Royal Mail plc

Financial report for the full year ended 29 March 2015

Thursday 21 May 2015

Highlights

Royal Mail plc (RMG.L) today announced its results for the full year ended 29 March 2015.

"We have delivered operating profits in line with our expectations. Our continued focus on efficiency resulted in a better than expected UK cost performance, offsetting lower than anticipated UK parcel revenue. At the same time we have delivered a large number of innovations at pace as we transform our business.

"Our trading environment remains challenging, but we are now poised to step up the pace of change to drive efficiency, growth and innovation, while maintaining a tight focus on costs.

"At this early stage of the financial year trading is in line with our expectations, but as in previous years our performance will be weighted to the second half and will be dependent on our important Christmas period.

"We remain committed to delivering value for our shareholders and the Board is recommending an increase in the full year dividend of five per cent."

Moya Greene, Chief Executive Officer, Royal Mail plc

Group financial highlights

	52 weeks 2015	52 weeks 2014	Underlying change[1]
Adjusted results (including discontinued operations)[2]			
Revenue (£m)	**9,424**	9,456	1%
Operating profit before transformation costs (£m)	**740**	729	6%
Operating profit margin before transformation costs (%)	**7.9**	7.7	40 bps
Operating profit after transformation costs (£m)	**595**	488	5%
Operating profit margin after transformation costs (%)	**6.3**	5.2	20 bps
Profit before taxation (£m)	**569**	421	
Earnings per share (pence)	**42.8**	30.8	
Reported results (continuing operations)			**Change**
Revenue (£m)	**9,328**	9,357	
Operating profit before transformation costs (£m)	**611**	669	
Operating profit after transformation costs (£m)	**466**	428	
Profit before taxation (£m)	**400**	1,664	
Earnings per share (pence)	**32.5**	127.5	
Free cash flow (£m)[3]	**453**	398	
Net debt (£m)	**(275)**	(555)	
Full year proposed dividend per share (pence)	**21.0**	20.0[4]	5%

[1] 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

[2] Adjusted results exclude specific items, including the difference between the income statement pension charge and the total cash cost of pensions, including deficit payments. The figures include the results of DPD Systemlogistik (DPD SL), a subsidiary of GLS Germany, which was owned by the Group for the full reporting period, and sold following the year end and has been reclassified as discontinued operations

[3] For more information on free cash flow, see note 7

[4] Notional 2013-14 full year dividend

Business units

Adjusted results (including discontinued operations)[2] (£m)	Revenue			Operating profit before transformation costs	
	52 weeks 2015	52 weeks 2014	Underlying change[1]	**52 weeks 2015**	52 weeks 2014
UKPIL	**7,757**	7,787	Flat	**615**	608
GLS	**1,653**	1,651	7%	**115**	108
Other businesses	**14**	18	n/m	**10**	13
Group	**9,424**	9,456	1%	**740**	729

Group financial performance

- Revenue increased by one per cent. This was due to parcel revenue growth in UKPIL and revenue growth in GLS which was ahead of our expectations.
- In UKPIL, operating costs before transformation costs were down one per cent, better than expected. People costs increased by one per cent and non-people costs reduced by four per cent.
- Tight cost control drove operating profit margin before transformation costs improvement of 40 basis points.
- Free cash inflow increased to £453 million, benefiting from £100 million of net cash flows from the London property portfolio.
- As expected, cumulative net investment for 2013-14 and 2014-15 was £1.2 billion. Total investment increased from £617 million to £658 million.
- Net debt reduced from £555 million to £275 million, mainly due to cash flow generated, offset by dividend payments of £200 million.
- Adjusted earnings per share was 42.8 pence.
- The Board is recommending a final dividend of 14.3 pence per ordinary share. Including the interim dividend of 6.7 pence per ordinary share, this represents a total dividend of 21.0 pence per share for 2014-15, up five per cent over the notional 2013-14 full year dividend of 20.0 pence.

Operating performance

- UKPIL revenue was flat at £7,757 million. A one per cent decline in total letter revenue was offset by parcel revenue growth of one per cent, reflecting the competitive market.
- UKPIL parcel volumes increased by three per cent, with a better performance in the second half. Addressed letter volumes declined by four per cent, at the better end of our forecast range.
- GLS revenue grew to £1,653 million, up seven per cent, with revenue growth in all its markets. Volumes were up eight per cent.
- Collections, processing and delivery productivity in UKPIL improved by 2.5 per cent, within our target range of a 2-3 per cent improvement per annum.
- We have seen a net reduction in the number of employees of over 5,500 this year in UKPIL.
- The management reorganisation programme delivered cost benefits of £42 million. It is now expected to deliver cost savings of around £80 million per annum from 2015-16.
- We have introduced around 30 new projects, including new services, products and promotions to improve our customer offering.
- We exceeded our regulatory Quality of Service target for Second Class mail, with a performance of 98.9 per cent against a target of 98.5 per cent. We met our regulatory target for the delivery of First Class mail, with a performance of 93.0 per cent.

Outlook

- The parcels and letters markets in the UK remain highly competitive.
- Trading is in line with our expectations at this early stage of the financial year.
- Our performance will be weighted to the second half and will be dependent on our important Christmas period.
- We continue to target flat or better UKPIL underlying costs for 2015-16.
- The combined impact of German minimum wage legislation and the disposal of DPD SL could reduce GLS margins by around 50-100 basis points in 2015-16.
- We remain committed to growing dividends.

Chief Executive Officer's review

This has been a challenging year. Through a continued focus on efficiency and tight cost control, we have offset the impact of lower than anticipated UK parcel revenue this year, so that operating profit before transformation costs is in line with our expectations. It has also been a year of innovation, with a range of new initiatives delivered at pace. We have introduced around 30 new projects, including services, products and promotions, to improve our customer offering.

Group revenue increased by one per cent. UKPIL revenue of £7,757 million was flat, as a one per cent decline in letter revenue was offset by a one per cent increase in parcel revenue. GLS delivered good revenue growth of seven per cent, with revenue increases in all of its markets.

Adjusted Group operating profit before transformation costs increased to £740 million, a 40 basis point expansion in the margin on an underlying basis. Short term cost actions have delivered a better than expected UK cost performance. Adjusted UKPIL costs were down one per cent on an underlying basis.

This table is a snapshot of our transformation programme, which began in 2007-08. It sets out some of the key metrics through which we measure our progress.

	2007-08	**2014-15**
Mail Centres	69	39
Delivery Offices that have undergone modernisation	-	1,333
Letters sequenced to delivery point	1%	82%
Headcount in Operations	158,900	130,100
	2008-09	**2014-15**
Collections, processing and delivery productivity improvement (year-on-year) (%)	(1.1)	2.5
	2009-10	**2014-15**
Lost Time Accidents per 100,000 hours in Operations	2.36	0.67

Net cumulative investment for 2013-14 and 2014-15 was £1.2 billion, as we expected. This year, we saw a net reduction in the number of our UKPIL employees of over 5,500. I am grateful to them for their contribution. We have worked very closely with our unions to make these very difficult changes.

Outlook

The parcels and letters markets in the UK remain highly competitive. We continue to estimate that volume growth in the addressable parcels market[1] will be reduced to around 1-2 per cent per annum in the short term[2]. However, this will be dependent on the speed and extent of rollout of Amazon's own delivery network. We continue to expect that UK addressed letter market volumes, excluding elections, will decline by 4-6 per cent per annum in the medium term. We note the recent statement by PostNL about its UK end-to-end delivery activities and await the outcome of its review.

GLS has performed well in 2014-15 but the combined impact of German minimum wage legislation and the disposal of its subsidiary, DPD Systemlogistik, could reduce GLS margins by around 50-100 basis points in 2015-16. However, we are at the early stages of implementing mitigation strategies and need to see how the market reacts.

The investments made over the past three years in our technology, our network and our people position us well to address the challenges we see. We are now poised to step up the pace of change to drive efficiency, growth and innovation. We are maintaining a tight focus on costs and continue to target flat or better UKPIL underlying costs for 2015-16. We continue to expect ongoing transformation costs of around £120-140 million per annum depending on the level of voluntary redundancies announced in-year. Reported profit numbers will be impacted by the difference between the income statement pension charge and the cash cost of pensions which is expected to increase to around £255 million in 2015-16.

Total cash investment, net of operating asset disposals, is expected to be in the range £550-600 million going forward. We continue to evaluate our options in relation to our larger London properties. These larger sites will require further investment in order to optimise value, which will be mainly met by the disposal proceeds from the Paddington site.

At this early stage of the financial year trading is in line with our expectations but as in previous years, our performance will be weighted to the second half and will be dependent on our important Christmas period.

We remain committed to growing our dividend. The Board is recommending a final dividend of 14.3 pence per ordinary share, giving a total dividend for the full year of 21.0 pence per share, up five per cent over the notional 2013-14 full year dividend of 20.0 pence per share.

Our strategy

Our strategic priorities are:

i) Being a successful **parcels** business;
ii) Managing the decline in **letters**; and
iii) Being **customer** focused.

These priorities are underpinned by a range of people, customer and financial measures to ensure we are **managing our business successfully.**

We are the pre-eminent delivery company in the UK. Through GLS, we operate one of the largest, ground-based, deferred[3] delivery networks in Europe. We are investing in change to drive further efficiency improvements, generate growth in new areas and extend the reach of our core offering.

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[1] Defined as individually addressed parcels and packets weighing up to 30kg, that do not require special handling and comprise goods that have been ordered based on Triangle Management Services/RMG Fulfilment Market Measure. Excluding International

[2] Internal estimate based on historic growth trends (Triangle Management Services/RMG Fulfilment Market Measure, December 2014) and forecast data (Verdict E-retail Survey 2015)

[3] The least time-sensitive type of delivery

Parcels

We continue to estimate that the total volume of parcel deliveries in the UK – across business-to-consumer (B2C), consumer-to-any-recipient (C2X) and business-to-business (B2B) – will grow at approximately four per cent per annum in the medium term[4]. However, we estimate that the impact of Amazon delivering an increasing number of parcels using its own delivery network will reduce the annual rate of growth in our addressable market to around 1-2 per cent in the short term. Overcapacity has combined with the reduced rate of growth in the addressable market to create pricing pressure in all segments.

More than 90 per cent of the parcels we handle in the UK pass through the Royal Mail core network, which delivers the Universal Service. Heavier, bulkier items tend to be carried by Parcelforce Worldwide. Primarily through these two nationwide networks, we offer a range of services, including Universal Service Obligation (USO) letter and parcel delivery, express and courier services.

We benefit from a broad customer base. Nearly three quarters of our domestic parcel revenue is generated by consumers, micro-SMEs and SMEs. This reduces our exposure to the actions of larger customers.

Our parcels strategy: key points

- Maintaining our pre-eminent position, while seeking new areas of growth. Pursuing faster growing parts of the UK market and growing international markets
- Adding value by continually improving our products and services. Ensuring customers of all sizes can connect with our systems quickly and easily; significantly increasing the number of parcels we barcode and scan; launching Parcelforce Select
- Expanding and automating our networks. We will begin rolling out automated parcel sorting to around 20 of our busiest Mail Centres; continuing to expand our European network through organic growth and selective, strategic acquisitions

Maintaining our pre-eminent position

In the medium term, we expect the fastest areas of growth in UK parcels will be clothing and footwear, and toys and sports equipment. We are building our presence from a modest base. We have won new contracts with a number of high street and e-retailers. We will seek to secure further volumes by being more flexible about the size and shape of parcels we will deliver.

We now offer large business customers later weekday, and extended weekend, access to the Royal Mail core network. Twelve months ago, it was open to these customers five and a half days a week. Today, we are open seven days a week and later into the evening. As a result, we have attracted more traffic.

Our performance at Christmas is key to our service proposition. In December 2014, we delivered one of our highest ever quality of service performances for parcel delivery. By Christmas 2015, we are aiming to barcode significantly more parcels and scan them in the Mail Centre and on the doorstep.

In March 2015, we launched a shop front on Alibaba's Tmall Global e-marketplace. This platform will offer over 300 million Chinese consumers the opportunity to buy distinctive British products, using Parcelforce Worldwide to ship the products to China.

Adding value by continually improving our products and services

In November 2014, we announced that Amazon would offer its online customers access to our Local Collect click-and-collect network. Amazon customers can choose the most convenient of around 10,500 Post Offices for their parcel delivery. This is supported by the extension of opening hours across 3,000 branches – an additional 85,000 hours per week – and the opening of around 2,000 branches on Sundays. Local Collect traffic with Amazon is growing.

In January 2015, Parcelforce Worldwide launched a new interactive service, Parcelforce Select, to improve the end-customer's control of their parcel delivery. Unlike other carriers, the pre-delivery notification is triggered by the delivery driver. This ensures that the actual delivery is based on local driver experience, rather than a centrally-generated time window. We have won new business as a result of this initiative. Customer feedback has been very positive.

[4] Internal estimate based on historic growth trends and market insight

We are extending the support we offer to key customers. We offer eBay buyers the opportunity to track returned items back to the seller. Our new Click & Drop tool enables eBay sellers to integrate their accounts and buy and print postage labels without manually inputting the address of each individual buyer, providing a simple, three-step journey from purchase to print. In February 2015, we announced the acquisition of StoreFeeder, an IT software company. We plan to use its expertise to develop more tools to enable customers of all sizes to connect and ship parcels easily.

In March 2015, we launched a new portal to help online retailers better manage returns. 72 per cent of online shoppers said they would be unlikely to shop with a retailer if they had a difficult returns experience[5]. The returns portal gives retailers full visibility of returned items – exactly which items are being returned, from which customer and for what reason, improving stock management. A number of our retailer customers are already using the service.

Our core proposition is to provide high quality, value-for-money products for our core customer base, and to win new business in the process. When we announced our consumer tariffs for 2015-16, the average price rise across domestic parcels, USO letters and international letters and parcels was the lowest for at least five years. We have simplified our parcel specifications and cut the price of our medium-sized Second Class parcels. We have embedded our price promotion for small parcels into our 2014-15 price changes.

To enable us to track significantly more parcels, we are working with our customers to put information-rich, 2D barcodes on as many of our parcels as possible. Our largest customers are already beginning to make the switch. From summer 2015, we will begin a process to deliver the technology we need to scan significantly more parcels at the Mail Centre and on the doorstep. Over time, this will give us greater visibility of traffic in our network, which will allow us to tackle any quality of service issues in real time. Tracking will drive the uptake of higher value services.

Expanding and automating our networks

We will begin rolling out automated parcel sortation at around 20 of our busiest Mail Centres across the UK. Parcels sortation will help us to improve our efficiency.

Our European parcels carrier, GLS, delivered revenue growth in all of its markets. It continues to perform well, despite a weak economic backdrop in the Eurozone. We have delivered growth in international and domestic parcels.

We have already seen some impact in Germany, GLS' biggest market by revenue, from minimum wage legislation, introduced on 1 January 2015. We are introducing operational and commercial responses to help mitigate the impact of this change. In France, our recovery plan is ahead of schedule for the year. We are growing our business with existing customers and continue to target new customers. GLS Italy continues to deliver strong revenue growth.

Consumers in Luxembourg became the latest to benefit from GLS' FlexDeliveryService, which launched in the country in April 2015. Already available in 12 other European countries, FlexDeliveryService notifies parcel recipients via email or text when a package is on the way to them, and enables them to change the delivery time to suit them. Saturday and evening delivery options are now available in eight cities in Germany, meaning consumers can choose to receive parcels between 5pm and 8pm on weekdays or 8am and 1pm on Saturdays.

