if material.

Non-people costs declined by three per cent. Distribution and conveyance costs reduced by five per cent. This was driven by a reduction in terminal dues, partly as a result of lower export volumes, improved fleet management and a reduction in the usage of UK air routes leading to lower jet fuel costs. Total diesel and jet fuel costs of £172 million were £14 million lower than the prior year. We buy forward a large part of our fuel requirements therefore we are not materially exposed to short-term fluctuations in oil prices. We expect fuel costs to be around £155 million in 2016-17. The overall reduction in distribution and conveyance costs was partly offset by costs associated with the increasing size of parcels in our network. Infrastructure costs were flat, after the reclassification of internal costs, as savings on facilities management, utilities and lower depreciation were offset by increases in IT costs in relation to the IT transformation programme. We have invested significantly in IT and other assets as part of the transformation programme and as a result, the depreciation and amortisation charge is expected to increase going forward, with an increase of around £20 million in 2016-17. Other operating costs were down two per cent, after the reclassification of internal costs, due to reductions in amounts payable to Post Office Limited and our continued focus on discretionary costs.

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

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

[4] Collection, processing and delivery in the UKPIL core network
[5] Prepared in accordance with IFRS

Transformation costs

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

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

Operating profit after transformation costs

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

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

General Logistics Systems (GLS)

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

Revenue and volumes

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

Operating costs

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

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

People costs increased by nine per cent as a result of increased semi-variable costs linked to volume, additional headcount associated with the operational response to the German minimum wage legislation, pay increases, and the impact of acquisitions. Non-people costs grew broadly in line with volume growth. Distribution and conveyance costs reflected higher volumes and the impact of German minimum wage legislation on subcontractor costs. Infrastructure costs increased by 10 per cent, largely due to higher depreciation and amortisation charges following increased investment in IT.

Operating profit

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

Summary of performance

Germany

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

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

Italy

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

France

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

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

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

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

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

Financial review

Reported results

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

Presentation of results

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

Group revenue

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

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

Group operating costs

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

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

Group operating profit after transformation costs

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

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

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

Specific items

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

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

Net finance costs

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

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

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

Tax

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

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

Earnings per share (EPS)

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

Cash flow

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

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

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

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

Investment

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

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

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

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

[1] 52 weeks 2015 has been restated to move change in GLS client cash of £6 million from 'Trading working capital movements' to 'Other working capital movements' and to extract £10 million in respect of 'Acquisition of business interests' from 'Growth capital expenditure' within 'Total investment'

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

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

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

Net debt

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

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

We continue to target investment grade credit metrics, that is, no lower than BBB- under Standard & Poor's methodology. A reconciliation of net debt is shown below.

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

Pensions

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

The process for the triennial valuation of the Royal Mail Pension Plan (RMPP) at 31 March 2015 has commenced and the outcome will be announced in due course. The Royal Mail Senior Executives Pensions Plan (RMSEPP) triennial valuation at 31 March 2015 has been completed, based on the assumptions agreed as part of the Funding Agreement made between the Company and the Trustee in 2013. If the assumptions used for the 2012 triennial valuation of the RMPP and the 2015 triennial valuation of the RMSEPP are rolled forward to 31 March 2016, the combined actuarial surplus would be £1,777 million, compared with £1,525 million at 30 September 2015 and £1,793 million at 31 March 2015. It is this basis that the Pension Trustee and the Company use to assess the ongoing funding needs of these schemes. To support the Company's commitment that, subject to certain conditions, the RMPP will remain open to defined benefit accrual until at least March 2018, the Trustee has hedged a large proportion of the interest and inflation exposure on this expected future service benefit accrual. The Trustee increased this hedging further during 2015-16, and on an actuarial basis the amount of the surplus at March 2016 relating to the liabilities hedged in advance of those accrued to the same date, was approximately £550 million. This element of the surplus will unwind over time.

Under the 2012 triennial valuation of the RMPP, the Company agreed to pay ongoing cash contributions of 17.1 per cent of pensionable pay until 2018. At that time, this amounted to around £400 million per annum. This was made possible by the creation of an actuarial surplus of £1.6 billion as a result of the Pensions Reform in 2013. Without this surplus, the Company contributions required would have been around £700 million per annum, or 30 per cent of pensionable pay. Accordingly, the surplus was expected to decline over time.

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

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

Dividends

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

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

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

Property

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

Financial risks and related hedging

The Group is exposed to commodity and currency price risk. The Group operates hedging policies which will be described in the Notes to the Annual Report and Financial Statements 2015-16.

The forecast diesel and jet commodity exposures in UKPIL are set out below together with the sensitivity of 2016-17 operating profit to changes in commodity prices and fuel duty:

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

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

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

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

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

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

Events after the reporting year

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

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

Settlement of French Competition Authority fine

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

Auditor

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

Underlying change

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

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

Principal risks

The Corporate Governance section in our Annual Report and Financial Statements 2015-16 will describe in detail how the Group manages its risk from the Group Board level, its respective sub-committees and throughout the organisation.

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

KEY

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

Principal risk	Status	How we are mitigating the risk
Changes in market conditions and customer behaviour **The industry sectors in which we operate remain highly competitive, with customers demanding more and our competitors responding quickly to these changing demands.**		
Customer behaviour and Royal Mail's responsiveness to market changes A B C V Changes in customer behaviour, and changes to the markets in which the Group sells its products and services, could impact our forecast rates of decline and growth of letter and parcel volumes respectively. There is a risk that our product offerings and customer experience may not adequately meet evolving customer needs, or that we are unable to innovate or adapt our commercial and operational activities quickly enough to respond to changes in these markets.	The parcels sector is undergoing rapid and profound change. Competition in the UK domestic and international markets continues to intensify, with competitors offering innovative solutions that include convenient, reliable delivery and return options, and improved tracking facilities. Capacity expansion in the sector continues to exert downward pressure on prices. In the parcels business, disintermediation in the on-line marketplaces may divert our business to other carriers or collection providers. We expect the letters sector to remain in structural decline, in the medium-term, driven by the growth in mobile and online advertising, and e-substitution. There is a continuing requirement to invest in growth and innovation to meet these challenges in the marketplace.	• We use continuous in-depth market monitoring and research to track how well we match our customers' needs, including relative to our competitors, and to predict volume trends. • We are investing in introducing, at pace, new and improved products and services that: enhance customers' online and delivery experience; expand our core offering to small and medium-size businesses and marketplace sellers; and extend our product coverage. We target investments that will extend our value chain offer and increase our presence in faster growing areas of the parcels sector. • We promote the value of letters to customers through our MAILMEN initiative for marketing mail, Keep Me Posted and other campaigns, and innovations such as Mailmark®.
Economic environment A B C V Historically there has been a correlation between economic conditions and mail volumes. Slowing economic growth could impact our ability to maintain and grow revenue, either through reduced volumes or by encouraging customers to adopt alternative service options for sending letters and parcels.	The outlook for economic conditions in the UK is broadly in line with our planning assumptions, but uncertainty around the outlook has increased. Economic growth in the Eurozone is more moderate and recovery remains fragile. Low growth or recession in Europe could impact our international parcel volumes, including those handled by GLS.	• We have a robust modelling and forecasting framework that uses a range of quantitative and qualitative approaches to provide early warnings of changes to overall volumes and the profile of letter and parcel business, and to assess the effect of our pricing structures. We have a programme of regular reviews of outcome data compared to forecast, and recalibration

Principal risk	Status	How we are mitigating the risk
		and upgrade of these models. • We have a challenging cost avoidance programme in place in response to revenue headwinds. • We are pursuing initiatives to find new areas of growth, such as fleet maintenance services and leveraging data assets.

Pension risk

The Group continues to operate a defined benefit pension scheme, the Royal Mail Pension Plan, open to accrual for existing members.

Principal risk	Status	How we are mitigating the risk
Affordability of the defined benefit pension scheme A B V Our ongoing ability to maintain the Royal Mail Pension (Plan) in its current form is subject to financial market conditions.	As part of the Pension Reform in 2013, we committed, subject to certain conditions, to keep the Plan open until at least March 2018. Current financial market conditions suggest that keeping the Plan open to accrual in its current form beyond 2018 will not be affordable.	• The Plan is hedged against future interest rate and inflation rate exposures, and we are confident that this will enable us to meet our commitment to keep the Plan open to accrual up to March 2018. • We are in discussions with the unions, and are developing proposals for sustainable post-March 2018 pension arrangements.

