Royal Mail plc

Financial report for the full year ended 26 March 2017

Thursday 18 May 2017

FINANCIAL AND OPERATING PERFORMANCE SUMMARY

Royal Mail plc (RMG.L) today announced its results for the full year ended 26 March 2017.

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

"We have made good progress against all of our strategic priorities. This has been a more challenging period for UK businesses and we have come through it well.

"Our multi-year focus on costs is a key priority. We are on track to avoid around £600 million of annualised costs in UKPIL by 2017-18. We are past the peak of investment; we now expect net cash investment of around £450 million in 2017-18.

"GLS is performing very well and is growing revenue organically and through acquisitions. Its deep expertise and focus on B2B parcels in multiple geographies – now 41 European countries and seven states in the US – positions it to be a greater force for growth for the Company. We will continue to invest in careful and focused international expansion by GLS.

"Through a combination of our strategic approach to costs and more efficient investment spend, we will support our progressive dividend policy with the in-year trading cash generation of the Group."

Group financial summary[1]

Reported results (£m)	52 weeks ended 26 March 2017	52 weeks ended 27 March 2016	Underlying[2] change
Revenue	**9,776**	9,251	1%
Operating profit before transformation costs	**490**	485	
Operating profit after transformation costs	**353**	294	
Profit before tax	**335**	267	
Basic earnings per share – continuing operations (pence)	**27.5p**	21.5p	
In-year trading cash flow	**420**	254	
Net debt	**(338)**	(224)	
Proposed full year dividend per share (pence)	**23.0p**	22.1p	4%
Adjusted results (£m)			
Revenue	**9,776**	9,251	1%
Operating profit before transformation costs	**712**	742	(6)%
Operating profit after transformation costs	**575**	551	2%
Margin	***5.9%***	*6.0%*	*10bps*
Profit before tax	**559**	538	
Basic earnings per share (pence)	**44.1p**	41.3p	

Business units

	Revenue			Adjusted operating profit before transformation costs	
(£m)	**52 weeks ended 26 March 2017**	52 weeks ended 27 March 2016	Underlying change	**52 weeks ended 26 March 2017**	52 weeks ended 27 March 2016
UKPIL	**7,658**	7,671	(2%)	**548**	625
GLS	**2,118**	1,580	9%	**164**	117
Group	**9,776**	9,251	1%	**712**	742

[1] Reported results are prepared in accordance with International Financial Reporting Standards (IFRS). Adjusted results exclude the pension charge to cash difference and specific items, consistent with the way that financial performance is measured by Management and reported to the Board.

[2] Movements are presented on an underlying basis.

For further details of reported results, adjusted and underlying Alternative Performance Measures (APMs) used in the Financial Report for the full year ended 26 March 2017, including reconciliations to the closest IFRS measures where appropriate, see page 22.

Group performance[1,2]

- Revenue was up one per cent on an underlying basis. Growth in GLS more than offset the decline in UKPIL revenue.
- Adjusted operating profit before transformation costs was £712 million, down six per cent.
- Adjusted operating profit margin after transformation costs increased on an underlying basis by 10 basis points.
- Reported operating profit before transformation costs was £490 million.
- We are past the peak of investment spend. Net cash investment was £492 million compared to £656 million in 2015-16.
- In-year trading cash flow increased to £420 million.
- Net debt increased to £338 million following the acquisition of Golden State Overnight Delivery Services Inc. (GSO) and Agencia Servicios Mensajería S.A.U. (ASM).
- The Board is recommending a final dividend of 15.6 pence per ordinary share, giving a total dividend of 23.0 pence per share for 2016-17, up four per cent.

Business performance[1,2]

- UKPIL revenue was down two per cent. Parcel revenue increased by three per cent; total letter revenue declined by five per cent.
- UKPIL parcel volumes were up three per cent, driven by growth in Royal Mail account parcels.
- Addressed letter volumes (excluding the impact of political parties' election mailings) declined by six per cent. As previously stated, overall business uncertainty in the UK is impacting letters.
- Strategic focus on costs drove a one per cent reduction in UKPIL underlying operating costs before transformation costs. This is the third year of underlying UKPIL cost reduction.
- UKPIL collections, processing and delivery productivity improved by 2.7 per cent. This is at the better end of our target range.
- We exceeded our 93.0 per cent regulatory First Class mail target, with 93.1 per cent delivered the next working day. We also exceeded our regulatory Quality of Service target of 98.5 per cent for Second Class Mail.
- GLS performed well. Volumes and underlying revenue were up nine per cent. GLS achieved revenue growth in almost all its markets from a broad customer base.
- As part of a careful and focused expansion by GLS, it acquired GSO in California and ASM in Spain.