Letters

Our letters strategy: key points

- Managing the structural decline in addressed letter volumes by promoting the value of mail
- Securing the promise of commercial freedom in a regulatory model that effectively supports the future sustainability of the Universal Service in the UK
- Optimising mail handling to accommodate a changing letters mix and increase efficiency

Addressed letter volumes decreased by four per cent – at the better end of our forecast range. Marketing mail revenue increased by five per cent to £1,167 million. In January 2015, MarketReach launched a campaign demonstrating the value of marketing mail as

[5] Hall and Partners, Delivery Matters 2014

part of an integrated advertising campaign. Using five of the UK's top advertising executives and research conducted over an 18 month period, the Mailmen campaign looks at the true value of mail. It found that people value something they can see and touch 24 per cent more than things they can only see. More than half (57 per cent) say that receiving a communication by mail makes them feel more valued.

The rollout of Mailmark®, which provides barcode technology and online-reporting for machine-readable business, advertising and publishing mail, is progressing. Over 17 per cent of machine-readable mail currently carries the Mailmark® barcode. Existing customers, including home-shopping, energy providers and high street retailers, benefit from price incentives and more accurate mailing data.

In August 2014, we started the process of moving low-volume postboxes to collection on delivery. Declining letter volumes have been reflected in a fall in the number of items posted in postboxes. Rather than decommission uneconomic postboxes, postmen or women will empty the box on their round, instead of providing a dedicated collection by van. Once our new collection on delivery approach is fully rolled out, we expect it to reduce our mileage by 14.2 million miles per annum, with an associated saving of over 2.1 million litres of diesel. As part of this programme, we have sought to improve the level of public access to postboxes in areas of under-provision, with the addition of around 2,000 new postboxes by March 2016.

In February 2015, we announced price increases of one penny for First Class and Second Class consumer stamps. We thought very carefully about the impact of these price increases on our customers. A one penny increase is the smallest possible price rise that we could implement. Across all letter products, average price increases were broadly in line with RPI.

Regulation

We welcome the competition that is an integral part of operating in a fully-liberalised postal market. The ongoing decline in letter volumes means that the incentives on Royal Mail to reduce costs are already strong. The intensely competitive parcels market adds to these efficiency drivers. The sustainability of the Universal Service depends on Royal Mail being able to use revenue from easy-to-serve urban areas to cover the cost of a nationwide network capable of serving all addresses at a uniform price. In June 2014, Royal Mail made a detailed regulatory submission to Ofcom highlighting the risk that direct delivery poses to the financial sustainability of the USO.

Customers

Our customer strategy: key points

- Providing a consistently high quality service through the consistent execution of standards such as Delivery to Neighbour
- Being as flexible as we can to provide the services our customers want
- Driving down customer complaints through the rollout of best practice, such as Nominate a Neighbour, which aims to improve rates of first time delivery

Our brand is a key element of our customer proposition. In February 2015, Royal Mail was ranked as one of the top 15 Business Superbrands in the UK[6]. Our own research indicates that our mean business customer satisfaction score – across large and medium sized businesses, SMEs and micro-SMEs – is 76. This is an increase on 75 last year, 74 in 2012-13 and 70 in 2011-12.

In September 2014, Royal Mail Group achieved the top ranking in both the Dow Jones Sustainability World Index and Dow Jones Sustainability Europe Index for the Transportation and Transportation Infrastructure Industry.

Royal Mail is the only postal operator that is required to meet regulatory Quality of Service targets for First Class and Second Class mail, and to publish those targets. These regulatory targets are amongst the highest of any major European country.

I am delighted to report that we have again exceeded our regulatory Quality of Service targets for Second Class mail in 2014-15. 98.9 per cent of Second Class mail (target: 98.5 per cent) arrived within three days of posting. We met our regulatory target for First

[6] Business Superbrands 2015

Class mail, delivering 93.0 per cent of First Class mail on the following day[7]. This compares with First Class performance of 93.2 per cent and a Second Class performance of 98.9 per cent in 2013-14.

Delivery to Neighbour is a Royal Mail standard. From March 2015, customers visiting an Enquiry Office to pick up a parcel have been able to 'Nominate a Neighbour' as their first delivery choice if they are not at home.

We have maintained our internal performance against our composite parcels measure, an internal measure for all retail parcel products in the Royal Mail core network. This year, we delivered a performance of 95.0 per cent, compared with 95.1 per cent in 2013-14 (target: 95.3 per cent).

Innovation

Over the past year, we have launched or piloted a large range of new services designed to provide a greater choice of parcel delivery options. Local Collect – the largest single click-and-collect network, available through Post Office – and Sunday opening at our busiest Delivery Offices are two such services to help online shoppers not at home during the day to receive their parcels.

Investments in new technologies are an important part of our strategy to offer an ever-improving quality of service. We aim to transform our parcels offering by providing tracking as standard for as many parcels as we can.

New or emerging technologies offer the potential to transform the way we will work in the future. We continue to monitor and, where appropriate, test and pilot how these can improve our business and benefit customers. For example, through Parcelforce Select, we are improving the control our customers have over their parcel delivery. We also engage with partners to explore how emerging areas, such as wearable technologies, may be deployed in the future.

Transformation and cost control

Combined with the disciplines of being a public company, the competitive nature of our core markets means that we face strong efficiency incentives. We are driving a 'cost-conscious' culture through a combination of cost actions, optimising our networks and standardising our processes.

We have continued to deliver productivity improvements across collections, processing and delivery. Productivity improved by 2.5 per cent in 2014-15, within our target of a 2-3 per cent improvement per annum. This compares with an improvement of 1.7 per cent in 2013-14 and 2012-13.

The management reorganisation programme, announced in March 2014, is now expected to deliver cost savings of around £80 million per annum from 2015-16 – more than the £50 million annual savings we originally anticipated.

We have agreed a streamlined revisions process across some of our Delivery Offices that have been impacted by direct delivery and overcapacity in UK parcels. As part of a joint agreement with the Communication Workers' Union (CWU), Delivery Offices that have seen a significant change in their workload are also taking steps to structure their units to manage this volatility.

There are significant non-people cost opportunities in our Logistics division. Improved fleet management, including fuel efficiency and reducing wear and tear, represents a cost-saving opportunity. We have already rolled out our fleet management programme for our large heavy goods vehicles. From May 2015, we will be introducing telemetry and advanced driver training to our 7.5 tonne fleet.

Our people

Eligible full-time employees who received an allocation of 729 Free Shares will, subject to shareholder approval at our 2015 AGM, have received around £250 in dividend payments by 31 July 2015. In September 2014, we launched our first Save As You Earn scheme. More than 36,000 employees – approximately one quarter of those who were eligible to apply – applied to join.

Our Agenda for Growth agreement with the CWU includes terms covering employee pay, legally-binding terms covering protections and industrial stability as well as a programme of work to deliver change at pace in operations. In the short time since the existence of

[7] We achieved 93.2 per cent against our First Class regulatory target when adjusted for force majeure

this agreement, we have seen a meaningful change in the way in which differences and disputes are resolved. Our unions are more committed than ever to mechanisms like mediation to resolve disputes in ways that guarantee our continued operations and uninterrupted customer services.

In March 2015, we confirmed a 2.8 per cent pay increase for our frontline employees. The 2015-16 award represents the final year of the three year pay deal agreed through the Agenda for Growth. During the year, we have launched 60 joint projects with the CWU. Our Together for Growth programme, which will train approximately 6,500 managers and union representatives by October 2015, represents the UK's largest ever investment in this form of joint training.

Thank you

Following our first AGM in July 2014, Mark Higson, Managing Director, Operations, stepped down from the Board. During the year, we have also announced the departure of John Allan and our Chairman, Donald Brydon. While John stepped down at the end of April 2015, Donald will remain with us until at least our 2015 AGM. I have experienced first-hand the many ways in which our Company has benefited from the counsel and dedication of these colleagues. I wish them all the best in their future endeavours. I would also like to extend special thanks to Donald Brydon, for sharing his wisdom and experience as we have sought to transform our Company.

I remain incredibly proud of the good work we do. Royal Mail is nothing without its people. We must continue to deliver difficult change. But, working together with our people and our unions, I am confident that we can continue to deliver the services our customers want and sustainable value for our shareholders.

Moya Greene
Chief Executive Officer
20 May 2015

UK Parcels, International & Letters (UKPIL)

Summary trading results

(£m)	Adjusted[1] 52 weeks 2015	Adjusted 52 weeks 2014	Underlying change[2]
Letters & other mail	**3,400**	3,514	(3%)
Marketing mail	**1,167**	1,111	5%
Total letters	**4,567**	4,625	(1%)
Parcels	**3,190**	3,162	1%
Revenue[3]	**7,757**	7,787	Flat
Operating costs before transformation costs	**(7,142)**	(7,179)	(1%)
Operating profit before transformation costs	**615**	608	
Operating profit margin before transformation costs	**7.9%**	7.8%	40 bps
Transformation costs	**(145)**	(241)	
Operating profit after transformation costs	**470**	367	
Operating profit margin after transformation costs	**6.1%**	4.7%	20 bps
Volumes (m)			
Letters			
Addressed letters	**13,009**	13,342	(4%)
Unaddressed letters	**3,157**	3,143	1%
Parcels			
Royal Mail core network	**1,015**	991	3%
Parcelforce Worldwide	**86**	77	12%
Total	**1,101**	1,068	3%

Trading performance

The increasing challenges in the UK parcels market meant that our parcel revenue for the year was lower than we had originally anticipated. As a result, UKPIL revenue was flat at £7,757 million, as the one per cent decline in total letter revenue was offset by a one per cent increase in parcel revenue.

Parcel volumes were up three per cent, with growth in low average unit revenue (AUR) import parcels and the impact of our initiatives in account parcels more than offsetting the decline in higher AUR consumer/SME volumes. Parcel revenue grew by one per cent to £3,190 million, reflecting this change in mix and the impact of the competitive environment on pricing. Parcelforce Worldwide had strong volume growth of 12 per cent, driven by growth in the existing customer base and new business wins, including customers from the former City Link business. However it has seen downward pressure on pricing as a result of overcapacity in the market such that its revenue growth has been impacted.

[1] Adjusted results exclude specific items, including the difference between the income statement pension charge and the total cash cost of pensions, including deficit payments

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

Addressed letter volumes declined by four per cent (excluding the impact of election mailings), at the better end of our forecast range of a 4-6 per cent decline per annum in the medium term. This was mainly due to the improvement in UK economic conditions this year as we had anticipated. Overall letter revenue (including marketing mail) of £4,567 million decreased by one per cent. The impact of elections more than offset the estimated impact of direct delivery in the year of around £20 million. Marketing mail revenue of £1,167 million, which includes addressed and unaddressed marketing mail as well as revenue from our data businesses of £82 million, was up five per cent as a result of the improvement in UK economic conditions and the impact of MarketReach.

On a reported basis revenue reduced by £30 million to £7,757 million.

Operating costs

(£m)	**Adjusted 52 weeks 2015**	Adjusted 52 weeks 2014	Underlying change[2]
People costs	**(4,789)**	(4,760)	1%
Distribution and conveyance costs	**(821)**	(855)	(5%)
Infrastructure costs	**(919)**	(946)	(4%)
Other operating costs	**(613)**	(618)	(1%)
Total non-people costs	**(2,353)**	(2,419)	(4%)
Total operating costs before transformation costs	**(7,142)**	(7,179)	(1%)

Total adjusted operating costs before transformation costs were down one per cent, better than our expectation of a flat performance.

People costs increased by one per cent as a result of increased pay costs, due to the three per cent frontline pay award and incentives, headcount expansion in Parcelforce Worldwide and IT, and the additional cost of delivering election mail. These increases were partially offset by a 2.5 per cent improvement in collections, processing and delivery productivity in the core network and savings achieved from the management reorganisation programme, announced in March 2014, of £42 million. We now expect this programme to deliver savings of around £80 million per annum from 2015-16. In accordance with the 2013 pay agreement, the frontline pay award for 2015-16 is 2.8 per cent. We continue to target annual productivity improvements of 2-3 per cent per annum. As a result of the new single-tier state pension scheme to be 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 up to £75 million, which would impact the 2016-17 financial year.

Non-people costs declined by four per cent. Distribution and conveyance costs reduced by five per cent partly due to a reduction in terminal dues as a result of a change in the geographic mix of export parcels in the period. Savings were also achieved on vehicle costs through improved fleet management and on fuel costs. Diesel and jet fuel costs were £186 million in the year, compared with £195 million in 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 £171 million in 2015-16. Infrastructure costs were four per cent lower mainly due to cost savings on property, with reduced spend in relation to facilities management. Depreciation and amortisation of £242 million was broadly in line with the prior year. Other operating costs decreased by one per cent.

For 2015-16 we continue to target flat or better UKPIL costs on an underlying basis.

Adjusted operating profit before transformation costs was £615 million, giving a margin of 7.9 per cent, up 40 basis points on an underlying basis.

Reported total costs before transformation costs for UK businesses (UKPIL and Other) were broadly flat at £7,275 million (2013-14 £7,242 million), in line with our KPI measure.

On a reported basis, UKPIL operating costs before transformation costs increased by £34 million to £7,271 million. Reported pension costs increased by £73 million over the prior year, mainly due to the increase in the IAS 19 non-cash pension service charge, caused by a decrease in AA corporate bond yields.

Transformation costs

(£m)	Adjusted 52 weeks 2015	Adjusted 52 weeks 2014
Voluntary redundancy - ongoing	**(87)**	(14)
Voluntary redundancy – management reorganisation programme	**6**	(102)
Project costs	**(55)**	(108)
Business transformation payments	**(9)**	(17)
Total	**(145)**	(241)

Total transformation costs of £145 million were marginally above our expectations due to an increased number of people leaving the business in the second half of the year. The prior year included a £104 million provision for the management reorganisation programme announced in March 2014 of which £6 million reversed in 2014-15. We continue to expect ongoing transformation costs of around £120-140 million per annum, depending on the level of voluntary redundancies announced in-year.

Project costs, including costs relating to Delivery Office revisions, have reduced from 2013-14.

The £9 million business transformation payments relate to the Business Transformation Agreement 2010. These payments are now largely complete and minimal payments are expected going forward.

Transformation costs are the same on a reported or adjusted basis.

Operating profit after transformation costs

Adjusted operating profit after transformation costs was £470 million, giving a margin of 6.1 per cent, up 20 basis points on an underlying basis.

Reported operating profit after transformation costs was £341 million, giving a margin of 4.4 per cent.

General Logistics Systems (GLS)

Summary trading results (including discontinued operations)

(€m)	52 weeks 2015	52 weeks 2014	Change
Revenue	**2,100**	1,957	7%
Operating costs	**(1,954)**	(1,829)	7%
Operating profit	**146**	128	
Operating profit margin	**7.0%**	6.5%	50 bps
(£m)			
Revenue	**1,653**	1,651	
Operating costs	**(1,538)**	(1,543)	
Operating profit	**115**	108	
Volumes (m)[1]	**436**	404	8%

Trading performance

GLS continues to perform well. The business delivered a better than expected revenue performance this year, with seven per cent growth driven by an eight per cent increase in parcel volumes. Revenue growth has been achieved in all our markets, with particularly strong growth in Italy, as well as growth in emerging European markets. Germany, France and Italy, GLS' core markets, in aggregate still account for around 70 per cent of GLS' revenue.

On a reported basis, revenue of £1,557 million was flat as the improvement in underlying Euro revenue was offset by the impact of foreign exchange movements.

Operating costs

(€m)	52 weeks 2015	52 weeks 2014	Change
People costs	**(470)**	(435)	8%
Distribution and conveyance costs	**(1,290)**	(1,204)	7%
Infrastructure costs	**(135)**	(128)	6%
Other operating costs	**(59)**	(62)	(6%)
Total non-people costs	**(1,484)**	(1,394)	6%
Total operating costs	**(1,954)**	(1,829)	7%

Total operating costs were up seven per cent, broadly in line with volume growth.