Business transformation

Royal Mail must continuously become more efficient and flexible in order to compete effectively in the letters and parcels sectors.

Principal risk	Status	How we are mitigating the risk
Efficiency A B The success of our strategy relies on the effective control of costs and the delivery of efficiency benefits.	We continue to make efficiency improvements. Our productivity improvement is within our target range, and through our strategic focus on costs we have reduced our underlying UKPIL operating costs, before transformation costs, by one per cent.	• We have a strategic programme of cost avoidance, involving approximately 70 projects targeted to avoid around £500 million of annualised costs by 2017-18. • Our Agenda for Growth agreement with the CWU, supported by the Together for Growth training programme, and a joint mediation process, which facilitates a collaborative approach to improving efficiency at a local and national level. • We have redefined and rolled out across the network core Operations Standards that are based on best observed practice. A programme to enable better alignment of resourcing and workload is also being implemented across the Delivery Office network. • We are simplifying our operational management structure and have programmes of activity in hand to support operational managers in improving efficiency. • We continue to reduce levels of Lost Time Accidents and other sick absence through a positive focus on compliance with attendance management procedures, safety and wellbeing support.
Attracting and retaining senior management and key personnel A B C		

Principal risk	Status	How we are mitigating the risk
Our performance, operating results and future growth depend on our ability to attract and retain talent with the appropriate level of expertise.	Turnover in senior and key personnel has been at normal levels for the business during the year, but this remains an inherent business risk.	• The Group's remuneration policy sets out that the overall remuneration package should be sufficiently competitive to attract, retain and motivate executives with the commercial experience to run a large, complex business in a highly challenging context. • We operate a succession planning process and have in place talent identification and development programmes.
IT transformation A B C The scale and complexity of our IT transformation programme and the ongoing requirement for effective management of the transition are sources of risk to its successful delivery. Failure to improve our IT systems or successfully implement the IT transformation programme could increase the risk of: security breaches and attacks; a material adverse effect on the Group's operations; and inability of IT systems to support the business plan.	We have made significant progress in delivering the IT transformation programme. Infrastructure changes and transition to new providers are close to completion. This will provide us with an effective technical infrastructure that, going forward, better supports both routine functional activity and business growth.	• In view of the size and complexity of the transformation programme, we have, throughout its lifecycle, strengthened standard programme management and governance disciplines to provide intensive focus on key aspects; completing residual elements of the transition is now the primary focus.

Regulatory and legislative environment

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

Principal risk	Status	How we are mitigating the risk
Fundamental review of postal services regulation A B In June 2015 Ofcom announced a fundamental review of the regulation of Royal Mail. The review, currently in progress, incorporates previously announced reviews into efficiency, parcels and access pricing. It also examines: what changes to the overall postal regulatory framework might be appropriate to secure the universal postal service; Royal Mail's wholesale and retail pricing; and whether the current level of commercial flexibility allowed to Royal Mail remains appropriate, and, if not, whether additional wholesale or retail price controls should be introduced. A regulatory system or approach that applies restraints to Royal Mail's ability to compete for traffic to support the costs of the universal service network, or imposes operational requirements not applied generally to the industry, may impact our revenues, our ability to compete in the highly competitive industry sectors in which we operate, and ultimately our ability to deliver the universal service on a sustainable basis.	NEW This is a new risk that has emerged during the year. It was disclosed in our financial results for the half year ended 27 September 2015. Ofcom has stated that it expects to complete the process and have a regulatory framework in place in early 2017. There is an ongoing Competition Act investigation by Ofcom relating to certain of our access pricing proposals in January 2014, which we suspended without implementing and subsequently withdrew. We dispute the allegations and are robustly defending the investigation.	• We have made comprehensive submissions to Ofcom as part of its initial call for evidence and we have ongoing engagement with Ofcom to build on the response to issues raised. • Our response to the proposal will be shaped by the detail of the proposal and any threat it may present to our ability to compete effectively, and to the sustainability of the universal service. We will seek to work with Ofcom to protect the Universal Service. • We have a strategic focus on cost avoidance and delivering efficiency improvements, as noted against the Efficiency risk in the Business transformation section above. • We have made a detailed submission to Ofcom in relation to its Competition Act investigation.
VAT status B The Value Added Tax (VAT) treatment of Royal Mail's services, including exemption applying to certain products, is under threat in two areas:	The proposed Vouchers Directive is under discussion in Europe. The outcome remains uncertain.	• We continue to liaise with HM Treasury and HMRC to seek to minimise any adverse impact of the proposed Vouchers Directive.

Principal risk	Status	How we are mitigating the risk
• The EU has published a proposal for a Vouchers Directive, which could adversely impact Royal Mail's VAT position, if as a result, postage stamps were treated in the same way as other vouchers; and • The European Commission is reviewing a number of VAT exemptions, including the exemption applying to postal services. Although Royal Mail could benefit from greater recoverability of VAT on costs if the VAT exemption for postal services was removed, the cost to customers who cannot reclaim VAT would be likely to increase. The VAT exemption applying to mandated access services has also been under threat, with HMRC's implementation of VAT legislation on these services subject to a judicial review.	The European Commission has published details of responses to its consultation about the future of VAT exemptions, but there has been no indication of the likely outcome or timescale of the review. The appeal against the decision that HMRC had correctly implemented VAT legislation in respect of exemption applying to mandated access services has been withdrawn and the matter is now concluded. The improved risk trend reflects our re-assessment of the potential impact of these issues.	• We are monitoring and continue to feed into discussions with the European Commission on potential developments in VAT legislation.
Employment legislation and regulation A B		
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.	Recent case law has suggested that regular overtime and commission payments should form part of holiday pay calculations. The legal position remains unclear as case law is still evolving in this area. Other risks to our cost base associated with employment legislation have emerged and were disclosed in our financial results for the half year ended 27 September 2015. These are: • Proposal for an Apprenticeship Levy. Draft legislation sets the levy at 0.5 per cent of payroll costs, applicable from April 2017. • Proposed changes to National Insurance (NI) on termination of employment have been announced, which will increase employers' NI costs from April 2018. • The Government has consulted on how pensions tax relief is provided, but has not proposed changes at this time. If changes are proposed in the future, they could have a significant impact on the cost of providing pensions.	• We continue to monitor developments in case law relating to the application of the Working Time Directive in respect of holiday pay calculations. Based on our estimates of the potential financial impact, we believe that we have made sufficient provision for any historic liabilities that may arise. • We liaise with the CBI, HMRC and HM Treasury to influence employment tax developments and minimise the impacts for Royal Mail as far as possible.
Cyber security A B C	NEW	
We are subject to a range of regulations and contractual compliance obligations around the governance and protection of various classes of data, and are susceptible to cyber attacks that could threaten the confidentiality, integrity and availability of data in our systems. A cyber security incident could also trigger material service interruption. Either of these outcomes could result in financial and reputation damage, including loss of customer confidence.	While no material losses related to cyber security breaches have been suffered, given the increasing sophistication and evolving nature of this threat, and our reliance on technology and data for operational and strategic purposes, we now consider it is appropriate to include this as a principal risk.	• As external threats become more sophisticated, and the potential impact of service disruption increases, we continue to address our ongoing investment in cyber security. We take a comprehensive view of cyber security and continually review our resilience in light of the changes and threats we face.