Outlook summary

- Responding to challenging operating environment and continuing to focus on sustainable cash generation.
- Expect to keep in step with addressable UK parcels market[3] growth of around three per cent due to IT-enabled improvements.
- Maintain outlook for addressed letter volume decline of between four to six per cent per annum (excluding the impact of political parties' election mailings) - expect to be at higher end of range of decline in 2017-18 if business uncertainty persists.
- Continue to invest in GLS' careful and focused international expansion to help drive growth for the Group.
- Remain on track to avoid around £600 million of annualised operating costs in UKPIL by 2017-18.
- Expect net cash investment of around £450 million in 2017-18 and less than £500 million per annum going forward.
- Progressive dividend policy supported by in-year trading cash flow generation of the Group.

[3] Internal estimate based on Triangle Management Services/RMG Fulfilment Market Measure (2015); defined as individually addressed parcels and packets, generated and delivered in the UK, weighing up to 30kg, that do not require special handling. Includes access fulfilment large letters & parcels and excludes click-and-collect, same-day, small local operators and all international traffic. Excludes Amazon Logistics and other retailers' own-delivery networks.

CHIEF EXECUTIVE OFFICER'S REVIEW

Our performance[1,2]

Group revenue was up one per cent. GLS performed well, with revenue growth of nine per cent more than offsetting a two per cent reduction in UKPIL revenue.

Adjusted Group operating profit before transformation costs was £712 million and £575 million after transformation costs. Adjusted Group operating profit margin after transformation costs increased by 10 basis points to 5.9 per cent.

UKPIL parcel volumes grew by three per cent and revenue increased by three per cent. Addressed letter volumes (excluding the impact of political parties' election mailings) decreased by six per cent, while total letter revenue was down five per cent.

We are past the peak of investment so our spend reduced this year. As a result, in-year trading cash flow increased to £420 million.

Winning in parcels

Competitive marketplaces

We are the UK's pre-eminent parcel delivery company with over 50 per cent of market share by volume. At 56 per cent[3], parcels account for a higher proportion of Royal Mail's Group revenue than for any of our benchmarked peers. We connect businesses, households and communities up and down the country. As the Universal Service Provider, Royal Mail facilitates e-commerce growth for UK businesses, especially small and medium-sized enterprises (SMEs).

The UK has one of the most developed e-commerce markets in the world. Amazon has an extensive presence in retailing as well as logistics, including delivery. It is expanding its presence, including in a range of new segments. Growth available in the addressable UK parcels market continues to be impacted by Amazon's activities. There is significant spare capacity in the market at non-peak times of the year, putting downward pressure on prices. Competition remains intense. International express carriers are showing renewed interest in UK e-commerce.

In the consumer/SME segment, product and service innovations provide more choice and convenience for customers. For example, e-commerce services are evolving to provide greater visibility over delivery windows and more control over delivery options.

International markets are intensely competitive. E-retail continues to fuel growth in cross-border parcel volumes. There is increasing demand for faster services and tracked products. Intra-European e-commerce trade is growing. This is driving cross-border volumes and a significant part of the growth is business-to-consumer (B2C). The European deferred parcels segment grew faster than the express segment[4].

Our progress

- **Around two-thirds of our parcels are barcoded and one-third can be tracked in some way**
- **We can offer any retail account customer a tracked product**
- **We have improved our international services**
- **We strengthened GLS' network and extended the service offering in Spain**

The depth of our coverage, value for money and convenience for customers is unparalleled – wherever they are based in the UK. We operate in every business segment of the parcels market. Our tracked products continue to grow at a fast rate. We can offer any retail account customer a tracked product. Royal Mail Tracked 24®/48® volumes have grown by 38 per cent; returns volumes are up 18 per cent. Our major technology rebuild over the last five years has been a key enabler for the repositioning of what was already a very good parcel business. Our customer service is good and we focus on key areas like complaints, where we have more work to do. We have the highest standards of consumer protections for our parcels customers.