People costs increased by eight per cent as a result of pay inflation and incentives, the impact of acquisitions, and semi-variable costs driven by volume. We have already seen some impact of the introduction of minimum wage legislation in Germany, which took effect from 1 January 2015. Non-people costs were up six per cent. Distribution and conveyance costs were up seven per cent, reflecting higher volumes. Infrastructure costs increased by six per cent due to higher depreciation and amortisation charges from IT investments. Other operating costs reduced by six per cent, mainly due to a non-recurring indirect tax charge and higher France restructuring costs in 2013-14.

On a reported basis, operating costs of £1,442 million were flat, as the increase in underlying Euro costs was offset by the impact of foreign exchange movements.

[1] Includes volumes from DPD SL (2014-15 45 million; 2013-14 44 million)

Operating profit

Reported operating profit increased to £115 million, representing a margin of 7.0 per cent.

Germany

The competitive environment, coupled with a challenging labour market, has had a continued impact on GLS Germany. It saw revenue growth of three per cent and remains the largest market for GLS by revenue. On 31 March 2015, GLS Germany sold its entire holding in its subsidiary DPD Systemlogistik (DPD SL) which had revenue of £96 million in the year, and has been reclassified as discontinued operations.

France

The turnaround programme in GLS France was ahead of plan this year. Operating losses reduced to €16 million (2013-14 €27 million) as the cost reduction element of the turnaround has progressed well and increased revenue growth was achieved. Revenue growth of seven per cent came from existing and new customers. We are targeting GLS France to be break-even in 2016-17.

Italy

Despite an unfavourable economic environment, GLS Italy has continued to deliver strong organic growth which, coupled with the benefit of acquisitions last year, drove a 16 per cent increase in revenue. GLS Italy continues to gain market share but this rate of growth is not expected to continue in 2015-16.

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

Revenue increased across other developed European markets which represent 21 per cent (2013-14 21 per cent) of total GLS revenue. Whilst all countries saw revenue growth, the strongest was seen in Spain and Ireland, from a low base.

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

Performance throughout the rest of Europe has been strong, with a good increase in revenue from developing/emerging European markets. The largest growth was in Croatia and Romania, from a low base.

Financial review

Reported results (continuing operations)

Group revenue was flat at £9,328 million (2013-14 £9,357 million). Operating costs before transformation costs of £8,717 million (2013-14 £8,688 million) were broadly flat. Group operating profit before transformation costs reduced to £611 million (2013-14 £669 million) and operating profit after transformation costs increased to £466 million (2013-14 £428 million). Profit before tax reduced from £1,664 million to £400 million. Earnings per share reduced from 127.5 pence to 32.5 pence.

Presentation of results

The remaining commentary in this financial review, unless otherwise indicated, focuses on the adjusted[1] results (including discontinued operations) and on movements in revenue, costs, profits and margins on an underlying basis[2]. 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 trading results of the Group. As indicated in our financial report for the half year ended 28 September 2014, and as outlined in note 1 to the consolidated financial statements 'Basis of preparation', we have moved to presenting operating costs, operating profit and earnings with the difference between the income statement pension charge and the actual cash cost of pensions treated as a specific item.

Group revenue

(£m)	**Adjusted 52 weeks 2015**	Adjusted 52 weeks 2014	Underlying change[2]
Letters	**4,567**	4,625	(1%)
Parcels	**3,190**	3,162	1%
UKPIL	**7,757**	7,787	Flat
GLS	**1,653**	1,651	7%
Other	**14**	18	
Group	**9,424**	9,456	1%

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

Parcel revenue accounted for 51 per cent of Group revenue (2013-14 51 per cent). The factors impacting revenue in the year are described in the sections entitled 'UK Parcels, International & Letters (UKPIL)' and 'General Logistics Systems (GLS)'.

Group operating costs

(£m)	**Adjusted 52 weeks 2015**	Adjusted 52 weeks 2014	Underlying change[2]
People costs	**(5,246)**	(5,224)	1%
Distribution and conveyance costs	**(1,836)**	(1,869)	1%
Infrastructure costs	**(1,023)**	(1,051)	(3%)
Other operating costs	**(579)**	(583)	(1%)
Total non-people costs	**(3,438)**	(3,503)	Flat
Operating costs before transformation costs	**(8,684)**	(8,727)	1%
Transformation costs	**(145)**	(241)	
Operating costs after transformation costs	**(8,829)**	(8,968)	1%

[1] Adjusted results exclude specific items, including the difference between the income statement pension charge and the total cash cost of pensions, including deficit payments. The figures include DPD Systemlogistik, a subsidiary of GLS Germany, which was owned by the Group for the full reporting period, and sold following the year end, and has been reclassified as discontinued operations

[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. See reconciliation for underlying movements at the end of this section

Group operating costs before transformation costs were up one per cent as lower UKPIL costs as a result of cost actions were offset by increases in GLS, mainly due to higher volumes. The 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 and margins

(£m)	**Adjusted 52 weeks 2015**	Adjusted 52 weeks 2014
UKPIL	**615**	608
GLS	**115**	108
Other	**10**	13
Group operating profit before transformation costs	**740**	729

Adjusted operating profit before transformation costs was £740 million, giving an operating profit margin before transformation costs of 7.9 per cent, an increase of 40 basis points on an underlying basis.

Reported operating profit before transformation costs adjusted for foreign exchange movements (in line with our KPI measure) was £620 million.

Transformation costs are described in the section entitled 'UK Parcels, International & Letters (UKPIL)'

(£m)	**Adjusted 52 weeks 2015**	Adjusted 52 weeks 2014
UKPIL	**470**	367
GLS	**115**	108
Other	**10**	13
Group operating profit after transformation costs	**595**	488

Adjusted operating profit after transformation costs was £595 million, with UKPIL contributing 79 per cent (2013-14 75 per cent) to the Group total. The operating profit margin after transformation costs increased by 20 basis points on an underlying basis to 6.3 per cent.

Specific items

(£m)	**52 weeks 2015**	52 weeks 2014
Operating specific items:		
Pension charge to cash difference	**(129)**	(58)
Royal Mail Pension Plan amendment (non-cash)	**–**	1,350
Transaction-related costs	**–**	(28)
Employee Free Shares charge[3] (non-cash)	**(169)**	(94)
Impairment and legacy costs	**(79)**	(15)
Total operating specific items	**(377)**	1,155
Non-operating specific items:	**–**	–
Profit on disposal of property, plant and equipment	**133**	19
Profit on disposal of associate undertaking	**–**	2
Net pension interest (non-cash)	**75**	69
Total specific items	**(169)**	1,245

The £129 million difference between the income statement pension charge (£552 million) and the actual cash paid out in respect of pensions, including the Royal Mail Senior Executives Pension Plan (RMSEPP) £10 million deficit payment (£423 million), is treated as an operating specific item. The increase in the difference of £71 million has been driven by a decrease in AA corporate bond yields. For 2015-16, given the continued fall in AA corporate bond yields, the difference between the income statement charge and the cash

[3] Includes £6 million (2013-14 £3 million) provision for National Insurance, which will be cash settled

cost is expected to be around £255 million, an increase of around £125 million over 2014-15, mainly due to an increase in the IAS 19 pension service charge rate from 23.6 per cent to 29.8 per cent.

Other operating specific items in the period included the charge associated with the Employee Free Shares Offer of £169 million, which was lower than the £180 million we anticipated due to an adjustment for leavers in the year. The charge for 2015-16 is expected to be around £150 million, dependent on the level and mix of leavers. Impairment and legacy costs of £79 million included a £24 million one-off impairment charge in respect of certain IT assets, a £19 million movement in the provision for potential industrial diseases claims driven by a reduction in the discount rate, and £5 million of other costs, partially offset by a £15 million reversal of historical employment costs. It also includes the charge in respect of the anticipated fine on GLS France in the ongoing investigation by the French Competition Authority and associated costs. This has been reassessed at the full year to be £46 million (comprised of £40 million for the anticipated fine and £6 million associated costs) in light of further correspondence with the French Competition Authority and their approach in other recent cases. The actual level of the fine to be imposed on GLS France will not be known until the second half of 2015-16.

Non-operating specific items included property and asset disposal gains of £133 million, of which £106 million is in respect of profit on the sale of the Paddington site.

Net pension interest of £75 million is non-cash and is calculated by applying the schemes' discount rate at the beginning of the year to the net pension surplus. The net pension interest for 2015-16, based on the discount rate and net pension surplus at 29 March 2015, is expected to be a credit of £107 million.

Net finance costs (excluding specific items)
Net finance costs of £26 million (2013-14 £67 million) comprise finance costs of £30 million (2013-14 £71 million), offset by finance income of £4 million (2013-14 £4 million). The decrease in finance costs was largely due to the new loans and borrowings (including the €500 million bond) being at lower rates than the previous HM Government facilities.

Following the amendments to the syndicated bank facility in March 2015, and taking into account the full year impact of the Euro bond, the blended interest rate on gross debt (loans, bonds and finance leases of £638 million as at 29 March 2015) for 2015-16 is expected to be approximately three per cent.

Taxation

Effective rate
The effective tax rate on reported Group profit before tax is 18 per cent (2013-14 23 per cent). The UK effective tax rate on reported profit is 11 per cent (2013-14 22 per cent). This rate is significantly lower than the UK corporation tax rate as a result of reinvestment relief available to offset profit on UK property disposals. GLS' effective tax rate on reported profit is 51 per cent (2013-14 37 per cent) reflecting a range of tax rates across different territories, some of which are higher than in the UK, and losses (primarily in France) for which no deferred tax credit has been recognised. The increase over the prior year is mainly due to the charge in respect of the anticipated fine on GLS France in the ongoing investigation by the French Competition Authority, for which we anticipate no tax relief.

The effective tax rate on adjusted Group profits before tax is 24 per cent (2013-14 26 per cent). The rate has reduced broadly in line with the reduction in the UK corporation tax rate.

Current
The reported UK current tax charge of £7 million (2013-14 £1 million) represents a tax rate on profit before tax of two per cent (2013-14 nil per cent). Taxable profits in the UK are, as anticipated, largely covered by a combination of losses and capital allowance claims as well as the tax impacts of Employee Share Schemes. Reported GLS current tax charge of £32 million (2013-14 £36 million) represents a tax rate of 46 per cent (2013-14 34 per cent).

Deferred

The reported Group deferred tax charge was £33 million (2013-14 £349 million). This arose mainly as a result of capital allowance claims and utilisation of brought forward losses. In the prior period the charge was primarily in relation to the Group's pension position.

Earnings per share (EPS)

Adjusted EPS was 42.8 pence (reported 32.5 pence) on a basic and diluted basis.

Summary free cash flow

(£m)	**52 weeks 2015**	52 weeks 2014
Reported EBITDA before transformation costs	**889**	942
Pension charge to cash difference (operating specific item)	**129**	58
Adjusted EBITDA before transformation costs	**1,018**	1,000
Trading working capital movements	**1**	(57)
Total investment	**(658)**	(617)
Tax	**(37)**	(38)
Net finance costs paid	**(18)**	(33)
Other – SAYE share option scheme charge difference, dividends from associate	**5**	2
In-year trading cash flow	**311**	257
Other working capital movements	**11**	140
Operating specific items	**(8)**	(35)
Proceeds from disposal of property (excluding London property portfolio), plant and equipment and associate undertaking (non-operating specific item)	**39**	36
Free cash flow (before net cash flows from London property portfolio)	**353**	398
London property portfolio net cash flows (non-operating specific item)	**100**	–
Free cash flow	**453**	398

Free cash flow of £453 million was up £55 million. It included £100 million net cash flows from the London property portfolio (which are not reflected in the KPI measure). In-year trading cash flow increased by £54 million to £311 million, despite an increase in total cash investment, explained below.

Adjusted EBITDA before transformation costs of £1,018 million increased due to the trading performance explained above. Trading working capital movements were broadly flat.

Investment

(£m)	**52 weeks 2015**	52 weeks 2014
Growth capital expenditure	**(178)**	(201)
Replacement capital expenditure	**(252)**	(215)
Transformation operating expenditure	**(228)**	(201)
Total investment	**(658)**	(617)
Proceeds from disposal of property (excluding London property portfolio), plant and equipment and associate undertaking	**39**	36
Net investment	**(619)**	(581)

Total investment increased from £617 million to £658 million. Growth capital expenditure was mainly in relation to parcels projects, especially IT to support barcoding, scanning and tracking, and GLS. The main replacement capital expenditure investments were in relation to vehicles, property and IT projects. Transformation operating expenditure was predominantly in relation to voluntary redundancies. Proceeds from the disposal of property (excluding London property portfolio), plant and equipment were £39 million giving a net investment of £619 million. Over 2013-14 and 2014-15 cumulative net cash investment was £1.2 billion as expected. Going forward cash investment, net of operating asset disposals, is expected to be in the range £550-600 million per annum.

Tax payments of £37 million are broadly in line with the current income taxation charge of £39 million. Net finance costs paid of £18 million reduced due to lower net debt and a lower cost of debt in the year.

Other working capital movements

(£m)	52 weeks 2015	52 weeks 2014
March 2015 payroll paid after balance sheet date of 29 March 2015	**46**	–
Stamps used but purchased in previous periods and other deferred revenue	**(35)**	(10)
Unwinding of pension prepayment made in March 2012	**–**	150
Total other working capital movements	**11**	140

Other working capital movements resulted in an £11 million inflow. There was a benefit of £46 million due to the timing of payroll payments in respect of monthly paid staff, with the payment for the March 2015 payroll occurring after 29 March 2015. This timing benefit will not reverse until 2018-19, with 12 monthly payroll payments in all years until then. This was offset by £35 million of stamps used in the year which had been purchased in previous periods and other deferred revenue movements. In 2013-14, the movements largely related to a one-off benefit of £150 million in respect of the March 2012 pension prepayment.

Net cash flows relating to the London property portfolio were £100 million and largely relate to the sale of the Paddington site in the year.

Net debt

Net debt decreased by £280 million to £275 million, mainly due to free cash flow generated, offset by dividend payments of £200 million.

In July 2014, Royal Mail issued €500 million 2.375% Senior Fixed Rate Notes due July 2024 with a fixed annual interest coupon of 2.375%. The majority of the proceeds were used to repay £350 million of the existing syndicated bank loans. This increased the average maturity of the Group's drawn down loans and loan facilities.

In March 2015, the Group took advantage of favourable market conditions to negotiate amendments to its syndicated bank facility to convert the remaining term loan into a revolving credit facility for greater flexibility. This had the effect of reducing the interest rates charged and extending the maturity date to March 2020 with the option to extend for a further two years. This enabled the remaining £250 million of the existing syndicated bank loans to be repaid on 9 March 2015, whilst maintaining the same level of facilities. The increased flexibility to pay down debt when not being utilised reduces future net interest cost.

Dividends

The Board is recommending a final dividend of 14.3 pence per ordinary share, payable on 31 July 2015 to shareholders whose names appear on the register of members on 3 July 2015, subject to shareholder approval at the AGM on 23 July 2015. This gives a total dividend for the year of 21.0 pence, an increase of five per cent over the notional 2013-14 full year dividend of 20.0 pence.

Property

On 14 October 2014, the Company announced that contracts had been exchanged for the sale of the former Paddington Mail Centre site to Great Western Developments Limited for £111 million in cash. Total net cash proceeds of the sale of £108 million were received on completion on 8 December 2014 and a profit on disposal of £106 million has been recorded as a non-operating specific item. We continue to market the site at Nine Elms and to evaluate our options in relation to the site at Mount Pleasant. These larger sites will require further investment in order to optimise value, which will be mainly met by the proceeds from the sale of the Paddington site.