Principal risk	Status	How we are mitigating the risk
Industrial relations There is extensive trade union recognition in respect of our workforce in the UK, with a strong and active trade union which, historically, has used industrial action to lever benefits for their members.		
Industrial action A B C V There is a risk that one or more material disagreements or disputes between the Group and its trade unions could result in widespread localised or national industrial action. Widespread localised or national industrial action would cause material disruption to our business in the UK and would be likely to result in an immediate and potentially ongoing significant loss of revenue for the Group. It may also cause Royal Mail to fail to meet the Quality of Service targets prescribed by Ofcom, leading to enforcement action and fines.	 The Agenda for Growth agreement developed jointly with the CWU represents a fundamental change in our relationship with CWU, and promotes stability in industrial relations. However, industrial relations is an inherent risk within our business: we are negotiating a new pay deal for 2016-17, the Pension Plan affordability is under discussion, and the increasingly competitive environment and other sources of pressure on costs and efficiency may put the stability of our industrial relations under strain.	• Our Agenda for Growth agreement with the CWU provides a joint commitment to improved industrial relations, and to resolving disputes at pace and in a way that is beneficial to both employees and Royal Mail. • As part of our collaborative approach with the CWU, the Agenda for Growth is supported by our Together for Growth programme, an industrial relations and business skills package for managers and CWU representatives designed jointly to improve the way that managers and unions work together. A resolution process for local disputes uses trained mediators nominated by and representing both CWU and the business. • The Agenda for Growth agreement has legally binding protections for the workforce in respect of future job security and our employment model, but which can be rescinded in the event of national industrial action.

Viability Statement

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

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

The Directors considered all principal risks set out in the Principal risks section on pages 22-26 but focused on those that could have a plausible and severe financial impact over the plan horizon. In particular they considered the potential impact of industrial action and deteriorating economic and market conditions.

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

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

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

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

This Statement of Directors' responsibilities is made in respect of the full Annual Report and Financial Statements, not the extracts from the financial statements set out in this Financial report.

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

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

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of their profit or loss for that period. In preparing each of the Group and parent Company financial statements, the Directors are required to:

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

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

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

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

Each of the Directors, whose names and function are set out in the Annual Report and Financial Statements, confirm that, to the best of their knowledge:

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

Consolidated income statement

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

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

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

Consolidated statement of comprehensive income

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

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

[1] Restated for the 52 weeks ended 29 March 2015 for change in accounting policy relating to pensions administration costs (see Note 1)

[2] Includes £2 million charge (2014-15 £3 million credit) in relation to net deferred tax liabilities (see Note 7)

Consolidated balance sheet

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

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

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

The financial statements were approved and authorised for issue by the Board of Directors on 18 May 2016 and were signed on its behalf by:

Moya Greene
Chief Executive Officer

Matthew Lester
Chief Finance Officer

Consolidated statement of changes in equity

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

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

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

Consolidated statement of cash flows

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

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

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

Notes to the consolidated financial statements

1. Basis of preparation

General information

Royal Mail plc ('the Company') is incorporated in the United Kingdom (UK) and listed on the London Stock Exchange. The UK is the Company's country of domicile.

The consolidated financial statements of the Company for the 52 weeks ended 27 March 2016 (2014-15 52 weeks ended 29 March 2015) comprise the Company and its subsidiaries (together referred to as 'the Group') and the Group's interest in its joint venture and associate undertakings.

Basis of preparation

(a) The Directors consider that the Group has adequate resources to continue in operational existence for a minimum of 12 months from the signing date of these financial statements and that it is therefore appropriate to adopt the going concern basis in preparing its financial statements.

(b) The consolidated financial statements of the Group have been prepared in accordance with the Companies Act 2006 and applicable IFRS as adopted for use in the EU. The consolidated financial statements have been prepared in accordance with the accounting policies stated in the Group's Annual Report and Financial Statements 2015-16.

The financial information set out in this document does not constitute the Group's statutory financial statements for the reporting years ended 27 March 2016 or 29 March 2015, but is derived from those financial statements. The auditor's report on those statutory financial statements was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006. Statutory financial statements for the reporting year ended 29 March 2015 have been delivered to the Registrar of Companies. The statutory financial statements for the reporting year ended 27 March 2016 were approved by the Board of Directors on 18 May 2016 along with this Financial report, but have not yet been delivered to the Registrar of Companies.

The Annual Report and Financial Statements 2015-16, together with details of the Annual General Meeting (AGM), will be despatched to shareholders on 15 June 2016. The AGM will take place on 21 July 2016.

Presentation of results and accounting policies

Details of: a change in accounting policy impacting certain financial statements in the current and comparative reporting years; key sources of estimation uncertainty; and relevant non-GAAP measures of performance, are provided below. Full details of the Group's significant accounting policies can be found in the Annual Report and Financial Statements 2015-16.

Prior year adjustment – pensions administration costs

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

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

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

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

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

Notes to the consolidated financial statements (continued)

1. Basis of preparation (continued)

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

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

Reported performance
The consolidated financial statements have been prepared in accordance with IFRS as adopted by the EU and as issued by the International Accounting Standards Board (IASB) (i.e. on a 'reported' basis). The notes to the financial statements have also been prepared on a 'reported' basis unless otherwise stated.

Key sources of estimation uncertainty and critical accounting judgements
The preparation of consolidated financial statements necessarily requires Management to make estimates and assumptions that can have a significant impact on the financial statements. These estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed below.

Pensions
The value of defined benefit pension plan liabilities and assessment of pension plan costs are determined by long-term actuarial assumptions. These assumptions include discount rates (which are based on the long-term yield of high-quality corporate bonds), inflation rates and mortality rates. Differences arising from actual experience or future changes in assumptions will be reflected in the Group's consolidated statement of comprehensive income. The Group exercises its judgement in determining the assumptions to be adopted, after discussion with a qualified actuary. Details of the key actuarial assumptions used and of the sensitivity of these assumptions are included within Note 10.

Deferred revenue
The Group recognises advance customer payments on its balance sheet, predominantly relating to stamps and meter credits purchased by customers but not yet used at the balance sheet date. The valuation of this deferred revenue is based on a number of different estimation and sampling methods using external specialist resource as appropriate.

The majority of this balance is made up of stamps sold to the general public. For sales to the general public, estimates of stamp volumes held are made on the basis of monthly surveys performed by an independent third party. In order to avoid over-estimation of the typical number of stamps held, Management applies a cap to the results to exclude what are considered to be abnormal stamp holdings from the estimate. The level at which holdings are capped is judgemental and is currently set at 99 of each stamp type per household. The impact of applying alternative capping values on the year end public stamp deferred revenue balance is shown in the table below.

	Capped			Uncapped
At 27 March 2016	**30**	**As reported 99**	**300**	
Public stamp holdings value (£m)	157	195	218	226

The value of stamps and meter credits held by retail and business customers are more directly estimated through the analysis of sales volumes and monthly meter sampling. Further adjustments are also made for each type of sale to take into account volume purchasing of stamps when price changes are announced.

The results of the above procedures are reviewed by Management in order to make a judgement of the carrying amount of the accrual. The total accrual is held within current trade and other payables but a portion (which cannot be measured) will relate to stamps and meter credits used one year or more after the balance sheet date.

Provisions
Due to the nature of provisions, a significant part of their determination is based upon estimates and/or judgements concerning the future. Of the provisions in place, the transformation costs and industrial diseases claims provisions are considered to be the areas where the application of judgement has the most significant impact.

Transformation costs provisions relating to redundancy and project costs, are derived based upon the most recent business plans where these are sufficiently detailed and where appropriate, communication to those affected has been undertaken. These plans include the expected number of employees impacted and expected rate of compensation per employee.

1. Basis of preparation (continued)

The industrial diseases claims provision arose as a result of a Court of Appeal's judgement in 2010 and relates to individuals who were employed in the General Post Office Telecommunications division prior to October 1981. The provision requires estimates to be made of the likely volume and cost of future claims and is based on the best information available as at the year end, which incorporates independent expert actuarial advice.

Onerous property provisions require an estimate of the period for which the property is likely to remain vacant and any expected decommissioning costs.

Deferred tax

Assessment of the deferred tax asset requires an estimation of future profitability. Such estimation is inherently uncertain in a market subject to various competitive pressures. Should estimates of future profitability change in future years, the amount of deferred tax recognised will also change accordingly. Prior to recording deferred tax assets for tax losses, relevant tax law is considered to determine the availability of the losses to offset against the future taxable profits. The carrying values of the deferred tax assets and liabilities are included within Note 7.

Non-GAAP measures of performance

In the reporting of financial information, the Group uses certain measures that are not defined under IFRS, the Generally Accepted Accounting Principles (GAAP) under which the Group reports. Management believe that these non-GAAP measures assist with the understanding of the performance of the business.