Pensions

The IAS 19 pension position at 29 March 2015 was a surplus of £3,179 million, compared with a surplus of £2,068 million at 28 September 2014 and £1,723 million at 30 March 2014. The IAS 19 accounting position and key assumptions for the valuation are provided in note 8.

The process for the triennial valuation of RMPP at 31 March 2015 has commenced and the outcome will be announced in due course. If the assumptions used for the 2012 triennial valuation of RMPP and RMSEPP are rolled forward to 31 March 2015, the combined actuarial surplus would be £1,793 million, compared with £1,585 million at 30 September 2014 and £1,422 million at 31 March 2014. It is this basis that the Pension Trustees and the Company use to assess the ongoing funding needs of these schemes. The increase in the surplus was largely driven by the return on assets, in particular due to the increase in the market value of gilts and derivative assets that are principally held to hedge inflation and interest rate risk. 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. On an actuarial basis the amount of the surplus relating to the liabilities hedged in advance of those accrued as at March 2015, was approximately £700 million. This element will unwind over time.

Under the 2012 triennial valuation of 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, and reflected 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. Accordingly the surplus was expected to decline over time. Since then, market conditions for defined benefit schemes have worsened. However, the position of RMPP has been protected to date by the hedging strategy explained above such that we continue to expect that the RMPP actuarial surplus will reduce to neither a material surplus nor deficit by March 2018.

Underlying change

The financial review, unless otherwise indicated, focuses on the adjusted results (including discontinued operations) and on movements in revenue, costs, profits and margins on an underlying basis. Underlying movements take into account differences in working days in UKPIL and movements in foreign exchange in GLS. In addition, adjustments are made for non-recurring or distorting items, which by their nature may be unpredictable. For the full year, we have made adjustments for the £28 million one-off bonus paid to staff in the second half of 2013-14 and the movement in provisions in respect of the management reorganisation programme (MRP) of £110 million (£104 million provision in 2013-14 and a £6 milllion release in 2014-15). For volumes, underlying movements are adjusted for working days in UKPIL (2013-14 304.8; 2014-15 304), and exclude elections in letters volumes. Due to the expected flow of traffic over holiday periods in 2015-16, we estimate that the impact of working days in UKPIL will be around £25 million (2015-16 303 working days). See table below for a reconciliation for underlying movements.

Reconciliation for underlying movements

(£m)	Adjusted 52 weeks 2014	VAT credit (UKPIL)	One-off bonus (UKPIL)	MRP provision (UKPIL)	Working days (UKPIL)	Foreign exchange (GLS)	Underlying comparator	Year-on-year underlying change
Revenue								
Group	9,456	-	-	-	(20)	(111)	9,325	1%
UKPIL	7,787	-	-	-	(20)	-	7,767	Flat
GLS	1,651	-	-	-	-	(111)	1,540	7%
Costs								
Group								
People	(5,224)	(2)	28	-	-	25	(5,173)	1%
Distribution and conveyance costs	(1,869)	(13)	-	-	-	68	(1,814)	1%
Infrastructure costs	(1,051)	(12)	-	-	-	7	(1,056)	(3%)
Other operating costs	(583)	(3)	-	-	-	4	(582)	(1%)
Non-people costs	(3,503)	(28)	-	-	-	79	(3,452)	Flat
Operating costs before transformation costs	(8,727)	(30)	28	-	-	104	(8,625)	1%
UKPIL								
People	(4,760)	(2)	28	-	-	-	(4,734)	1%
Distribution and conveyance costs	(855)	(13)	-	-	-	-	(868)	(5%)
Infrastructure costs	(946)	(12)	-	-	-	-	(958)	(4%)
Other operating costs	(618)	(3)	-	-	-	-	(621)	(1%)
Non-people costs	(2,419)	(28)	-	-	-	-	(2,447)	(4%)
Operating costs before transformation costs	(7,179)	(30)	28	-	-	-	(7,181)	(1%)
GLS								
Operating costs	(1,543)	-	-	-	-	104	(1,439)	7%
Profit, margins and EPS								
Group								
Operating profit before transformation costs	729	(30)	28	-	(20)	(7)	700	6%
Margin	7.7%						7.5%	40 bps
Transformation costs	(241)	-	-	110	-	-	(131)	
Operating profit after transformation costs	488	(30)	28	110	(20)	(7)	569	5%
Margin	5.2%						6.1%	20 bps
Profit before tax	421	(30)	28	110	(20)	(7)	502	
Tax	(110)						(131)	
Profit for the period	311						371	
Profit attributable to the Group	308						368	
Earnings per share	30.8p						36.8p	
UKPIL								
Operating profit before transformation costs	608	(30)	28	-	(20)	-	586	5%
Margin	7.8%						7.5%	40 bps
Transformation costs	(241)	-	-	110	-	-	(131)	
Operating profit after transformation costs	367	(30)	28	110	(20)	-	455	3%
Margin	4.7%						5.9%	20 bps
GLS								
Operating profit	108	-	-	-	-	(7)	101	14%
Margin	6.5%						6.5%	50 bps

Events after the reporting period

On 31 March 2015, after the financial year end, GLS Germany disposed of its wholly-owned subsidiary, DPD Systemlogistik GmbH & Co. KG (DPD SL) to DPD GeoPost (Deutschland) GmbH. The disposal resulted in a post-tax profit of around €40 million (£29 million), which will be reflected as a specific item in the Group's 2015-16 financial statements.

Matthew Lester
Chief Finance Officer
20 May 2015

Business risks

The table below details the principal business risks, their current status and how the Group mitigates these risks. The status includes our assessment of whether the risk is increasing (⇧), decreasing (⇩) or stable (⇔). The alignment to strategy indicates those aspects of the business strategy that would be impacted by the risk, were it to materialise.

Principal risk	Status	How we are mitigating the risk	Alignment to strategy
Changes in market conditions and customer behaviour The letters and parcels markets are increasingly competitive, customers continue to demand more and our competitors are responding quickly to these changing demands:			
Customer behaviour and Royal Mail's responsiveness to market changes relative to that of competitors Changes in customer behaviour, and changes to the markets in which the Group sells its products and services, could impact our forecasts for letter and parcel volumes. 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 the market.	⇧ A number of carriers are expanding their operations. Additional market capacity increases downward price pressure. At the same time, customers increasingly demand faster, more flexible and responsive services, with high reliability. There is a continuing requirement to invest in growth and innovation to meet these challenges in the market place.	• We use continuous in-depth market monitoring and research to track how well we match our customers' needs, including relative to our competitors. • We have implemented a range of products and service enhancements at pace. • Further initiatives will provide service enhancements, including additional tracking capability and delivery solutions, and enhancing customers' online experience. • Our Mailmen campaign is promoting the value of marketing mail.	Being a successful parcels business Managing the decline in letters Being customer focused
Economic environment Historically there has been a correlation between economic conditions and the level of parcel and letter volumes. Flat or adverse economic conditions could impact our ability to maintain and grow revenue, by either reducing volumes or encouraging customers to adopt cheaper service options for sending letters and parcels.	⇩ Economic conditions in the UK improved over the year. The recovery in Europe 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 volumes, and to assess the effect of our pricing structures. We continually review and upgrade these models. • We have taken short term actions, and are developing longer term responses to control costs.	Being a successful parcels business Managing the decline in letters

Business transformation

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

Efficiency 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. However, Ofcom has announced a review of what is a reasonable rate of efficiency improvement for Royal Mail. It may make unfavourable changes to the regulatory framework to incentivise further efficiency.	• We have agreed with the CWU a programme to enable better alignment of resourcing and workload. • Our Together for Growth programme, supported by a joint mediation process, facilitates a collaborative approach to improving efficiency at a local level. • A task force will address attendance issues, with a particular focus on long term employee absence. • A cost-conscious regime is in place to understand cost drivers better and further develop and embed cost-consciousness, and impose rigorous control over discretionary spend.	Being a successful parcels business Managing the decline in letters
Attracting and retaining senior management and key personnel Our performance, operating results and future growth depend on our ability to attract and retain talent with the appropriate level of expertise.	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 a talent identification and development programme.	Being a successful parcels business Managing the decline in letters Being customer focused
IT transformation The scale and complexity of the 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 would increase the risk of: security breaches and attacks; a material adverse effect on the Group's operations, and IT systems being unable to support the business plan.	The transformation programme will continue to run at its peak throughout the next financial year, moving from one service provider to a diversified supplier model. This impacts all of our core systems. At the same time, we have projects running in parallel to give customers a higher standard of service using more sophisticated technology.	• The IT transformation programme has a stretching target completion date that will minimise the risk of operating outdated legacy systems. • We have strengthened standard programme management and governance disciplines to provide intensive focus on key aspects of the programme, such as managing interdependencies with other programmes and implementing the transition. • Our Internal Audit department provides independent assurance about the programme delivery.	Being a successful parcels business Managing the decline in letters Being customer focused

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:

Sustainability of the Universal Service Obligation (USO)

In our liberalised postal market, other operators are able to offer direct delivery services by cherry-picking easy-to-serve urban areas, without having to adhere to the same high delivery requirements and quality standards as Royal Mail.

The combination of mandated access[1], uncertainty about access price proposals and the rollout of direct delivery, and structural decline in letters, poses a serious risk to the Group's future ability to earn revenue necessary to ensure the sustainable provision of the USO.

During 2014, we made a submission to Ofcom, requesting that it brought forward a full review of the impact of direct delivery on the Universal Service. However, in December 2014, Ofcom decided that there were no grounds for regulatory intervention at this time. This may lead to further direct delivery expansion in the future.

Whistl, a subsidiary of PostNL, has expanded its direct delivery operation into several urban areas across the UK. On 11 May 2015, Whistl announced that it had commenced an extensive review of the viability and potential for the rollout of an end-to-end postal delivery service in the UK. Its current end-to-end service is suspended during the review process.

Ofcom also announced in December 2014 that it would be carrying out a review of the regulatory rules that apply to Royal Mail's access prices (Access Pricing Review). Ofcom's proposals represent a more restrictive regime that would prevent Royal Mail from responding to competition, putting the financial sustainability of the Universal Service at risk.

We proposed certain changes to our access contracts in January 2014. Some of these proposals are the subject of a Competition Act investigation by Ofcom. They were suspended, never implemented and have now been withdrawn.

- We are engaging with stakeholders, including politicians, economists and academics, about the threats to the financial sustainability of the Universal Service. The Commons Business Innovation and Skills Committee has published a report calling for Ofcom to take steps to ensure the Universal Service can be protected.
- We have also submitted a detailed response to Ofcom's proposals under the Access Pricing Review, setting out our view that the proposals are disproportionate.

Managing the decline in letters

[1] Royal Mail is obligated to provide access to its inward mail centres by our Regulator, Ofcom. This means that competitors to Royal Mail can collect and sort mail posted by businesses and hand it to Royal Mail for final mile delivery

VAT status Royal Mail is currently exempt from Value Added Tax (VAT) in a number of areas, in which this status is under threat: • HMRC's implementation of VAT legislation on mandated access services has been subject to a judicial review; • The European Commission is reviewing VAT exemptions more generally, and postal services fall within the scope of that review; • The EU has published a proposal for a 'Vouchers Directive'; as currently drafted, this would alter the VAT treatment of postage stamps. Although Royal Mail could benefit from greater recoverability of VAT on costs if the VAT exemption for USO and access services was removed, the cost to customers who cannot reclaim VAT would be increased, making us less competitive.	The judicial review found that HMRC has correctly implemented VAT legislation and the services should remain exempt from VAT. However, the plaintiff in the case has been granted leave to appeal the decision, and we may not have a definitive resolution until 2016. The European Commission has published details of responses to its consultation about the future of VAT exemptions, but has not progressed the matter further. There has been no indication of the likely outcome or timescale of the exercise. The proposed Vouchers Directive remains under discussion in Brussels.	• We will continue to support HMRC, as required, in defending its implementation of VAT legislation in respect of access services. • We have established a direct link with the European Commission and continue to lobby more widely in relation to both the Vouchers Directive and the VAT status of postal services. • We liaise with HM Treasury to seek to minimise the impact of the proposed Vouchers Directive.	Managing the decline in letters
Employment legislation Changes to laws and regulations relating to employment (including the interpretation and enforcement of those laws and regulations) could, directly or indirectly, increase the Group's labour costs, which, given the size of the Group's workforce, could have an adverse effect on the Group.	The Employment Appeals Tribunal has ruled that, in excluding regular overtime from holiday pay calculations, the Government has misinterpreted the Working Time Directive since 1998. Whilst this decision appears to have crystallised the risk of having to include overtime in the calculation of holiday pay, the position is still unclear as to how to calculate the appropriate payments and exactly who should receive such payments. The case law is still evolving in this area.	• We are closely monitoring developments in the case law in this area and are in discussions with our recognised unions as to how to deal with this issue. We hope to take a collaborative approach once the case law becomes clearer. • Based on our estimates of the potential financial impact, we believe that we have made sufficient provision for any historic liabilities that may arise.	Being a successful parcels business Managing the decline in letters

Pension risk The Group continues to operate a defined benefit pension scheme, the Royal Mail Pension Plan, open to accrual for existing members.			
Affordability of the Royal Mail Pension Plan The actuarial cost of providing an additional year's benefit was around £700 million based on the Plan's March 2012 actuarial valuation. In recognition of the surplus that was created by Pensions Reform in September 2013, the Group was able to maintain its cash contribution at around £400 million a year. As part of Pensions Reform, the Group committed, subject to conditions, to keep the Plan open without further amendment until at least March 2018. Changes in financial market conditions, or demographic or other factors may impact our continued ability to fund this commitment.	The first review of our commitment, which will be carried out in conjunction with the unions, will be completed by March 2018. A large proportion of the Plan's future interest rate and inflation rate exposure has been hedged and we expect there to be neither a material surplus nor deficit at March 2018. However, gilt yields have continued to fall, creating a risk to the affordability of the Plan after that date. In addition, under the 2012 actuarial valuation the Company is required to pay additional contributions of up to £50 million a year from April 2016 if the Trustee considers these necessary to maintain the Plan's projected funding position in March 2019. This requirement will be reviewed as part of the Plan's March 2015 actuarial valuation. The valuation process has commenced, and the outcome will be announced in due course.	• The RMPP Trustee is continuing to hedge future interest rate and inflation rate exposure, to reduce the risk that the Group's commitment to March 2018 cannot be met. • We are engaging with CWU and Unite/ CMA on the emerging issues and potential courses of action.	Being a successful parcels business Managing the decline in letters
Industrial relations There is extensive trade union recognition in respect of our workforce in the UK:			
Industrial action There is a risk that one or more material disagreements or disputes between the Group and its trade unions could result in widespread localised or national industrial action. Widespread localised or national industrial action would cause material disruption to our business in the UK and would be likely to result in an immediate and potentially ongoing significant loss of revenue for the Group. 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 current pay deal runs until 2015-16 and is rooted in the Agenda for Growth agreement developed jointly with the CWU. The agreement represents a fundamental change in our relationship with CWU, and promotes stability in industrial relations. However, the increasingly competitive environment and the need for change will challenge Royal Mail and its trade unions to find effective solutions without recourse to industrial action.	• We have agreed and implemented with the CWU a Joint Statement on Growth, Efficiency and Incentives, enabling collaborative improvements in operational efficiency. • The Joint Statement is supported by our Together for Growth training programme, an industrial relations and business skills package for managers and CWU representatives. • We have established a process that uses trained mediators nominated by and representing both CWU and the business, for resolution of local disputes.	Being a successful parcels business Managing the decline in letters Being customer focused

Consolidated financial statements

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[1] For the 52 weeks ended 29 March 2015 and 52 weeks ended 30 March 2014
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Statement of Directors' responsibilities in respect of the Group financial statements

The responsibility statements below have been prepared in connection with the Company's full Annual Report and Financial Statements 2014-15. Certain parts thereof are not included in this announcement.

Statement of Directors' responsibilities in relation to the consolidated financial statements

Each of the Directors, whose names and functions are listed in the Annual Report and Financial Statements 2014-15, confirms that, to the best of each person's knowledge and belief:

- the Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable and that it provides the information necessary for shareholders to assess the Group's and the Company's performance, business model and strategy;
- the financial statements, prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Strategic Report and the Directors' Report contained in the Annual Report include a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that they face.

Statement of Directors' responsibilities in relation to the Company's financial statements

Each of the Directors, whose names and functions are listed in the Annual Report and Financial Statements 2014-15, confirms that, to the best of each person's knowledge and belief:

- the financial statements, prepared in accordance with United Kingdom Generally Accepted Accounting Practice, give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- the Strategic Report and the Directors' Report contained in the Annual Report include a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that they face.

By order of the Board

Moya Greene
Chief Executive Officer
20 May 2015

Matthew Lester
Chief Finance Officer

Consolidated income statement

For the 52 weeks ended 29 March 2015 and 52 weeks ended 30 March 2014

	Notes	52 weeks 2015 Reported[1] £m	52 weeks 2015 Specific items[2] £m	52 weeks 2015 Adjusted[2] £m	52 weeks 2014 Reported[1] £m	52 weeks 2014 Specific items[2] £m	52 weeks 2014 Adjusted[2] £m
Continuing operations							
Revenue*	2	9,328	–	9,328	9,357	–	9,357
Operating costs		(8,717)	(129)	(8,588)	(8,688)	(58)	(8,630)
People costs	4	(5,359)	(129)	(5,230)	(5,267)	(58)	(5,209)
Distribution and conveyance costs		(1,764)	–	(1,764)	(1,796)	–	(1,796)
Infrastructure costs		(1,019)	–	(1,019)	(1,047)	–	(1,047)
Other operating costs		(575)	–	(575)	(578)	–	(578)
Operating profit before transformation costs		611	(129)	740	669	(58)	727
Transformation costs	3	(145)	–	(145)	(241)	–	(241)
Operating profit after transformation costs		466	(129)	595	428	(58)	486
Operating specific items:							
Royal Mail Pension Plan amendment	4	–	–	–	1,350	1,350	–
Transaction-related costs	4	–	–	–	(28)	(28)	–
Employee Free Shares charge	4	(169)	(169)	–	(94)	(94)	–
Impairment and legacy costs	4	(79)	(79)	–	(15)	(15)	–
Operating profit		218	(377)	595	1,641	1,155	486
Non-operating specific items:							
Profit on disposal of property, plant and equipment	4	133	133	–	19	19	–
Profit on disposal of associate undertaking	4	–	–	–	2	2	–
Earnings before interest and tax		351	(244)	595	1,662	1,176	486
Finance costs	5	(30)	–	(30)	(71)	–	(71)
Finance income	5	4	–	4	4	–	4
Net pension interest (non-operating specific item)	4/8(c)	75	75	–	69	69	–
Profit before tax		400	(169)	569	1,664	1,245	419
Tax (charge)/credit	6	(72)	66	(138)	(386)	(276)	(110)
Profit for the period from continuing operations		328	(103)	431	1,278	969	309
Discontinued operations:							
Profit after tax for the period from discontinued operations	12	–	–	–	2	–	2
Profit for the period		328	(103)	431	1,280	969	311
Profit for the period attributable to:							
Equity holders of the parent Company		325	(103)	428	1,277	969	308
Non-controlling interests		3	–	3	3	–	3
Earnings per share:							
Basic and diluted – continuing operations	9	32.5p	(10.3)p	42.8p	127.5p	96.9p	30.6p
Basic and diluted – total Group	9	32.5p	(10.3)p	42.8p	127.7p	96.9p	30.8p
Total Group revenue*		9,424	–	9,424	9,456	–	9,456
Continuing operations		9,328	–	9,328	9,357	–	9,357
Discontinued operations		96	–	96	99	–	99

[1] Reported – prepared in accordance with International Financial Reporting Standards (IFRS)
[2] Specific items and Adjusted - non-GAAP measures explained in the Financial review and in note 1 to these financial statements

Consolidated statement of comprehensive income

For the 52 weeks ended 29 March 2015 and 52 weeks ended 30 March 2014

	Notes	Reported 52 weeks 2015 £m	Reported 52 weeks 2014 £m
Profit for the period		**328**	1,280
Other comprehensive income/(expense) for the period from continuing operations:			
Items that will not be subsequently reclassified to profit or loss:			
Amounts relating to pensions accounting		**1,211**	(344)
IFRIC 14 adjustment relating to pension surplus	8	(2)	(8)
Actuarial gains/(losses) on defined benefit schemes	8(c)	1,512	(453)
Tax on above items[1]	6	(299)	117
Items that may be subsequently reclassified to profit or loss:			
Foreign exchange translation differences		**(47)**	(12)
Exchange differences on translation of foreign operations (GLS)[2]		(74)	(12)
Net gain on hedge of a net investment (€500 million bond – 2.375% Senior Fixed Rate Notes due July 2024)		27	–
Designated cash flow hedges		**(21)**	(19)
Losses on cash flow hedges deferred into equity		(53)	(24)
Losses on cash flow hedges released from equity to income		27	4
Tax on above items	6	5	1
Total other comprehensive income for the period		**1,143**	(375)
Total comprehensive income for the period		**1,471**	905
Total comprehensive income for the period attributable to:			
Equity holders of the parent Company		**1,468**	902
Non-controlling interests		**3**	3

[1] Includes £4 million (2013-14 £nil million) in relation to Royal Mail Senior Executives Pension Plan (RMSEPP) deficit payments
[2] Includes £3 million (2013-14 £nil million) in relation to net deferred tax liabilities (note 6)

Consolidated statement of cash flows

For the 52 weeks ended 29 March 2015 and 52 weeks ended 30 March 2014

	Notes	Reported 52 weeks 2015 £m	Reported 52 weeks 2014 £m
Cash flow from operating activities:			
Operating profit before transformation costs		**611**	669
Adjustment for:			
Depreciation and amortisation		**279**	274
Share of post-tax profit from associate		**(1)**	(3)
EBITDA before transformation costs		**889**	940
Working capital movements		**12**	83
Decrease in inventories		1	2
(Increase)/decrease in receivables		(52)	81
Increase in payables		72	19
Net increase in derivative assets		(8)	(2)
Decrease in provisions (non-specific items)		(1)	(17)
Pension charge to cash difference (operating specific item)		**129**	58
Share-based awards (SAYE and LTIP) charge to cash difference		**5**	–
Cash cost of transformation operating expenditure[1]		**(228)**	(201)
Cash cost of operating specific items		**(8)**	(35)
Cash inflow from operations		**799**	845
Income tax paid		**(37)**	(38)
Net cash inflow from operating activities		**762**	807
Cash flows from investing activities:			
Dividends received from associate undertaking		**–**	2
Finance income received		**4**	4
Proceeds from disposal of property (excluding London property portfolio), plant and equipment (non-operating specific item)		**39**	33
London property portfolio disposals (non-operating specific item)		**100**	–
Disposal proceeds		111	–
Related cash costs		(11)	–
Proceeds from disposal of associate undertaking (non-operating specific item)		**–**	3
Net cash inflow from discontinued operations		**–**	2
Purchase of property, plant and equipment[1]		**(267)**	(341)
Acquisition of business[1]		**(7)**	(2)
Purchase of intangible assets (software)[1]		**(153)**	(69)
Payment of deferred consideration in respect of prior years' acquisitions[1]		**(3)**	(4)
Net purchase of financial asset investments (current)		**(55)**	-
Net cash outflow from investing activities		**(342)**	(372)
Net cash inflow before financing activities		**420**	435
Cash flows from financing activities:			
Finance costs paid on refinancing of loan facilities		**–**	(45)
Other finance costs paid		**(22)**	(37)
Payment of capital element of obligations under finance lease contracts		**(75)**	(73)
Cash received on sale and leasebacks		**13**	109
New loans		**393**	600
Repayment of loans and borrowings		**(600)**	(973)
Dividends paid to equity holders	11	**(200)**	–
Dividend paid to non-controlling interests		**(1)**	–
Net cash outflow from financing activities		**(492)**	(419)
Net (decrease)/increase in cash and cash equivalents		**(72)**	16
Effect of foreign currency exchange rates on cash and cash equivalents		**(7)**	(1)
Cash and cash equivalents at the beginning of the period		**366**	351
Cash and cash equivalents at the end of the period		**287**	366

[1] Items included in total investment – note 7

Consolidated balance sheet

At 29 March 2015 and 30 March 2014

	Notes	Reported at 29 March 2015 £m	Reported at 30 March 2014 £m
Non-current assets			
Property, plant and equipment		**1,933**	1,989
Leasehold land payment		**2**	3
Goodwill (mainly investment in GLS)		**182**	197
Intangible assets (mainly software)		**300**	195
Investment in associate		**5**	4
Financial assets – pension escrow investments	5	**20**	20
– derivatives		**2**	3
Retirement benefit asset – net of IFRIC 14 adjustment	8	**3,179**	1,723
Other receivables		**11**	13
Deferred tax assets	6	**8**	9
		5,642	4,156
Assets held for sale	12	**32**	3
Current assets			
Inventories		**20**	22
Trade and other receivables		**949**	926
Financial assets – derivatives		**5**	2
– short-term deposits	5	**56**	1
Cash and cash equivalents	5	**287**	366
		1,317	1,317
Total assets		**6,991**	5,476
Current liabilities			
Trade and other payables		**(1,668)**	(1,652)
Financial liabilities – obligations under finance leases	5	**(93)**	(87)
– derivatives		**(34)**	(12)
Income tax payable		**(14)**	(14)
Provisions		**(149)**	(173)
		(1,958)	(1,938)
Non-current liabilities			
Financial liabilities – interest bearing loans and borrowings	5	**(366)**	(600)
– obligations under finance leases	5	**(179)**	(255)
– derivatives		**(14)**	(5)
Provisions		**(104)**	(95)
Other payables		**(40)**	(31)
Deferred tax liabilities	6	**(474)**	(151)
		(1,177)	(1,137)
Liabilities associated with assets held for sale	12	**(10)**	-
Total liabilities		**(3,145)**	(3,075)
Net assets		**3,846**	2,401
Equity			
Share capital		**10**	10
Retained earnings		**3,843**	2,332
Other reserves		**(16)**	52
Equity attributable to parent Company		**3,837**	2,394
Non-controlling interests		**9**	7
Total equity		**3,846**	2,401

The financial statements were approved and authorised for issue by the Board of Directors on 20 May 2015 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 29 March 2015 and 52 weeks ended 30 March 2014

	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 31 March 2013	–	1,318	73	10	1,401	4	1,405
Profit for the period	–	1,277	–	–	1,277	3	1,280
Other comprehensive expense for the period	–	(344)	(12)	(19)	(375)	–	(375)
Share capital issue	10	(10)	–	–	–	–	–
Employee Free Shares issue[1] (note 10)	–	91	–	–	91	–	91
Reported at 30 March 2014	10	2,332	61	(9)	2,394	7	2,401
Profit for the period	**–**	**325**	**–**	**–**	**325**	**3**	**328**
Other comprehensive income/(expense) for the period	**–**	**1,211**	**(47)**	**(21)**	**1,143**	**–**	**1,143**
Release of Post Office Limited separation provision	**–**	**7**	**–**	**–**	**7**	**–**	**7**
Dividend paid to equity holders of the parent (note 11)	**–**	**(200)**	**–**	**–**	**(200)**	**–**	**(200)**
Dividend paid to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**(1)**	**(1)**
Share-based payments (note 10):							
- Employee Free Shares issue[1]	**–**	**163**	**–**	**–**	**163**	**–**	**163**
- Save As You Earn (SAYE) scheme	**–**	**1**	**–**	**–**	**1**	**–**	**1**
- Long-Term Incentive Plan (LTIP)[2]	**–**	**4**	**–**	**–**	**4**	**–**	**4**
Reported at 29 March 2015	**10**	**3,843**	**14**	**(30)**	**3,837**	**9**	**3,846**

[1] Excludes £6 million (2013-14 £3 million) National Insurance, charged to the income statement, included in provisions on the balance sheet
[2] Excludes £1 million (2013-14 £nil million) National Insurance, charged to the income statement, included in provisions on the balance sheet

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 the consolidated financial statements are produced in accordance with the Companies Act 2006 and applicable International Financial Reporting Standards (IFRS) as adopted by the European Union. The UK is the Company's country of domicile.

The Company was listed on the London Stock Exchange on 15 October 2013.

The consolidated financial statements of the Company for the 52 weeks ended 29 March 2015 (2013-14 52 weeks ended 30 March 2014) comprise the Company and its subsidiaries (together referred to as the 'Group') and the Group's interest in its associate undertaking.

The consolidated financial statements for the 52 weeks ended 29 March 2015 were authorised for issue by the Board on 20 May 2015.

Basis of preparation
(a) The Directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future 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 IFRS as adopted for use in the European Union (EU). These consolidated financial statements have been prepared in accordance with the accounting policies followed in the preparation of the Group's annual consolidated financial statements for the year ended 29 March 2015.

The financial information set out in this document does not constitute the Group's statutory accounts for the year ended 29 March 2015 or 30 March 2014. The Financial report for the full year ended 29 March 2015 was approved by the Board of Directors on 20 May 2015. Statutory accounts for the year ended 29 March 2015 have not yet been delivered to the Registrar of Companies. The auditor's report on the statutory accounts for the year ended 29 March 2015 was unqualified and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006. Statutory accounts for the year ended 30 March 2014 have been delivered to the Registrar of Companies. The auditor's report on the statutory accounts for the year ended 30 March 2014 was unqualified and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The Annual Report and Financial Statements 2014-15, together with details of the Annual General Meeting (AGM), will be despatched to shareholders before the AGM. The AGM will take place on 23 July 2015.

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).

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. The Directors 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 considers 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. This is a key performance indicator in the Corporate Balanced Scorecard which is used to determine employee incentives.

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 Management's opinion require separate identification. These items are included within 'reported' results but are excluded from 'adjusted' results.

1. Basis of preparation (continued)

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 cost of Employee Free Shares, and impairment and legacy costs (for example, movements in the industrial diseases provision).

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

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

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.

Free cash flow
Free cash flow is based on statutory (reported) net cash flow before financing activities, adjusted to include finance costs paid and exclude net cash generated from the purchase/sale of financial asset investments.

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

Underlying change
Management focuses on movements in volume, revenue, costs, profits and margins on an 'underlying' basis. Underlying movements take into account differences in working days in UKPIL and movements in foreign exchange in GLS. In addition, adjustments are made for non-recurring or distorting items, which by their nature may be unpredictable. These adjustments are made to the prior year 'adjusted' figures to derive 'underlying change'. A schedule of the adjustments to the 2013-14 'adjusted' results to derive 'underlying change' is shown in the Financial review.

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 8.

Deferred revenue
The Group recognises advance customer payments on its balance sheet, 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 apply a cap to the results to exclude what are considered to be abnormal stamp holdings from the estimate.

1. Basis of preparation (continued)

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
		As reported		
At 29 March 2015	30	99	300	
Public stamp holdings value (£m)	165	198	223	227

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.