These non-GAAP measures are not a substitute, or superior to, any IFRS measures of performance but they have been included as Management consider them to be an important means of comparing performance year-on-year and they include key measures used within the business for assessing performance.

Transformation costs

These costs relate to the ongoing transformation of the business, and include voluntary redundancy, project costs and other transformation-related payments.

Reported operating profit before transformation costs

This is the operating profit including the 'pension charge to cash difference' operating specific item (see below for definition) and before transformation costs.

Reported operating profit after transformation costs

This is the operating profit including the 'pension charge to cash difference' operating specific item and after transformation costs.

Operating specific items

These are recurring or non-recurring items of income or expense of a particular size and/or nature relating to the operations of the business that in the Directors' opinion require separate identification. These items are included within 'reported' results but are excluded from 'adjusted' results.

These items include: the recurring 'pension charge to cash difference' (resulting from the increasing difference between the Group's income statement pension charge and the actual cash cost of pensions, including deficit payments); and other items that have resulted from events that are non-recurring in nature, even though related income/expense can be recognised in subsequent periods. These items currently include the charge for Employee Free Shares, legacy costs (for example, movements in the industrial diseases provision) and impairments.

Non-operating specific items

These are recurring or non-recurring items of income or expense of a particular size and/or nature which do not form part of the Group's trading activity and which in the Directors' opinion require separate identification. These items include profit on disposal of property, plant and equipment and businesses, the IAS 19 non-cash pension interest credit, and profit on disposal of discontinued operations.

Adjusted operating profit before transformation costs

This is operating profit excluding the 'pension charge to cash difference' operating specific item and before transformation costs. This is a key performance indicator in the Corporate Balanced Scorecard which is used to determine employee incentives.

Adjusted operating profit margin before transformation costs

This is operating profit excluding the 'pension charge to cash difference' operating specific item and before transformation costs, expressed as a percentage of revenue.

Adjusted operating profit after transformation costs

This is operating profit excluding the 'pension charge to cash difference' operating specific item and after transformation costs.

Adjusted operating profit margin after transformation costs

This is operating profit excluding the 'pension charge to cash difference' operating specific item and after transformation costs, expressed as a percentage of revenue.

Adjusted earnings per share

Basic earnings per share, excluding operating and non-operating specific items.

2. Segment information

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

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

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

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

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

52 weeks 2016

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

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

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

2. Segment information (continued)

52 weeks 2015

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

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

52 weeks 2016

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

52 weeks 2015

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

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

Notes to the consolidated financial statements (continued)

3. Operating costs

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

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

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

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

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

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

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

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

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

4. People information

People costs

	52 weeks 2016 £m	52 weeks 2015 £m
Wages and salaries	**(4,323)**	(4,433)
UK based	(4,020)	(4,138)
GLS	(303)	(295)
Pensions (see Note 10)	**(768)**	(552)
Defined benefit UK	(619)	(508)
Defined contribution UK	(45)	(38)
UK defined benefit and defined contribution Pension Salary Exchange (PSE)	(99)	-
GLS	(5)	(6)
Social security	**(365)**	(374)
UK based	(315)	(321)
GLS	(50)	(53)
Group total people costs	**(5,456)**	(5,359)
Defined benefit pension plan rates:		
Income statement	**29.8%**	23.6%
Cash flow	**17.1%**	17.1%
Defined contribution pension plan average rate:		
Income statement and cash flow[1]	**5.7%**	5.4%

People numbers

The number of people employed during the reporting year was as follows:

	Full-time equivalents[2]				Headcount			
	Year end		Average		Year end		Average	
	52 weeks 2016	52 weeks 2015	**52 weeks 2016**	52 weeks 2015	**52 weeks 2016**	52 weeks 2015	**52 weeks 2016**	52 weeks 2015
UKPIL	**149,220**	152,010	**152,059**	154,584	**139,408**	142,910	**140,679**	145,205
GLS – continuing operations	**9,683**	9,311	**9,471**	9,073	**13,991**	13,754	**13,829**	13,400
– discontinued operations[3]	**–**	422	**–**	422	**–**	655	**–**	642
UK partially owned subsidiaries	**2,493**	2,446	**2,513**	2,816	**3,136**	3,199	**3,156**	3,543
Group total	**161,396**	164,189	**164,043**	166,895	**156,535**	160,518	**157,664**	162,790

Directors' remuneration

	52 weeks 2016 £000	52 weeks 2015 £000
Directors' remuneration[4]	**(2,830)**	(3,305)
Amounts earned under Long-Term Incentive Plans (LTIP)	**(676)**	(877)
Number of Directors accruing benefits under defined benefit plans	**–**	–
Number of Directors accruing benefits under defined contribution plans	**1**	1

[1] Employer contribution rates are one per cent for employees in the entry level category and seven to nine per cent for those in the standard level category, depending on the employees' selected contribution rate
[2] These people numbers relate to the total number of paid hours (including part-time, full-time and agency hours) divided by the number of standard full-time working hours in the same period
[3] The discontinued operations relate to the GLS Germany subsidiary DPD Systemlogistik GmbH & Co. KG (DPD SL – sold on 31 March 2015)
[4] These amounts include any cash supplements received in lieu of pension.

5. Specific items

	52 weeks 2016 £m	52 weeks 2015 £m
Operating specific items		
Pension charge to cash difference (within People costs)	**(257)**	(129)
Employee Free Shares charge	**(158)**	(169)
Legacy credit/(costs) and impairment	**2**	(79)
Potential industrial diseases claims	3	(19)
Historical employment costs	-	15
Impairment	-	(24)
French Competition Authority investigation costs (including fine)	-	(46)
Other	(1)	(5)
Total operating specific items	**(413)**	(377)
Non-operating specific items		
Profit on disposal of property, plant and equipment	**29**	133
Net pension interest	**113**	75
Profit from disposal of discontinued operations	**31**	-
Total non-operating specific items	**173**	208
Total specific items before tax	**(240)**	(169)
Total tax credit on specific items (see Note 7)	**68**	66

6. Net finance costs

	52 weeks 2016 £m	52 weeks 2015 £m
Unwinding of discount relating to industrial diseases claims provision	**(2)**	(2)
Interest payable on financial liabilities	**(14)**	(28)
Syndicated bank loan facility		
Loans and borrowings	-	(7)
Unused facility fees	(2)	(2)
Arrangement fees[1]	(2)	(4)
€500 million bond – 2.375% Senior Fixed Rate Notes due July 2024	(9)	(6)
Finance leases	(5)	(7)
Capitalisation of borrowing costs on specific qualifying assets	4	1
Losses realised on interest rate swap contracts[2]	-	(2)
Other finance costs	-	(1)
Finance costs	**(16)**	(30)
Finance income - interest receivable on financial assets	**3**	4
Net finance costs	**(13)**	(26)

[1] In 2014-15 arrangement fees of £2 million were written off upon repayment of £350 million of the term loans following the bond issue. No such fees were relevant to 2015-16

[2] The interest rate swap contracts were closed out early upon repayment of the remaining term loan on 9 March 2015

7. Taxation

	52 weeks 2016 £m	52 weeks 2015 £m
Tax (charged)/credited in the income statement		
Current income tax:		
Current UK income tax charge	**(16)**	(13)
Foreign tax	**(35)**	(32)
Current income tax charge	**(51)**	(45)
Amounts over provided in earlier years	**1**	6
Total current income tax charge	**(50)**	(39)
Deferred income tax:		
Effect of change in tax rates	**6**	2
Relating to origination and reversal of temporary differences	**(17)**	(36)
Amounts over provided in previous years	**11**	1
Total deferred income tax charge	**–**	(33)
Tax charge in the consolidated income statement	**(50)**	(72)
Tax on non-GAAP, specific items:		
Tax credit relating to specific items	**68**	66
Tax credited/(charged) to other comprehensive income		
Deferred tax:		
Tax credit/(charge) in relation to actuarial gains on defined benefit pension plans	**49**	(308)
Tax relief on pension payments	**–**	4
Tax (charge)/credit on revaluation of cash flow hedges	**(3)**	5
Tax (charge)/credit on foreign currency translation	**(2)**	3
Total credit/(charge) in the consolidated statement of other comprehensive income	**44**	(296)

7. Taxation (continued)

Reconciliation of the total tax charge
A reconciliation of the tax charge in the income statement and the UK rate of corporation tax applied to accounting profit for the 52 weeks ended 27 March 2016 and 52 weeks ended 29 March 2015 is shown below.