Deferred tax

Assessment of the deferred tax asset requires an estimation of future profitability. Such estimation is inherently uncertain in a market subject to various competitive pressures. Should estimates of future profitability change in future years, the amount of deferred tax recognised will also change accordingly. Prior to recording deferred tax assets for tax losses, relevant tax law is considered to determine the availability of the losses to offset against the future taxable profits. The carrying values of the deferred tax assets and liabilities are included within note 6.

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 and industrial diseases claims provisions are considered to be the areas where the application of judgement has the most significant impact.

Transformation provisions, including for redundancy and property costs, are derived based upon the most recent business plan for direct expenditure where plans are sufficiently detailed and appropriate communication to those affected has been undertaken. These plans include the expected number of employees impacted, expected rate of compensation per employee, expected period of properties remaining vacant and their rental costs as well as expected dilapidation costs.

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

2. Segment information

Business unit	Main statutory entities
UK Parcels, International & Letters (UKPIL) UK operations	Royal Mail Group Limited Royal Mail Estates Limited Royal Mail Investments Limited
General Logistics Systems (GLS) Other European operations	GLS Germany GmbH & Co. OHG GLS Italy S.p.A. GLS France S.A.S.
Other UK operations	Romec Limited (51 per cent owned subsidiary) – facilities management NDC 2000 Limited (51 per cent owned subsidiary) – design services Quadrant Catering Ltd (51 per cent owned associate) – catering services

The Group is structured on a geographic business unit basis and these business units report into the Chief Executive's Committee and the Royal Mail plc Board. Each of these units has discrete revenue, costs, profit, cash flows, assets and people. Therefore, full and complete financial information is prepared and reviewed on a regular basis and compared with both historical and budget/forecast information as part of the performance management process.

The key measure of segment performance is operating profit before transformation costs (used internally for the corporate balanced scorecard). A reconciliation of the Group's earnings before interest and tax (EBIT) by segment is also disclosed.

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

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

Reported 52 weeks 2015

	UK operations			Other European operations	
Continuing operations	UKPIL £m	Other £m	Total £m	GLS £m	Total £m
External revenue	7,757	14	7,771	1,557	9,328
Inter-segment revenue	–	152	152	–	152
Total segment revenue	7,757	166	7,923	1,557	9,480
Operating profit before transformation costs	486[1]	10	496	115	611
Transformation costs	(145)	–	(145)	–	(145)
Operating profit after transformation costs	341	10	351	115	466
Operating specific items:					
Employee Free Shares charge	(169)	–	(169)	–	(169)
Impairment and legacy costs	(33)	–	(33)	(46)	(79)
Operating profit	139	10	149	69	218
Non-operating specific items:					
Profit on disposal of property, plant and equipment	133	–	133	–	133
Earnings before interest and tax	272	10	282	69	351
Net finance costs	not reported at this level		(27)	1	(26)
Net pension interest (non-operating specific item)			75	–	75
Profit before tax			330	70	400
Tax – specific items			66	–	66
– other			(102)	(36)	(138)
Profit for the period from continuing operations			294	34	328

[1] Includes £129 million pension charge to cash difference – operating specific item (note 4)

2. Segment information (continued)

Reported 52 weeks 2014

Continuing operations	UK operations UKPIL £m	UK operations Other £m	UK operations Total £m	Other European operations GLS £m	Total £m
External revenue	7,787	18	7,805	1,552	9,357
Inter-segment revenue	–	176	176	–	176
Total segment revenue	7,787	194	7,981	1,552	9,533
Operating profit before transformation costs	550[2]	13	563	106	669
Transformation costs	(241)	–	(241)	–	(241)
Operating profit after transformation costs	309	13	322	106	428
Operating specific items:					
Royal Mail Pension Plan amendment	1,350	–	1,350	–	1,350
Transaction-related costs	(24)	–	(24)	(4)	(28)
Employee Free Shares charge	(94)	–	(94)	–	(94)
Impairment and legacy costs	(15)	–	(15)	–	(15)
Operating profit	1,526	13	1,539	102	1,641
Non-operating specific items:					
Profit on disposal of property, plant and equipment	19	–	19	–	19
Profit on disposal of associate undertaking	2	–	2	–	2
Earnings before interest and tax	1,547	13	1,560	102	1,662
Net finance costs			(70)	3	(67)
Net pension interest (non-operating specific item)			69	–	69
Profit before tax	not reported at this level		1,559	105	1,664
Tax – specific items			(276)	–	(276)
– other			(69)	(41)	(110)
Profit for the period from continuing operations			1,214	64	1,278

[2] Includes £58 million pension charge to cash difference – operating specific item (note 4)

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

Reported 52 weeks 2015

	UK operations UKPIL £m	UK operations Other £m	UK operations Total £m	Other European operations 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 associate	**–**	**1**	**1**	**–**	**1**

Reported 52 weeks 2014

	UK operations UKPIL £m	UK operations Other £m	UK operations Total £m	Other European operations GLS £m	Total £m
Depreciation	(212)	–	(212)	(29)	(241)
Amortisation of intangible assets (mainly software)	(29)	–	(29)	(4)	(33)
Share of post-tax profit from associate	–	3	3	–	3

3. Transformation costs

	Reported 52 weeks 2015 £m	Reported 52 week 2014 £m
Voluntary redundancy - ongoing	**(87)**	(14)
Voluntary redundancy – management reorganisation programme	**6**	(102)
Project costs (including £2 million management reorganisation programme costs in 2014)	**(55)**	(108)
Business transformation payments	**(9)**	(17)
Total transformation costs	**(145)**	(241)

Business transformation payments represent payments linked to the achievement of key milestones in transforming the network, as part of the Business Transformation Agreement 2010.

4. Specific items

	Reported 52 weeks 2015 £m	Reported 52 weeks 2014 £m
Operating specific items:		
Pension charge to cash difference	**(129)**	(58)
Royal Mail Pension Plan amendment	**-**	1,350
Transaction-related costs	**-**	(28)
Employee Free Shares charge	**(169)**	(94)
Impairment and legacy costs	**(79)**	(15)
Potential industrial diseases claims	(19)	7
Historical employment costs	15	(15)
Impairment	(24)	-
French Competition Authority investigation costs	(46)	-
Other	(5)	(7)
Total operating specific items	**(377)**	1,155
Non-operating specific items:		
Profit on disposal of property, plant and equipment	**133**	19
Profit on disposal of associate undertaking	**-**	2
Net pension interest	**75**	69
Total non-operating specific items	**208**	90
Total specific items before tax	**(169)**	1,245

The impairment of £24 million relates to certain IT assets which did not fully meet the requirements of the business.

4. Specific items (continued)

	Reported 52 weeks 2015 £m	Reported 52 weeks 2014 £m
Tax effect of above items[1]	**55**	(288)
Tax specific items	**11**	12
Adjustments in respect of prior periods	9	–
Impact of change in tax rate[2]	2	12
Total	**66**	(276)

[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

[2] A tax credit was recognised for the remeasurement of certain deferred tax balances as a result of the change in UK statutory corporation tax rates

The tax credit on specific items of £66 million (2013-14 £276 million charge) 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.

5. Net finance costs and net debt

Net finance costs	Reported 52 weeks 2015 £m	Reported 52 weeks 2014 £m
Unwinding of discount relating to industrial diseases claims provision	**(2)**	(3)
Interest payable on financial liabilities	**(28)**	(68)
HM Government facilities:		
Loans and borrowings	–	(47)
Unused facility fees	–	(2)
Other facility fees	–	(3)
Syndicated bank loan facility:		
Loans and borrowings	(7)	(3)
Unused facility fees	(2)	(1)
Arrangement fees[1]	(4)	(2)
€500 million bond – 2.375% Senior Fixed Rate Notes due July 2024	(6)	–
Finance leases	(7)	(10)
Losses realised on interest rate swap contracts[2]	(2)	–
Finance costs	**(30)**	(71)
Interest receivable on financial assets	**4**	4
Finance income	**4**	4
Net finance costs	**(26)**	(67)

[1] Arrangement fees include £2 million (2013-14 £nil million) written-off upon repayment of £350 million of the term loans following the bond issue

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

5. Net finance costs and net debt (continued)

Net debt

	Balance sheet category	Reported at 29 March 2015 £m	Reported at 30 March 2014 £m
Obligations under finance leases	Current liabilities	**(93)**	(87)
Interest-bearing loans and borrowings	Non-current liabilities	**(366)**	(600)
Obligations under finance leases	Non-current liabilities	**(179)**	(255)
		(638)	(942)
Cash and cash equivalents		**287**	366
Cash at bank and in hand	Current assets	127	37
Client cash[3]	Current assets	20	14
Cash equivalent investments[4]	Current assets	140	315
Financial assets – short term deposits (bank and local authority deposits)	Current assets	**56**	1
Pension escrow investments (RMSEPP)	Non-current assets	**20**	20
Total net debt		**(275)**	(555)

[3] Client cash is cash collected from consignees by GLS on behalf of its posting customers

[4] Cash equivalent investments include short-term bank and local authority deposits, money market fund investments and other financial assets

Net debt decreased by £280 million during the year ended 29 March 2015 and by £351 million during the year ended 30 March 2014 as shown below.

	Reported 52 weeks 2015 £m	Reported 52 weeks 2014 £m
Net debt brought forward	**(555)**	(906)
Free cash flow	**453**	398
Dividends paid to equity holders of the parent Company	**(200)**	-
Dividend paid to non-controlling interests	**(1)**	-
Finance costs paid on refinancing of loan facilities	**-**	(45)
Decrease/(increase) in finance lease obligations (non-cash)	**8**	(1)
Foreign currency exchange impact on cash and cash equivalents	**(7)**	(1)
Foreign currency exchange rate impact on €500 million bond	**27**	-
Net debt carried forward at 29 March 2015 and 30 March 2014	**(275)**	(555)

Below is a summary of loans and borrowings at the year end, the respective average interest rates, and facilities available.

	Loans and borrowings £m	Further committed facility £m	Total facility £m	Average interest rate of loan drawn down %	Basis of interest rate chargeable at 29 March 2015 %	Average maturity date of loan drawn down Year	Average maturity date of loan facility Year
Syndicated bank loan facilities	**-**	**1,050**	**1,050**	**n/a**	**LIBOR plus 0.55%**	**n/a**	**2020**
€500 million bond - 2.375% Senior Fixed Rate Notes	**366**	**-**	**366**	**2.5**	**Fixed at 2.5%**	**2024**	**2024**
Total	**366**	**1,050**	**1,416**	**2.5**		**2024**	**2021**

The bond, issued in July 2014, is shown net of issue discount and fees and at a closing spot rate of £0.737/€. The effective interest rate on the bond (2.5 per cent) consists of the interest coupon of 2.375 per cent plus the unwinding of the discount and fees on issuing the bond (0.08 per cent). The £300 million Term Loan B and £50 million of Term Loan A were repaid on 15 August 2014 through proceeds raised from the bond issue. The bond is designated as a hedge of the net investment in GLS, which has the Euro as its functional currency. During the year, a gain of £27 million on the retranslation of this borrowing was transferred to other comprehensive income which offsets the losses on translation of the net investment in GLS. There is no hedge ineffectiveness in the period ended 29 March 2015.

In March 2015, the Group took advantage of favourable market conditions to negotiate amendments to the syndicated bank loan facility to allow: conversion of the remaining term loan into a revolving credit facility; a reduction to the interest rates charged; and to extend the maturity date (to March 2020 with the option to extend for a further two years). This increased flexibility allowed the remaining £250 million of the existing syndicated bank loans to be repaid on 9 March 2015 whilst maintaining the same level of facilities.

5. Net finance costs and net debt (continued)

The syndicated bank loan facility can be cancelled and any loans drawn under the facility can become repayable immediately on the occurrence of an event of default under the loan agreements. These events of default include non-payment, insolvency and breach of covenant relating to interest (excluding arrangement fees), adjusted net debt and EBITDA. It is not anticipated that the Group is at risk of breaching any of these obligations.

The covenants require the Group to maintain the (leverage) ratio of adjusted net debt to EBITDA below 3:1 and EBITDA to interest (excluding arrangement fees) above 3.5:1. Adjusted net debt consists of net debt plus Letters of Credit (contingent liabilities in respect of the UKPIL insurance programme, where the possibility of an outflow of economic benefits is considered remote[5]) and adjusted for exchange rate movements during the year. The Group's leverage ratio at 29 March 2015 is 0.4:1 (2013-14 0.7:1). The Group's ratio of EBITDA to interest (excluding arrangement fees) at 29 March 2015 is 40.4:1 (2013-14 31.4:1). As a result, the Group is well within its covenant agreement at 29 March 2015.

The interest rate chargeable on the syndicated bank loan facility would increase if more than one third of the facility was drawn and would increase if the Group's leverage ratio exceeded 1:1. Under the loan agreement, the maximum interest rate chargeable would be LIBOR plus 1.45 per cent. The €500 million bond becomes repayable immediately on the occurrence of an event of default under the bond agreement. These events of default include non-payment and insolvency. The blended interest rate on gross debt for the period to 27 March 2016 is forecast to be approximately three per cent.

[5] The lease arrangement for automation equipment, which required Royal Mail to arrange for the provision of Letters of Credit (2013-14 £37 million), was terminated during the year and the Letters of Credit were cancelled, undrawn

6. Taxation

	Reported 52 weeks 2015 £m	Reported 52 weeks 2014 £m
Tax (charged)/credited in the income statement		
Current income tax:		
Current UK income tax charge	**(13)**	(1)
Foreign tax	**(32)**	(34)
Current income tax charge	**(45)**	(35)
Amounts over/(under) provided in earlier years	**6**	(2)
Total current income tax charge	**(39)**	(37)
Deferred income tax:		
Effect of change in tax rates	**2**	12
Relating to origination and reversal of temporary differences	**(36)**	(368)
Amounts over provided in previous years	**1**	7
Total deferred income tax charge	**(33)**	(349)
Tax charge in the consolidated income statement	**(72)**	(386)
Tax on non-GAAP, specific items:		
Tax credit/(charge) relating to specific items	**66**	(276)
Tax (charged)/credited to other comprehensive income		
Deferred tax:		
Actuarial (gains)/losses on defined benefit pension schemes	**(303)**	117
Tax relief on pension payments	**4**	-
Net gains on revaluation of cash flow hedges	**5**	1
Total (charge)/credit in the consolidated statement of other comprehensive income	**(294)**	118

6. Taxation (continued)

Reconciliation of the total tax charge

A reconciliation of the tax charge in the income statement and the UK rate of corporation tax applied to accounting profit for the 52 weeks ended 29 March 2015 and 52 weeks ended 30 March 2014 is shown below.

	Reported 52 weeks 2015 £m	Reported 52 weeks 2014 £m
Profit before tax	**400**	1,664
At UK standard rate of corporation tax of 21% (2013-14 23%)	**(84)**	(383)
Effect of higher taxes on overseas earnings	**(6)**	(2)
Tax over provided in prior years	**7**	5
Non-deductible expenses	**(19)**	(10)
Associate's profit after tax charge included in Group pre-tax profit	**1**	1
Tax effect of property disposals	**29**	–
Net increase in tax charge resulting from non-recognition of deferred tax assets and liabilities	**(2)**	(9)
Effect of change in tax rates	**2**	12
Tax charge in the income statement	**(72)**	(386)

Current tax

Substantially all of the current tax charge for the Group is in respect of GLS. UK taxable profits in 2014-15 are almost fully covered by a combination of brought forward losses, capital allowance claims and a further statutory deduction in respect of shares awarded to employees under the 2014 Employee Free Shares scheme. Accordingly, the current tax rate for the Group is 10 per cent.

Effective tax rate

The effective tax rate on reported profit is 18 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 no tax charge has been recognised in relation to property disposals, as no tax liability would be expected to crystallise on the grounds that were the assets (into which gains have been rolled) to be sold at their residual values, no capital gain would arise.

GLS pays tax in a number of territories, with the majority of its profits in the period to 29 March 2015 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 period. These factors contribute to GLS having a higher effective tax rate for the period than the UK statutory rate.

Deferred tax

Deferred tax by balance sheet category	At 31 March 2014 £m	(Debited)/ credited to income statement £m	(Debited)/ credited to other comprehensive income £m	Reported at 29 March 2015 £m	At 1 April 2013 £m	(Debited)/ credited to income statement £m	(Debited)/ credited to other comprehensive income £m	Reported at 30 March 2014 £m
Liabilities								
Accelerated capital allowances	**(1)**	**–**	**–**	**(1)**	–	(1)	–	(1)
Pensions temporary differences	**(339)**	**13**	**(303)**	**(629)**	(222)	(234)	117	(339)
Employee share schemes	**(65)**	**17**	**–**	**(48)**	–	(65)	–	(65)
Goodwill qualifying for tax allowances	**(28)**	**(4)**	**3[1]**	**(29)**	(23)	(5)	–	(28)
Deferred tax liabilities	**(433)**	**26**	**(300)**	**(707)**	(245)	(305)	117	(433)
Assets								
Deferred capital allowances	**169**	**(42)**	**–**	**127**	245	(76)	–	169
Provisions and other	**30**	**(5)**	**–**	**25**	37	(7)	–	30
Losses available for offset against future taxable income	**90**	**(12)**	**4**	**82**	51	39	–	90
Hedging derivatives temporary differences	**2**	**–**	**5**	**7**	1	–	1	2
Deferred tax assets	**291**	**(59)**	**9**	**241**	334	(44)	1	291
Net deferred tax (liability)/asset	**(142)**	**(33)**	**(291)**	**(466)**	89	(349)	118	(142)

[1] £3m (2013-14 £nil million) credited to the foreign currency translation reserve

6. Taxation (continued)

Deferred tax – balance sheet presentation	Reported at 29 March 2015 £m	Reported at 30 March 2014 £m
Liabilities		
GLS group	**(31)**	(30)
Net UK position	**(443)**	(121)
Deferred tax liabilities	**(474)**	(151)
Assets		
GLS group	**8**	9
Net UK position	**–**	–
Deferred tax assets	**8**	9
Net deferred tax liability	**(466)**	(142)

The reported deferred tax position shows an increased overall liability in the reporting period to 29 March 2015.

This increase in the reported liability is primarily as a result of the deferred tax impact of the increase in UK pension assets as described in note 8, which has been reflected in other comprehensive income.

GLS has deferred tax assets and liabilities in various jurisdictions which cannot be offset against one another. The main balance relates to goodwill and intangibles liabilities in GLS Germany, for which the Group has already taken tax deductions.

At 29 March 2015, the Group had unrecognised deferred tax assets of £68 million (2013-14 £68 million) comprising £61 million (2013-14 £63 million) relating to tax losses of £227 million (2013-14 £238 million), mainly in GLS, that are available for offset against future profits if generated in the relevant companies and £7 million (2013-14 £5 million) in relation to £33 million (2013-14 £23 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 £295 million (2013-14 £307 million) of capital losses, the tax effect of which is £59 million (2013-14 £61 million) in respect of assets previously qualifying for industrial buildings allowances. Further temporary differences exist in relation to £308 million (2013-14 £214 million) of gains for which rollover relief has been claimed, the tax effect of which is £62 million (2013-14 £43 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.

7. Free cash flow

	Reported 52 weeks 2015 £m	Reported 52 weeks 2014 £m
EBITDA before transformation costs (see consolidated statement of cash flows)	**889**	940
Pension charge to cash difference (operating specific item)	**129**	58
Total Group ongoing pension costs in the income statement	552	479
Total Group cash flows relating to ongoing pension costs:		
RMPP defined benefit scheme employer contributions (note 8(d))	(369)	(380)
Defined contribution scheme employer contributions	(44)	(31)
RMSEPP deficit correction payments (note 8(d))	(10)	(10)
Trading working capital movements	**1**	(57)
Share-based awards (SAYE and LTIP) charge to cash difference	**5**	-
Dividend received from associate undertaking	**-**	2
Net cash inflow from discontinued operations	**-**	2
Total investment[1]	**(658)**	(617)
Growth capital expenditure	(178)	(201)
Replacement capital expenditure	(252)	(215)
Transformation operating expenditure	(228)	(201)
Income tax paid	**(37)**	(38)
Net finance costs paid	**(18)**	(33)
In-year trading cash inflow	**311**	257
Other working capital movements	**11**	140
Cash cost of operating specific items	**(8)**	(35)
Proceeds from disposal of property (excluding London property portfolio), plant and equipment (non-operating specific item)	**39**	33
Proceeds from disposal of associate undertaking (non-operating specific item)	**-**	3
London property portfolio disposals (non-operating specific item)	**100**	-
Disposal proceeds	111	-
Related cash costs	(11)	-
Free cash inflow	**453**	398

[1] Total investment is represented by several different line items in the consolidated statement of cash flows

Working capital movements

	Reported 52 weeks 2015 £m	Reported 52 weeks 2014 £m
Other working capital movements:		
March 2015 payroll paid after balance sheet date of 29 March 2015	**46**	-
Stamps used but purchased in previous periods/deferred revenue	**(35)**	(10)
Unwinding of pension prepayment made in March 2012	**-**	150
Total other working capital movements	**11**	140
Trading working capital movements	**1**	(57)
Total working capital movements	**12**	83

7. Free cash flow (continued)

Free cash flow reconciliation

The following analysis provides a reconciliation of 'net cash inflow before financing activities' in the consolidated statement of cash flows and free cash inflow.

	Reported 52 weeks 2015 £m	Reported 52 weeks 2014 £m
Net cash inflow before financing activities	420	435
Net purchase of financial asset investments (non-current)	55	-
Other finance costs paid	(22)	(37)
Free cash inflow	**453**	398

8. Employee benefits – pensions

Summary pension information

	Reported 52 weeks 2015 £m	Reported 52 weeks 2014 £m
Ongoing pension costs:		
UK defined benefit scheme (income statement rates[1] 23.6%, 20.3%)	(508)	(448)
UK defined contribution scheme	(38)	(25)
Total UK ongoing pension costs	**(546)**	(473)
Total GLS defined contribution type scheme costs	**(6)**	(6)
Total Group ongoing pension costs	**(552)**	(479)
Difference between ongoing income statement charge and cash flows (cash flow rates 17.1% for both years) [2]	139	68
Total Group pension cash flows relating to ongoing pension costs	**(413)**	(411)

	Reported at 29 March 2015 '000	Reported at 30 March 2014 '000
UK pension schemes – active membership:		
UK defined benefit scheme	100	106
UK defined contribution scheme	39	36
Total	**139**	142

[1] This service cost is charged to the income statement. It represents the cost (as a percentage of pensionable payroll) of the increase over the year in the defined benefit obligation due to members earning one more year of pension benefits. It is calculated in accordance with IAS 19 and is based on market yields (high quality corporate bonds and inflation) at the beginning of the Company's reporting year

[2] This difference excludes the Royal Mail Senior Executives Pension Plan (RMSEPP) deficit correction payments of £10 million (2013-14 £10 million). The employer contribution cash flow rate 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

UK Defined Contribution Scheme

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

Ongoing UK defined contribution scheme costs have increased from £25 million in 2013-14 to £38 million mainly due to an increase in the average employer's contribution rate from 3.8 per cent in 2013-14 to 5.4 per cent.

8. Employee benefits – pensions (continued)

UK Defined Benefit Schemes

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

On this date, RMPP was also sectionalised, with Royal Mail Group Limited and 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. This means that, using long-term actuarial assumptions agreed at that date, it was predicted the Company would have to make no further cash deficit correction payments relating to the historic liabilities. All further references in this note to the RMPP, relate to its RM section.

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 career salary blocks for years' service, revalued annually.

Following 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 Plan to be in surplus no deficit correction payments are currently being made by the Company. The Group expects to contribute around £369 million to the RMPP in respect of normal cash service costs in 2015-16.

Royal Mail Senior Executives Pension Plan (RMSEPP)

The Group also contributes to a smaller defined benefit scheme for executives, RMSEPP – which closed in December 2012 to future accrual. The Company therefore makes no regular future service contributions. As agreed in the March 2012 actuarial valuation the Company makes deficit correction payments of £10 million per annum until at least the date on which the 2018 valuation is completed (no later than 30 September 2018). Deficit correction payments in 2014-15 were £10 million (2013-14 £10 million).

A liability of £2 million (2013-14 £1 million) has been recognised for future payment of pension benefits to a past Director.

Pensions Reform

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

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 £1,350 million was recognised in the income statement of the Group for the comparative year ended 30 March 2014.

Accounting and actuarial surplus position (RMPP and RMSEPP)

	Accounting (IAS 19)		Actuarial/cash funding	
	Reported at 29 March 2015 £m	Reported at 30 March 2014 £m	**Reported at 31 March 2015 £m**	Reported at 31 March 2014 £m
Fair value of schemes' assets (8(b) below)	**6,619**	3,833	**6,462**	3,873
Present value of schemes' liabilities	**(3,425)**	(2,097)	**(4,669)**	(2,451)
Surplus in schemes (pre IFRIC 14 adjustment)	**3,194**	1,736	**1,793**	1,422
IFRIC 14 adjustment	**(15)**	(13)	**n/a**	n/a
Surplus in schemes	**3,179**	1,723	**1,793**	1,422

There is no element of the present value of the schemes' liabilities above that arises from schemes that are wholly unfunded. The actuarial liabilities calculated for the Annual Report and Financial Statements are required within shorter timescales, which can lead to differences in approximations and assumptions compared to the scheme actuary's funding updates.

The surplus in RMSEPP is assumed to be available as a refund as per IFRIC 14 and, as such, is shown net of taxation withheld.

8. Employee benefits – pensions (continued)

The surplus in RMPP is assumed to be recoverable as a reduction to future employer contributions. Therefore, no IFRIC 14 adjustment is required. The Directors do not believe that the current excess of pension scheme assets over the liabilities on an accounting basis will result in an excess of pension assets on a funding basis. However, the Directors are required to account for the pension scheme based on their legal right to benefit from a surplus, using long-term actuarial assumptions current at the reporting date, as required by IFRS.

The actuarial/cash funding surplus of £1,793 million at 31 March 2015 (31 March 2014 surplus of £1,422 million) 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 Company 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 to a greater extent than corporate bond yields on which the accounting liabilities are calculated. As a result, the funding surplus has increased less than the accounting surplus.

The following disclosures relate to the major assumptions, sensitivities, surplus and gains/losses in the RMPP and RMSEPP defined benefit schemes.

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 schemes were as follows:

	Reported at 29 March 2015	Reported at 30 March 2014
Retail Price Index (RPI)	3.1%	3.4%
Consumer Price Index (CPI)	2.1%	2.4%
Discount rate		
– nominal	3.5%	4.5%
– real (nominal less RPI)[3]	0.4%	1.1%
Rate of increase in pensionable salaries[4]	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[4]	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[4]	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

3 The real discount rate used reflects the long average duration of the RMPP scheme of around 30 years
4 The rate of increase in salaries, and the rate of pension increase for Section C members (who joined RMPP on or after April 1987) and RMSEPP 'all other members', is capped at five per cent which results in the average long-term pension increase assumption being 10 basis points lower than the RPI long-term assumption

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	95
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.	25

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

The average duration of the RMPP obligation is 30 years (2013-14 28 years).

8. Employee benefits – pensions (continued)

b) Schemes' assets – RMPP and RMSEPP

	Reported at 29 March 2015			Reported at 30 March 2014		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Equities						
UK	22	165	187	28	82	110
Overseas	411	–	411	321	–	321
Bonds						
Fixed interest – UK	60	8	68	101	8	109
– Overseas	525	–	525	371	–	371
Index linked – UK	195	–	195	156	–	156
– Overseas	–	–	–	–	–	–
Pooled investments						
Managed funds	576	–	576	303	–	303
Unit Trusts	4,166	–	4,166	1,864	–	1,864
Property (UK)	23	295	318	20	230	250
Cash and cash equivalents	175	–	175	345	–	345
Other	25	–	25	5	–	5
Derivatives	(27)	–	(27)	(1)	–	(1)
Total schemes' assets	6,151	468	6,619	3,513	320	3,833

There were no open equity derivatives within this portfolio at 29 March 2015 (at 30 March 2014 £nil million). Included within the pension assets are £3.7 billion (2013-14 £2.0 billion) of HM Government Bonds. The schemes' assets do not include property occupied by the Group, the Group's own shares, or assets used by the Group.

Risk exposure and investment strategy

The investment strategy of the RMPP Trustee aims to safeguard the assets of the 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 and futures) to reduce risks whilst maintaining expected investment returns. The RMPP Trustee recognises that there is a natural conflict between improving the potential for positive return and limiting the potential for poor return. The RMPP Trustee has specified objectives for the investment policy that balance these requirements.

The 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 Company not being able to maintain its March 2018 commitment, the Trustee aims to hedge in advance the funding liabilities which will build up by March 2018. The liabilities projected to accrue to March 2017 have already been hedged – 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 volatility in the pension surplus due to the return on the liability hedging assets not being matched by an increase in the accrued liabilities. As the accrued liabilities get closer to the projected liabilities that have been hedged, this volatility will reduce. The increase in the liability hedged assets is predominantly reflected in the Unit Trust values above which have increased from £1,864 million at 30 March 2014 to £4,166 million at 29 March 2015.

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 29 March 2015 is £2.5 billion (at 30 March 2014 £2.3 billion) and the notional value covered by the inflation rate swaps at 29 March 2015 is £1.8 billion (at 30 March 2014 £1.5 billion).

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

8. Employee benefits – pensions (continued)

c) Movement in schemes' assets, liabilities and net position – RMPP and RMSEPP

Changes in the value of the defined benefit pension liabilities, fair value of the schemes' assets and the net defined benefit asset/(liability) are analysed as follows:

	Defined benefit asset		Defined benefit liability		Net defined benefit asset/(liability)	
	Reported 2015 £m	Reported 2014 £m	**Reported 2015 £m**	Reported 2014 £m	**Reported 2015 £m**	Reported 2014 £m
Retirement benefit surplus (pre IFRIC 14 adjustment) at 31 March 2014 and 1 April 2013	**3,833**	3,343	**(2,097)**	(2,513)	**1,736**	830
Amounts included in the income statement:						
Ongoing UK defined benefit pension scheme costs	**–**	–	**(508)**	(448)	**(508)**	(448)
Royal Mail Pension Plan amendment	**–**	–	**–**	1,350	**–**	1,350
Pension interest income/(cost)[5]	**183**	172	**(108)**	(103)	**75**	69
Total included in profit before tax	**183**	172	**(616)**	799	**(433)**	971
Amounts included in other comprehensive income – remeasurement gains/(losses):						
Actuarial gain/(loss) arising from:						
Demographic assumptions	**–**	–	**–**	4	**–**	4
Financial assumptions	**–**	–	**(590)**	(256)	**(590)**	(256)
Experience adjustment	**–**	–	**5**	2	**5**	2
Return on schemes' assets (excluding interest income)	**2,097**	(203)	**–**	–	**2,097**	(203)
Total actuarial gains/(losses) on defined benefit schemes	**2,097**	(203)	**(585)**	(250)	**1,512**	(453)
Other:						
Employer contributions	**409**	407	**–**	–	**409**	407
Employee contributions	**129**	136	**(129)**	(136)	**–**	–
Benefits paid	**(33)**	(25)	**33**	25	**–**	–
Curtailment costs	**–**	–	**(31)**	(20)	**(31)**	(20)
Movement in pension-related accruals	**1**	3	**–**	(2)	**1**	1
Total other movements	**506**	521	**(127)**	(133)	**379**	388
Retirement benefit surplus (pre IFRIC 14 adjustment) at 29 March 2015 and 30 March 2014	**6,619**	3,833	**(3,425)**	(2,097)	**3,194**	1,736

5 Pension interest income results from applying the schemes' discount rate at 30 March 2014 to the schemes' assets at that date. Similarly, the pension interest cost results from applying the schemes' discount rate as at 30 March 2014 to the schemes' liabilities at that date

The return on assets has been driven by the increase in market value of gilts, which the RMPP Trustee holds as part of its liability hedging strategy. This strategy has been agreed with the Company to support the commitment Royal Mail has made to its employees, which is that, subject to certain conditions, RMPP will remain open until at least March 2018.