	52 weeks 2016 £m	52 weeks 2015 £m
Profit before tax	**298**	400
At UK standard rate of corporation tax of 20% (2014-15 rate 21%)	**(60)**	(84)
Effect of higher taxes on overseas earnings	**(10)**	(6)
Tax over provided in prior years	**12**	7
Non-deductible expenses	**(6)**	(19)
Associates' profit after tax charge (included in Group pre-tax profit)	**1**	1
Tax effect of property disposals	**7**	29
Net increase in tax charge resulting from non-recognition of deferred tax assets and liabilities	**-**	(2)
Effect of change in tax rates	**6**	2
Tax charge in the income statement	**(50)**	(72)

Tax on specific items

	52 weeks 2016 £m	52 weeks 2015 £m
Continuing operations[1]	**72**	57
Discontinued operations	**(5)**	-
Tax specific items – adjustments in respect of prior years	**1**	9
Total tax on specific items	**68**	66

The tax credit on specific items of £68 million (2014-15 £66 million) reflects the tax effect of specific items, including the tax impact of property transactions and certain tax-only adjustments, such as the impact of changes in tax law and amounts over or under provided in previous years in respect of specific items.

Current tax
The current tax charge for the Group is mainly in respect of GLS. UK taxable profits in 2015-16 are partially covered by a combination of brought forward losses and capital allowance claims. Accordingly, the current tax rate for the Group is 17 per cent.

Effective tax rate
The effective tax rate on reported profit is 17 per cent, comprising current tax due on reported profits and deferred tax in relation to temporary differences. This rate is below the UK statutory rate, principally because of the changes to tax law detailed below, and no tax charge recognised in relation to property disposals[1].

GLS pays tax in a number of territories, with the majority of its profits in the reporting year to 27 March 2016 earned in territories where the tax rate is above the UK statutory tax rate. Certain subsidiaries, notably GLS France, remain unable to recognise tax credits on losses made during the reporting year. The effect of this is partially offset by the initial recognition of tax losses in GLS Spain. These factors contribute to GLS having a higher effective tax rate for the year than the UK statutory rate.

[1] No tax charge has been recognised on property disposals included in specific items, as no tax liability would be expected to crystallise on the grounds that, were the assets (into which the gains have been rolled) to be sold at their residual values, no capital gain would arise

7. Taxation (continued)

Deferred tax

Deferred tax by balance sheet category	At 30 March 2015 £m	(Charged)/ credited to income statement £m	(Charged)/ credited to other comprehensive income £m	At 27 March 2016 £m	At 31 March 2014 Restated[2] £m	(Charged)/ credited to income statement £m	(Charged)/ credited to other comprehensive income[2] £m	At 29 March 2015 Restated[2] £m
Liabilities								
Accelerated capital allowances	**(1)**	**-**	**-**	**(1)**	(1)	-	-	(1)
Pensions temporary differences[2]	**(667)**	**53**	**49**	**(565)**	(372)	13	(308)	(667)
Employee share schemes	**(48)**	**23**	**-**	**(25)**	(65)	17	-	(48)
Goodwill qualifying for tax allowances	**(29)**	**(2)**	**(2)[3]**	**(33)**	(28)	(4)	3[3]	(29)
Deferred tax liabilities[2]	**(745)**	**74**	**47**	**(624)**	(466)	26	(305)	(745)
Assets								
Deferred capital allowances	**127**	**(49)**	**-**	**78**	169	(42)	-	127
Provisions and other	**25**	**(6)**	**-**	**19**	30	(5)	-	25
Losses available for offset against future taxable income	**82**	**(19)**	**-**	**63**	90	(12)	4	82
Hedging derivatives temporary differences	**7**	**-**	**(3)**	**4**	2	-	5	7
Deferred tax assets	**241**	**(74)**	**(3)**	**164**	291	(59)	9	241
Net deferred tax (liability)/asset[2]	**(504)**	**-**	**44**	**(460)**	(175)	(33)	(296)	(504)

Deferred tax – balance sheet presentation	At 27 March 2016 £m	At 29 March 2015 £m
Liabilities		
GLS group	**(34)**	(31)
Net UK position	**(435)**	(481)
Deferred tax liabilities	**(469)**	(512)
Assets		
GLS group	**9**	8
Net UK position	**-**	-
Deferred tax assets	**9**	8
Net deferred tax liability	**(460)**	(504)

The deferred tax position shows a decreased overall liability in the reporting year to 27 March 2016.

This decrease in the liability is primarily as a result of the deferred tax impact of the reduction in UK Corporation Tax rates by 2020. Decreases in UK pension deferred tax assets are broadly offset by a reduction in capital allowance and loss assets.

The movement in pensions temporary differences credited to Other Comprehensive Income includes a credit of £48 million (2014-15 £nil) relating to the change in tax law detailed below. Additionally a credit of £59 million (2014-15 £1 million) has been recognised in relation to the IFRIC 14 adjustment detailed in Note 10.

GLS has deferred tax assets and liabilities in various jurisdictions which cannot be offset against one another. The main element of the liability relates to goodwill and intangibles in GLS Germany, for which the Group has already taken tax deductions. The initial recognition of tax losses in GLS Spain has contributed to the increase in deferred tax assets.

At 27 March 2016, the Group had unrecognised deferred tax assets of £68 million (2014-15 £68 million) comprising £62 million (2014-15 £61 million) relating to tax losses of £234 million (2014-15 £227 million), mainly in GLS, that are available for offset against future profits if generated in the relevant companies, and £6 million (2014-15 £7 million) in relation to £30 million (2014-15 £33 million) of UK capital losses carried forward. The Group has not recognised these deferred tax assets on the basis that it is not sufficiently certain of its capacity to utilise them in the future.

The Group also has temporary differences in respect of £211 million (2014-15 £295 million) of capital losses, the tax effect of which is £38 million (2014-15 £59 million) in respect of assets previously qualifying for industrial buildings allowances. Further temporary differences exist in relation to £217 million (2014-15 £308 million) of gains for which rollover relief has been claimed, the tax effect of which is £40 million (2014-15 £62 million). No tax liability would be expected to crystallise on the basis that, were the assets (into which the gains have been rolled) to be sold at their residual values, no capital gain would arise.

[2] Restated for change in accounting policy relating to pensions administration costs (see Note 1)
[3] £2 million charged (2014-15 £3 million credited) to the foreign currency translation reserve

7. Taxation (continued)

Changes to UK corporation tax rate
Reductions in the UK corporation tax rate from 20 per cent to 19 per cent (effective from 1 April 2017) and to 18 per cent (effective 1 April 2020) were substantively enacted on 26 October 2015. In future, this will reduce the Group's current tax charge accordingly. In accordance with accounting standards, the effect of these rate reductions on deferred tax balances has been reflected in these financial statements, dependent upon when temporary differences are expected to reverse.

In his budget of 16 March 2016, the Chancellor of the Exchequer announced that the UK corporation tax rate will reduce to 17 per cent (effective 1 April 2020). This will supersede the rate of 18 per cent already enacted. This announced reduction in rate is not expected to significantly affect the deferred tax assets and liabilities of the Group.

8. Earnings per share

	52 weeks 2016		52 weeks 2015	
	Reported	**Adjusted**	Reported	Adjusted
Attributable to equity holders of the parent Company				
Profit from continuing operations (£million)	**215**	**413**	325	428
Profit for the year (£million)	**241**	**413**	325	428
Weighted average number of shares issued (million)	**1,000**	**1,000**	1,000	1,000
Basic earnings per share (pence)	**24.1**	**41.3**	32.5	42.8
Diluted earnings per share (pence)	**24.0**	**41.1**	32.5	42.8

The diluted earnings per share for the year ended 27 March 2016 is based on a weighted average number of shares of 1,004,792,701 (2014-15 1,001,485,583) to take account of the potential issue of ordinary shares resulting from the Long-Term Incentive Plans (LTIP) for certain senior management and the Save As You Earn (SAYE) scheme. Shares held in an Employee Benefit Trust for the settlement of options and awards to current and former employees are treated as treasury shares for accounting purposes. The Company, however, does not hold any shares in treasury.