In addition to the above items which affect the defined benefit asset, additional curtailment costs of £10 million (2013-14 £34 million) were recognised in the income statement on a consistent basis with the associated redundancy costs. Estimates of both are included in any redundancy provision raised.

8. Employee benefits – pensions (continued)

d) Pension cash flows

The analysis below shows how the defined benefit scheme employer contributions in note 8(c) reconcile with the defined benefit scheme pension cash flows in note 7.

	Reported at 29 March 2015 £m	Reported at 30 March 2014 £m
Ongoing defined benefit (RMPP) scheme employer contributions	369	380
Deficit correction payments (RMSEPP)	10	10
Pension (RMPP) top-up payments relating to voluntary redundancy – within transformation operating expenditure	30	17
Employer defined benefit scheme contributions (note 8(c))	**409**	**407**

9. Earnings per share

	52 weeks 2015		52 weeks 2014	
	Reported	Adjusted	Reported	Adjusted
Profit from continuing operations attributable to equity holders of the parent (£m)	325	428	1,275	306
Weighted average number of shares issued (million)	1,000	1,000	1,000	1,000
Basic earnings per share (pence)	32.5	42.8	127.5	30.6
Diluted earnings per share (pence)	32.5	42.8	127.5	30.6

The diluted earnings per share for the year ended 29 March 2015 is based on a weighted average number of shares of 1,001,485,583 to take account of the issue of potential ordinary shares resulting from the Long-Term Incentive Plan (LTIP) for certain senior management and the Save As You Earn (SAYE) scheme that was launched during the reporting year (note 10).

The basic and diluted earnings per share for the comparative year ended 30 March 2014 assumed that one billion shares in issue at the date of the Company's listing on the London Stock Exchange (15 October 2013) existed for the whole of that reporting year.

10. Share-based payment

Employee Free Shares

Ordinary shares representing in total 10 per cent of the value of the Company were granted free of charge to eligible employees on 15 October 2013, the date of the Initial Public Offering. These Free Shares are held on behalf of employees in an HM Revenue and Customs (HMRC)-approved Share Incentive Plan (SIP) administered by Equiniti Share Plan Trustees Limited (Equiniti).

613 shares were awarded to each eligible full-time employee as their 2013 SIP allocation. The Company allocated a further 116 shares (729 in total – see below) to eligible full-time employees on 9 April 2014 as a 2014 SIP allocation, subject to them remaining employees of Royal Mail Group Limited.

The 729 total shares awarded to eligible full-time employees comprises the 725 initial, expected allocation of shares and an additional four shares resulting from the reallocation of shares forfeited by certain employees who left the Group during the 2013-14 reporting period.

10. Share-based payment (continued)

Part-time eligible employees have been allocated a pro-rata number of shares. All allocated shares will be equity-settled.

The fair value of the award of Free Shares is £510 million (including £20 million National Insurance) which is being charged to the income statement on a straight line basis, adjusted for 'good leavers' and forfeitures, over the period of vesting (three years for the 2013 SIP and four years for the 2014 SIP, in each case from the award date).

A charge to the income statement of £169 million (including £6 million National Insurance) has been made for the year ended 29 March 2015 for both SIP allocations, as they were granted as one award.

The Free Shares are held in a Trust funded by Royal Mail and may only be distributed to, or for the benefit of, eligible employees. The Trust is under the control of the Company and is operating for its benefit. At 29 March 2015 the Trust has been included in these consolidated financial statements.

A reconciliation of the ordinary shares held in the SIP at 29 March 2015 is shown below.

	Number of shares
Initial shares award on 15 October 2013	84,415,327
Shares transferred out of SIP – 'good leavers'	(809,247)
Remaining shares to be allocated	15,744,673
Total shares remaining in SIP at 30 March 2014	99,350,753
Shares transferred out of SIP during the reporting period ('good leavers')	(4,494,836)
Total shares remaining in SIP at 29 March 2015	**94,855,917**

Of the total shares remaining in the scheme 92,983,863 are allocated to current employees. The remaining 1,872,054 shares are unallocated, of which 1,763,804 arose as a result of forfeitures, with a further 108,250 not subject to allocation under either SIP.

Award of shares under the Long-Term Incentive Plan (LTIP)
The 2013 LTIP is a three-year scheme that vests in March 2016. This scheme is being treated as a cash-settled scheme on the assumption that the award will result in cash payment. The fair value of the award reflects the share price at the reporting year end date of 29 March 2015 at which point the value was £5 million (2013-14 £5 million).

A further LTIP award was granted to senior management on 31 March 2014 (2014 LTIP). This award is equity-settled with the fair value of the shares awarded being set at the grant date market value of 450.4 pence. A total of 3.5 million shares have the potential to vest under the 2014 LTIP.

The total income statement charge arising from both LTIP schemes is summarised in the table below.

	Reported 52 weeks 2015 £m	Reported 52 weeks 2014 £m
2013 LTIP	–	5
2014 LTIP	5	–
Total	5	5

The LTIP shares are not part of the SIP explained above. The 2013 LTIP and 2014 LTIP schemes will vest three years after the grant date and settlement will take into account a range of performance conditions determined by the Remuneration Committee.

10. Share-based payment (continued)

Save As You Earn Share (SAYE) share option scheme

On 24 July 2014 a SAYE share option scheme was introduced for eligible employees. Under the terms of the scheme the Board permits the grant of options in respect of ordinary shares in the Company to those employees who enter into an HMRC-approved SAYE savings contract. These contracts are for a term of three years with contributions from employees of an amount between £5 and £59 each month. The options purchased may be exercised during the six month period following the end of the contract at a subscription price of not less than 80 per cent of the average of the mid-market quotations of an Ordinary Share over the three dealing days immediately preceding the offer date.

A charge to the Group income statement of £1 million has been made for the year ended 29 March 2015 in relation to the SAYE scheme.

The table below shows the movements in share options during the reporting period.

	Number of options
Balance at the beginning of the reporting period	–
Options granted	14,956,040
Options exercised	(65)
Options forfeited	(174,435)
Balance at the end of the reporting period	**14,781,540**

For SAYE options exercised during the period, the weighted average share price at the date of exercise was 429 pence. The weighted average exercise price for each of the above categories of share options is 360 pence.

As a result of the scheme rules for good leavers, 43,850 (2013-14 nil) share options were exercisable at 29 March 2015 at a weighted average exercise price of 360 pence.

The fair values of the options granted during the year have been calculated using the Black-Scholes model assuming the inputs shown below. Expected volatility has been estimated by reference to historical trends of share price movements of similarly regulated FTSE 100 companies. The fair value of the options granted is expensed over the service period of three years on the assumption that 11 per cent of options will lapse over the service period as employees leave the Group.

	3-year plan
Grant Date	1 October 2014
Share price at grant date (pence)	450
Exercise price (pence)	360
Option life (years)	3.35
Risk-free rate (%)	1.4
Expected volatility (%)	17.3
Expected dividend yield (%)	4.6
Estimated share price growth (%)	9.2
Fair value of option (pence)	65

11. Dividends

	Reported 52 weeks 2015	Reported 52 weeks 2014	Reported 52 weeks 2015	Reported 52 weeks 2014
Dividends on ordinary shares	Pence per share	Pence per share	£m	£m
Paid final dividend	13.3	–	133	–
Paid interim dividend	6.7	–	67	–
Total dividend	20.0	–	200	–

In addition to the above dividends paid the Directors are proposing a final dividend for the year ending 29 March 2015 of 14.3 pence per share with a total value of £143 million. This dividend will be paid to shareholders on 31 July 2015 subject to approval at the AGM to be held on 23 July 2015.

12. Assets and liabilities held for sale

The balance sheet values of the assets and liabilities held for sale are shown below. The disposal group in this note, as defined in IFRS 5 'Non-current assets held for sale and discontinued operations', relates to GLS Germany's subsidiary, DPD Systemlogistik GmbH & Co. KG (DPD SL).

	Reported at 29 March 2015 £m	Reported at 30 March 2014 £m
Assets of disposal group (DPD SL) held for sale	17	–
Other non-current (property) assets held for sale	15	3
Total non-current assets held for sale	**32**	**3**
Total liabilities associated with non-current assets (DPD SL) held for sale	**(10)**	**–**

Disposal group (DPD SL) – discontinued operations

On 6 March 2015 an agreement was reached for the sale of GLS Germany's subsidiary, DPD SL, with the sale subsequently completed on 31 March 2015. At the reporting date of 29 March 2015, this entity has been presented as discontinued operations in the consolidated income statement and its assets and liabilities reclassified as held for sale in the consolidated balance sheet, in line with IFRS 5.

The table below provides a summary of the main categories of assets and liabilities that were reclassified as held for sale at the reporting date. No impairment was required in reclassifying these assets and liabilities as held for sale.

	Reported at 29 March 2015 £m	Reported at 30 March 2014 £m
Property, plant and equipment	7	–
Trade and other receivables	9	–
Cash and cash equivalents	1	–
Assets of disposal group (DPD SL) held for sale	**17**	**–**
Trade and other payables	(10)	–
Liabilities associated with disposal group (DPD SL) held for sale	**(10)**	**–**

In addition to the above assets and liabilities, an amount of £2 million within the foreign currency translation reserve also relates to DPD SL.

Details of DPD SL's trading results for the reporting period are shown below.

	Reported 52 weeks 2015 £m	Reported 52 weeks 2014 £m
Revenue	96	99
Operating costs	(96)	(97)
People costs	(16)	(15)
Distribution and conveyance costs	(72)	(73)
Infrastructure costs	(4)	(4)
Other operating costs	(4)	(5)
Profit before tax from discontinued operations	**–**	**2**
Tax charge	–	–
Profit from discontinued operations	**–**	**2**
Basic earnings per share from discontinued operations	**0.0p**	**0.2p**
Diluted earnings per share from discontinued operations	**0.0p**	**0.2p**

12. Assets and liabilities held for sale (continued)

The net cash flows relating to DPD SL can be summarised as follows:

	Reported 52 weeks 2015 £m	Reported 52 weeks 2014 £m
Operating cash flow	**1**	3
Investing cash flow	**(1)**	(1)
Financing cash flow	**–**	–
Impact of foreign exchange	**–**	–
Net cash flow impact	**–**	2

Property assets held for sale

Other non-current assets held for sale of £15 million at 29 March 2015 (at 30 March 2014 £3 million) relate to land and buildings which are being actively marketed with a view to a sale within 12 months. An assessment of the fair value of these properties was made at the time of their reclassification to 'held for sale' and no adjustment to the carrying amount of these properties was necessary.

13. Related party information

Related party transactions

During the reporting year the Group entered into transactions with related parties:

	Reported 52 weeks 2015 £m	Reported 52 weeks 2014 £m
Sales/recharges to:		
– RMPP	**5**	6
Purchases/recharges from:		
– Associate undertaking (Quadrant Catering Limited)	**14**	22
Amounts owed to:		
– Associate undertaking (Quadrant Catering Limited)	**1**	2

In view of HM Government's retained stake in Royal Mail plc, the Group has taken advantage of the exemption conferred by IAS 24 Related Party Disclosures, not to disclose transactions between the Group and HM Government-related entities, including Post Office Limited, and with HM Government itself.

UKPIL provides collection and delivery services to a significant number of HM Government-related entities. An arrangement is also in place whereby Post Office Limited charges the Group for the sale of Royal Mail products e.g. stamps and philatelic items, through its network of Post Office branches.

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

Key management compensation

	Reported 52 weeks 2015 £000	Reported 52 weeks 2014 £000
Short-term employee benefits	**(10,202)**	(9,587)
Post-employment benefits	**–**	–
Other long-term benefits	**(2,846)**	(5,072)
Total compensation earned by key management	**(13,048)**	(14,659)

In addition to the inclusion of the Executive and Non-Executive Directors of Royal Mail plc, from the beginning of the 2014-15 reporting year, the 'key management personnel' population has been extended to include all other members of the Chief Executive's Committee and the remainder of the Persons Discharging Managerial Responsibilities.

In view of the above, the 2013-14 comparative numbers have been restated to include the remuneration received by this extended population.

13. Related party information (continued)

The ultimate parent and principal subsidiaries

Royal Mail plc is the ultimate parent company of the Group. The consolidated financial statements include the financial results of Royal Mail Group Limited and the other principal subsidiaries listed below:

Company	Principal activities	Country of incorporation	% equity interest 2015	% equity interest 2014
General Logistics Systems B.V.	Parcel services holding company	Netherlands	**100**	100
Royal Mail Estates Limited	Property holdings	United Kingdom	**100**	100
Royal Mail Investments Limited	Holding company	United Kingdom	**100**	100
Romec Limited	Facilities management	United Kingdom	**51**	51

Associate

Company	Principal activities	Country of incorporation	% ownership 2015	% ownership 2014
Quadrant Catering Limited	Catering services	United Kingdom	**51**	51

The majority of Board membership and voting power in Quadrant Catering Limited is held by the other investor company, and it is therefore not a subsidiary of the Group. The investment in Quadrant Catering Limited is held by Royal Mail Group Limited.

The Company has taken advantage of the exemption under section 410 of the Companies Act 2006 allowing a schedule of interests in all undertakings to be filed with the Annual Return.

14. Events after the reporting period

On 31 March 2015, after the financial year end, GLS Germany disposed of its wholly-owned subsidiary, DPD Systemlogistik GmbH & Co. KG (DPD SL) to DPD GeoPost (Deutschland) GmbH. The disposal resulted in a post-tax profit of around €40 million (£29 million) which will be reflected as a specific item in the Group's 2015-16 financial statements.

Shareholder information

Financial calendar
Trading update – 21 July 2015
Annual General Meeting – 23 July 2015

Dividend dates
Ex-dividend date – 2 July 2015
Record date – 3 July 2015
Payment date – 31 July 2015

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
Barclays Bank plc, The North Colonnade, London, E14 4BB

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

Independent Auditor*
Ernst & Young LLP (EY), 1 More London Place, London, SE1 2AF

Trustee of The Royal Mail Share Incentive Plan
Equiniti Share Plan Trustees Limited, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA
www.royalmailemployeeshares.co.uk
Tel: 0800 012 1213

*EY will hold office until the conclusion of the 2015 AGM. At the 2015 AGM a resolution is tabled to appoint KPMG as Auditors of the Company.

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: 0871 384 2656 (from outside the UK: +44 (0)121 415 7086)
Fax: 0871 384 2100 (from outside the UK: +44 (0)1903 698403)

Calls to this number cost 8 pence per minute from a BT landline, other providers' costs may vary. Lines are open 8.30am to 5.30pm UK time, Monday to Friday.

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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

Disclaimer
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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