9. Dividends

Dividends on ordinary shares	**52 weeks 2016 Pence per share**	52 weeks 2015 Pence per share	**52 weeks 2016 £m**	52 weeks 2015 £m
Final dividends paid	**14.3**	13.3	**143**	133
Interim dividends paid	**7.0**	6.7	**70**	67
Total dividends paid	**21.3**	20.0	**213**	200

In addition to the above dividends paid the Directors are proposing a final dividend for the year ending 27 March 2016 of 15.1 pence per share amounting to £151 million. This dividend will be paid to shareholders on 29 July 2016 subject to approval at the AGM to be held on 21 July 2016.

10. Retirement benefit plans

Summary pension information

	52 weeks 2016 £m	52 weeks 2015 £m
Ongoing UK pension service costs		
UK defined benefit plan (including administration costs)[1]	**(619)**	(508)
UK defined contribution plan	**(45)**	(38)
UK defined benefit and defined contribution Pension Salary Exchange (PSE)[2]	**(99)**	–
Total UK ongoing pension service costs	**(763)**	(546)
GLS defined contribution type plan costs	**(5)**	(6)
Total Group ongoing pension service costs	**(768)**	(552)
Cash flows relating to ongoing pension service costs		
UK defined benefit plan employer contributions[3]	**(352)**	(369)
Defined contribution plan employer contributions	**(50)**	(44)
UK defined benefit and defined contribution plan employer PSE contributions	**(99)**	–
Total Group cash flows relating to ongoing pension service costs	**(501)**	(413)
RMSEPP deficit correction payments	**(10)**	(10)
Pension charge to cash difference (operating specific item)	**(257)**	(129)

	At 27 March 2016 '000	At 29 March 2015 '000
UK pension plans – active membership		
UK defined benefit plan	**93**	100
UK defined contribution plan	**42**	39
Total	**135**	139

[1] These pension service costs are charged to the income statement. They represent the cost, as a percentage of pensionable payroll (2015-16 29.8 per cent; 2014-15 23.6 per cent) of the increase in the defined benefit obligation due to members earning one more year's worth of pension benefits. They are calculated in accordance with IAS 19 and are based on market yields (high quality corporate bonds and inflation) at the beginning of the reporting year. The £111 million increase in costs is mainly as a result of the increased pension service cost rate. Pensions administration costs for the RMPP of £6 million (2014-15 £6 million) continue to be included within the ongoing UK pension service costs

[2] At the beginning of August 2015, PSE was introduced under which eligible employees who are enrolled into PSE opt out of making employee contributions to their pension and the Group makes additional contributions in return for a reduction in basic pay. As a result, there is a decrease in wages and salaries and a corresponding increase in pension costs of £99 million (2014-15 £nil) in the reporting year

[3] The employer contribution cash flow rate (17.1 per cent in both the current and prior year) forms part of the payroll expense and is paid into the Royal Mail Pension Plan (RMPP) (RM section). The contribution rate is set following each actuarial funding valuation, usually every three years. These actuarial valuations are required to be carried out on assumptions determined by the Trustee and agreed by Royal Mail

10. Retirement benefit plans (continued)

UK Defined Contribution plan
Royal Mail Group Limited, the Company's main operating subsidiary, operates the Royal Mail Defined Contribution Plan, which was launched in April 2009 and is open to employees who joined the Group from 31 March 2008, following closure of the Royal Mail Pension Plan (RMPP) to new members.

Ongoing UK defined contribution plan costs have increased from £38 million in 2014-15 to £63 million (including £18 million PSE costs). This is mainly due to the introduction of PSE, but also as a result of the continued increase in plan membership and an increase in the average employer's contribution rate from 5.4 per cent in 2014-15 to 5.7 per cent in 2015-16.

UK Defined Benefit plans
Royal Mail Group Limited had one of the largest defined benefit pension plans in the UK (based on membership and assets), called the RMPP. On 1 April 2012 (one week into the 2012-13 reporting year) – after the granting of State Aid approval by the European Commission to HM Government on 21 March 2012 – almost all of the historic pension liabilities and pension assets of RMPP, built up until 31 March 2012, were transferred to a new HM Government pension scheme, the Royal Mail Statutory Pension Scheme (RMSPS).

On this date, RMPP was also sectionalised, with Royal Mail Group Limited and Post Office Limited each responsible for their own sections from 1 April 2012 onwards.

The transfer left the Royal Mail section (RM section) of the RMPP fully funded on an actuarial basis. On this basis, using long-term actuarial assumptions agreed at that date, it was predicted the Group would have to make no further cash deficit correction payments relating to the historic liabilities. All further references in this note to the RMPP, relate to its RM section.

Pensions Reform
In June 2013, the Group began a consultation with RMPP members on a proposal to ensure the RMPP could remain open to future accrual, subject to certain conditions, at least until the conclusion of the next periodic review in March 2018. Subsequently on 26 September 2013, the Group agreed with the RMPP Trustee to implement a Pensions Reform with effect from 1 April 2014.

The agreed changes due to the Pensions Reform were considered to be a 'Plan amendment' which met the IAS 19 definition of a past service cost, and as such a £1,350 million credit was recognised in the Group income statement (as a specific item) in the year ended 30 March 2014.

Royal Mail Pension Plan (RMPP)
The RMPP is funded by the payment of contributions to separate trustee administered funds. RMPP includes sections A, B and C, each with different terms and conditions:

Section A is for members (or beneficiaries of members) who joined before 1 December 1971;

Section B is for members (or beneficiaries of members) who joined on or after 1 December 1971 and before 1 April 1987, or for members of Section A who chose to receive Section B benefits; and

Section C is for members (or beneficiaries of members) who joined on or after 1 April 1987 and before 1 April 2008.

Benefits provided are based on final salary in respect of service to 31 March 2008, and on career salary blocks for each year of service, revalued annually, for service from 1 April 2008.

Following the conclusion of the March 2012 actuarial valuation, the regular future service contribution rate for RMPP, expressed as a percentage of pensionable pay, remained at 17.1 per cent. As the valuation showed the RMPP to be in surplus, no deficit correction payments are currently being made by the Group. The Group expects to contribute around £343 million to the RMPP in respect of normal cash service costs in 2016-17.

As part of the March 2012 actuarial valuation, the Group agreed to pay additional contributions of up to £50 million each year from April 2016 onwards if the Trustee considers these necessary to maintain the Plan's projected funding position in March 2019. Until the Trustee has carried out its assessment of liabilities at March 2016 and presented the results to the Group, it is not known whether any payment will become due for 2016-17.

Royal Mail Senior Executives Pension Plan (RMSEPP)
Royal Mail Group Limited also contributes to a smaller defined benefit plan for executives, RMSEPP – which closed in December 2012 to future accrual, therefore the Group makes no regular future service contributions. As agreed in the February 2013 Funding Agreement with the Trustee, the Group makes deficit correction payments of £10 million per annum until at least the date on which the March 2018 valuation is completed (no later than 30 September 2018). Deficit correction payments in 2015-16 were £10 million (2014-15 £10 million).

A liability of £2 million (2014-15 £2 million) has been recognised for future payment of pension benefits to a past Director.

10. Retirement benefit plans (continued)

Accounting and actuarial surplus position (RMPP and RMSEPP)

	Accounting (IAS 19)		Actuarial/cash funding	
	At 27 March 2016 £m	At 29 March 2015[5] £m	**At 31 March 2016 £m**	At 31 March 2015 £m
Fair value of plans' assets (10(b) below)[4]	**7,374**	6,619	**7,442**	6,462
Present value of plans' liabilities[5]	**(3,815)**	(3,237)	**(5,665)**	(4,669)
Surplus in plans (pre IFRIC 14 adjustment)[5]	**3,559**	3,382	**1,777**	1,793
IFRIC 14 adjustment	**(129)**	(15)	**n/a**	n/a
Surplus in plans[5]	**3,430**	3,367	**1,777**	1,793

There is no element of the present value of the plans' liabilities above that arises from plans that are wholly unfunded.

As the Group has a legal right to benefit from a surplus, under IAS 19 and IFRIC 14 it is required to recognise the economic benefit it is assumed it will derive either in the form of a reduction to future contributions or a refund of the surplus.

At the half year, the RMPP surplus was no longer assumed to be fully recoverable as a reduction to future employer contributions. At that time, the economic benefit resulting from comparing the future service costs to the employer contributions was less than the accounting surplus.

This remains the case at 27 March 2016 and the amount of surplus no longer assumed to be recoverable as a reduction to future employer contributions is assumed to be available as a refund as per IFRIC 14 and, as such, is shown net of taxation withheld.

As RMSEPP is closed to future accrual, the surplus is assumed to be available as a refund as per IFRIC 14 and, as such, is shown net of taxation withheld in both periods.

The Directors do not believe that the current excess of pension plan assets over the liabilities on an accounting basis will result in an excess of pension assets on an actuarial/cash funding basis. However, the Directors are required to account for the pension plan based on their legal right to benefit from a surplus, using long-term actuarial assumptions current at the reporting date, as required by IFRS.

The actuarial/cash funding surplus of £1,777 million at 31 March 2016 (31 March 2015 £1,793 million surplus) allows the RMPP to remain open for the benefit of the members at least until March 2018, subject to certain conditions (as part of the Pensions Reform agreement), without requiring either the Group or individuals to make unaffordable increases to their cash contributions.

The funding liabilities have increased more than the accounting liabilities since they are calculated by reference to gilt yields which have fallen slightly, whereas corporate bond yields, on which the accounting liabilities are calculated have increased. However, this is mostly offset by the difference in the market value of asset movements which, because of the different year end dates, have increased more on a funding basis than on an accounting basis.

The following disclosures relate to the major assumptions, sensitivities, assets and liabilities in the RMPP and RMSEPP.

a) Major long-term assumptions used for accounting (IAS 19) purposes – RMPP and RMSEPP
The major assumptions used to calculate the accounting position of the pension plans are as follows:

	At 27 March 2016	At 29 March 2015
Retail Price Index (RPI)	**3.0%**	3.1%
Consumer Price Index (CPI)	**2.0%**	2.1%
Discount rate		
– nominal	**3.5%**	3.5%
– real (nominal less RPI)[6]	**0.5%**	0.4%
Rate of increase in pensionable salaries[7]	**RPI–0.1%**	RPI–0.1%
Rate of increase for deferred pensions	**CPI**	CPI
Rate of pension increases – RMPP Sections A/B	**CPI**	CPI
Rate of pension increases – RMPP Section C[7]	**RPI–0.1%**	RPI–0.1%
Rate of pension increases – RMSEPP members transferred from Section A or B of RMPP	**CPI**	CPI
Rate of pension increases – RMSEPP all other members[7]	**RPI–0.1%**	RPI–0.1%
Life expectancy from age 60 – for a current 40/60 year old male RMPP member	**29/27 years**	29/27 years
Life expectancy from age 60 – for a current 40/60 year old female RMPP member	**32/30 years**	32/30 years

[4] Difference between accounting and actuarial/cash funding asset fair values arises from the different year end dates used for the valuation of the assets under both methods
[5] Restated at 29 March 2015 for change in accounting policy relating to pensions administration costs (see Note 1)
[6] The real discount rate used reflects the long average duration of the RMPP of around 27 years
[7] The rate of increase in salaries, and the rate of pension increase for Section C members (who joined RMPP on or after April 1987) and RMSEPP 'all other members', is capped at five per cent, which results in the average long-term pension increase assumption being 10 basis points lower than the RPI long-term assumption

10. Retirement benefit plans (continued)

Mortality
The mortality assumptions for RMPP are based on the latest Self-Administered Pension Scheme (SAPS) S1 mortality tables with appropriate scaling factors (106 per cent for male pensioners and 101 per cent for female pensioners). Future improvements are based on the CMI 2012 core projections with a long-term trend of 1.25 per cent per annum.

Sensitivity analysis for RMPP liabilities
The RMPP liabilities are sensitive to changes in key assumptions. The potential impact of the largest sensitivities on the RMPP liabilities is as follows:

Key assumption change	Potential Increase in liabilities £m
Additional one year of life expectancy	**110**
Increase in inflation rate (both RPI and CPI simultaneously) of 0.1% p.a.	**90**
Decrease in discount rate of 0.1% p.a.	**90**
Increase in CPI assumption (assuming RPI remains constant) of 0.1% p.a.	**20**

This sensitivity analysis has been determined based on a method that assesses the impact on the defined benefit obligation, resulting from reasonable changes in key assumptions occurring at the end of the reporting year. Changes inverse to those in the table (e.g. an increase in discount rate) would have the opposite effect on liabilities.

The average duration of the RMPP obligation is 27 years (2014-15 30 years).

b) RMPP and RMSEPP assets

	At 27 March 2016			At 29 March 2015		
	Quoted £m	**Unquoted £m**	**Total £m**	Quoted £m	Unquoted £m	Total £m
Equities						
UK	**20**	**138**	**158**	22	165	187
Overseas	**427**	**-**	**427**	411	–	411
Bonds						
Fixed interest – UK	**272**	**7**	**279**	60	8	68
– Overseas	**793**	**2**	**795**	525	–	525
Index linked – UK	**191**	**-**	**191**	195	–	195
Pooled investments						
Managed funds	**775**	**-**	**775**	576	–	576
Unit Trusts	**4,188**	**-**	**4,188**	4,166	–	4,166
Property (UK)	**25**	**302**	**327**	23	295	318
Cash and cash equivalents	**210**	**-**	**210**	175	–	175
Other	**(3)**	**-**	**(3)**	25	–	25
Derivatives	**27**	**-**	**27**	(27)	–	(27)
Total plans' assets	**6,925**	**449**	**7,374**	6,151	468	6,619

There were open equity derivatives within this portfolio with a fair value of £48 million at 27 March 2016 (at 29 March 2015 £nil million). £4 billion (2014-15 £3.7 billion) of HM Government Bonds are primarily included in the Unit Trusts values above. The plans' assets do not include property or assets used by the Group, but do include shares of Royal Mail plc with an approximate market value of £27,000 at 27 March 2016 (at 29 March 2015 £17,000).

Risk exposure and investment strategy
The investment strategy of the RMPP Trustee aims to safeguard the assets of the Plan and to provide, together with contributions, the financial resource from which benefits are paid. Investment is inevitably exposed to risks. The investment risks inherent in the investment markets are partially mitigated by pursuing a widely diversified approach across asset classes and investment managers. The RMPP uses derivatives (such as swaps, forwards and options) to reduce risks whilst maintaining expected investment returns. The RMPP Trustee recognises that there is a natural conflict between improving the potential for positive return and limiting the potential for poor return. The RMPP Trustee has specified objectives for the investment policy that balance these requirements.

The largest risks faced by the Plan are movements in interest rates and inflation rates. To reduce the risk of movements in these rates driving the Plan into a funding deficit, and the Group not being able to maintain its March 2018 commitment, the Trustee has hedged in advance a significant proportion of the funding liabilities which it is estimated will build up by March 2018. It has done this predominantly through investment in gilts and derivatives (interest rate and inflation rate swaps) held in Unit Trust pooled investments providing economic exposure to gilts. The impact of the Plan's advance hedging of projected funding liabilities is to increase near term volatility in the pension surplus due to the return on the liability-hedging assets not being matched by an increase in the accrued liabilities. As the accrued liabilities get closer to the projected liabilities that have been hedged, this volatility will reduce. The increase in the liability-hedging assets is predominantly reflected in the Unit Trusts values above which have increased from £4,166 million at 29 March 2015 to £4,188 million at 27 March 2016.

10. Retirement benefit plans (continued)

The notional value covered by the interest rate swaps (full exposure to the relevant asset class incurred by entering into a derivative contract) held in a specific managed portfolio for this purpose at 27 March 2016 is £2.6 billion (29 March 2015 £2.5 billion) and the notional value covered by the inflation rate swaps at 27 March 2016 is £1.8 billion (29 March 2015 £1.8 billion).

The spread of investments continues to balance security and growth in order to pay the RMPP benefits when they become due.

c) Movement in RMPP and RMSEPP assets, liabilities and net position
Changes in the value of the defined benefit pension liabilities, fair value of the plans' assets and the net defined benefit surplus are analysed as follows:

	Defined benefit asset		Defined benefit liability		Net defined benefit surplus	
	2016 £m	2015[5] £m	**2016 £m**	2015[5] £m	**2016 £m**	2015[5] £m
Retirement benefit surplus (pre IFRIC 14 adjustment) at 30 March 2015 and 31 March 2014[5]	**6,619**	3,833	**(3,237)**	(1,931)	**3,382**	1,902
Amounts included in the income statement						
Ongoing UK defined benefit pension plan and administration costs (included in people costs)[5, 8]	**(6)**	(6)	**(694)**	(502)	**(700)**	(508)
Pension interest income/(cost)[9]	**240**	183	**(127)**	(108)	**113**	75
Total included in profit before tax	**234**	177	**(821)**	(610)	**(587)**	(433)
Amounts included in other comprehensive income – remeasurement gains/(losses)						
Actuarial gain/(loss) arising from:						
Financial assumptions[5]	**-**	–	**102**	(574)	**102**	(574)
Experience adjustment	**-**	–	**186**	5	**186**	5
Return on plans' assets (excluding interest income) [5, 8]	**32**	2,103	**-**	–	**32**	2,103
Total remeasurement gains/(losses) of the defined benefit surplus	**32**	2,103	**288**	(569)	**320**	1,534
Other						
Employer contributions	**488**	409	**-**	–	**488**	409
Employee contributions	**48**	129	**(48)**	(129)	**-**	–
Benefits paid	**(47)**	(33)	**47**	33	**-**	–
Curtailment costs	**-**	–	**(45)**	(31)	**(45)**	(31)
Movement in pension-related accruals	**-**	1	**1**	–	**1**	1
Total other movements	**489**	506	**(45)**	(127)	**444**	379
Retirement benefit surplus (pre IFRIC 14 adjustment) at 27 March 2016 and 29 March 2015[5]	**7,374**	6,619	**(3,815)**	(3,237)	**3,559**	3,382

In addition to the above items which affect the net defined benefit surplus, estimated curtailment costs of £36 million (2014-15 £10 million) have been provided for in Transformation costs in the income statement, along with the associated redundancy costs.

[8] Previously an allowance was made for pensions administration costs in the ongoing UK defined benefit pension service costs (income statement rate) and actual costs incurred offset against the return on plans' assets. An estimate of future administration costs was also included as part of the defined benefit liability. These costs are now recognised as pensions administration costs as they are incurred and are included only within ongoing UK defined benefit pension service costs. Further details of this accounting policy change are provided in Note 1

[9] Pension interest income results from applying the plans' discount rate at 29 March 2015 to the plans' assets at that date. Similarly, the pension interest cost results from applying the plans' discount rate at 29 March 2015 to the plans' liabilities at that date

11. Contingent liabilities

On 28 July 2015, the Group received a Statement of Objections setting out Ofcom's provisional, preliminary findings in relation to its investigation into the terms on which the Group proposed to offer access to letter delivery services, alleging a potential distortion of competition. The investigation was launched in February 2014 following a complaint brought by TNT Post UK (now Whistl) about certain proposed changes to Royal Mail's Access contracts.

The Group has publically stated that it is considering Ofcom's provisional findings, and that it will robustly defend against Ofcom's allegations.

The Group is not in a position to accurately predict when it will receive Ofcom's final decision nor has it received any detail as yet from Ofcom as to the quantum of any potential penalty (which will only be received if Ofcom intends to make an infringement finding).

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

12. Events after the reporting year

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

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

Shareholder information

Financial calendar
Trading update – 19 July 2016
Annual General Meeting – 21 July 2016

Dividend dates
Ex-dividend date – 30 June 2016
Record date – 1 July 2016
Payment date – 29 July 2016

Shareholder information online
The Company's registrars, Equiniti, are able to notify shareholders by email of the availability of an electronic version of shareholder information.

Whenever new shareholder information becomes available, such as the Company's half year and full year results, Equiniti will notify you by email and you will be able to access, read and print documents at your own convenience.

To take advantage of this service for future communications, please go to www.shareview.co.uk and select 'Shareholder Services', where full details of the shareholder portfolio service are provided. When registering for this service, you will need to have your 11-digit shareholder reference number to hand, which is shown on your dividend tax voucher, share certificate or form of proxy.

Should you change your mind at a later date, you may amend your request to receive electronic communication by entering your shareview portfolio online and amending your preferred method of communication from 'email' to 'post'.

Shareholder fraud
Fraudsters use persuasive and high-pressure tactics to lure investors into scams. They may offer to sell shares that turn out to be worthless or non-existent, or to buy shares at an inflated price in return for an upfront payment. While high profits are promised, if you buy or sell shares in this way, you will probably lose your money.

5,000 people contact the Financial Conduct Authority (FCA) about share fraud each year, with victims losing an average of £20,000. If you are approached by fraudsters please tell the FCA using the share fraud reporting form at www.fca.org.uk/scams, where you can find out more about investment scams. You can also call the FCA Consumer Helpline on 0800 111 6768. If you have already paid money to share fraudsters you should contact Action Fraud on 0300 123 2040.

Advisers
Corporate Brokers and Financial Advisers
Barclays Bank plc, The North Colonnade, London, E14 4BB

Bank of America Merrill Lynch, 2 King Edward Street, London, EC1A 1HQ

Independent Auditor
KPMG LLP, 15 Canada Square, London E14 5GL

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 Group's website which can be found at: www.royalmailgroup.com/investor-centre.

Investor enquiries
Enquiries can be directed via our website or by contacting:

Registrars
Equiniti
Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA
www.shareview.co.uk
Tel: 0371 384 2656 (from outside the UK: +44 (0)121 415 7086)
Lines are open 8.30am to 5.30pm UK time, Monday to Friday, excluding public holidays in England and Wales.

Registered office
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100 Victoria Embankment
London EC4Y 0HQ
Registered in England and Wales
Company number 08680755

Corporate websites
Information made available on the Group's websites does not, and is not intended to, form part of these Results.

Forward-looking statements

Disclaimers

This document contains certain forward-looking statements concerning the Group's business, financial condition, results of operations and certain of the Group's plans, objectives, assumptions, projections, expectations or beliefs with respect to these items. Forward-looking statements are sometimes, but not always, identified by their use of a date in the future or such words as 'anticipates', 'aims', 'due', 'could', 'may', 'will', 'should', 'expects', 'believes', 'intends', 'plans', 'potential', 'targets', 'goal' or 'estimates'.

Forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the Group's actual financial condition, performance and results to differ materially from the plans, goals, objectives and expectations set out in the forward-looking statements included in this document. Accordingly, readers are cautioned not to place undue reliance on forward-looking statements.

By their nature, forward-looking statements relate to events and depend on circumstances that will occur in the future and are inherently unpredictable. Such forward-looking statements should, therefore, be considered in light of various important factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. These factors include, among other things: changes in the economies and markets in which the Group operates; changes in the regulatory regime within which the Group operates; changes in interest and exchange rates; the impact of competitive products and pricing; the occurrence of major operational problems; the loss of major customers; undertakings and guarantees relating to pension funds; contingent liabilities; the impact of legal or other proceedings against, or which otherwise affect, the Group; and risks associated with the Group's overseas operations.

All written or verbal forward-looking statements, made in this document or made subsequently, which are attributable to the Group or any persons acting on their behalf are expressly qualified in their entirety by the factors referred to above. No assurance can be given that the forward-looking statements in this document will be realised; actual events or results may differ materially as a result of risks and uncertainties facing the Group. Subject to compliance with applicable law and regulation, the Company does not intend to update the forward-looking statements in this document to reflect events or circumstances after the date of this document, and does not undertake any obligation to do so.

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