We deliver more parcels each year in the UK than all of our competitors combined. The service and product improvements we put in place are delivering real benefits. We have won further volumes from major retailers, including Vistaprint and River Island. Senders and recipients now have better visibility of when their parcel has been delivered. When we started using the new 2D data-rich barcodes in 2015, we were tracking around 20 per cent of our parcels. Today, enabled by our enhanced IT parcels systems, around two-thirds of parcels are barcoded and one-third can be tracked in some way. We aim to barcode as many of our parcels as possible.

We have focused on improving average unit revenues (AUR) in import parcels by improving the service levels we offer and securing better Universal Postal Union (UPU) rates. International accounts for 18 per cent of UKPIL parcel volumes and 19 per cent of revenue. We reported in 2015-16 a reduction in export volumes, so we built a better solution for exports. The rate of decline in export parcel volumes has moderated significantly. Exports have high AURs but higher cost of sales too.

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[1] Adjusted results exclude the pension charge to cash difference and specific items, consistent with the way that financial performance is measured by Management and reported to the Board.

[2] Movements are presented on an underlying basis. For further details of adjusted and underlying Alternative Performance Measures (APMs) used in the Financial Report for the full year ended 26 March 2017, including reconciliations to the closest IFRS measures where appropriate, see page 22.

[3] Based on 2016 calendar year.

[4] Effigy Consulting: European Courier, Express and Parcel 2016 Market Summary of 2014-15 data.

Pursuing faster-growing areas of the UK and international markets

We are targeting higher growth areas; for example, clothing and footwear. We have worked with e-retailers to be more flexible about the dimensions of the parcels we handle.

We have expanded our relationships with retailers and network partners to maximise the opportunities developing from cross-border volume growth between the UK and Asia. For example, we are working with China Post to provide Chinese and UK customers with faster delivery and a tracked service.

GLS is performing well and is growing revenue organically and through acquisitions. Its deep expertise and focus on parcels positions it to be a force for growth for the Company. We will continue to invest in careful and focused international expansion by GLS.

As in the UK, B2C is the fastest growing segment in the European parcels market. GLS provides new points of synergy for our international business based in the UK. It also continues to develop its premium B2C delivery services. Launched in Germany in April 2016, GLS Sameday offers same-day evening deliveries in 11 cities, providing an attractive offering for online shoppers. We are able to leverage the deep expertise of GLS to help forge a presence in new areas, for example, our careful expansion in the US.

Adding value by improving our products and services

Improving the customer experience remains a key focus for us. This includes rolling out delivery confirmation for the majority of barcoded parcels. This informs the sender whether a parcel has been delivered, or returned to the Delivery Office.

We are the delivery partner of choice for the UK's SMEs. There are 5.4 million SMEs in the UK generating 47 per cent of total UK turnover (£1.8 trillion)[5]. We support the growth of SMEs through extended weekend collections. Local Collect remains the largest UK network of click and collect locations, with around 11,600 sites.

We have made it easier for customers to access our international services. We have built on our shipping solutions, using the cross-border capabilities of Intersoft. With Intersoft, we have developed our export solutions and now have the capability to offer tracked cross-border outbound and returns services to our larger customers.

In Europe, GLS recently expanded GLS-ONE in Germany. This is a portal to facilitate the sending and receiving of parcels. Consumers can create their own label to send a parcel and have it delivered to a specific address, parcel box or GLS ParcelShop.

Expanding and automating our networks

Our first parcel sorting machine is now in operation in Swindon. It can sort and scan around 10,000 small parcels per hour. Machines are currently being installed at Home Counties North, Greenford and Chelmsford Mail Centres. Subject to successful deployment of the first set of machines, further machines are planned to be installed over the next two years. We have worked closely with our unions on this.

We have a denser network of parcel access points for shipping, returns and collections than our competitors[6]. Sending customers can use approximately 11,500 Post Office branches and around 1,200 Royal Mail Customer Service Points to drop off pre-paid items for delivery within the UK. Over 250 Customer Service Points are now open on a Sunday, covering 38 per cent of all delivery points across the UK.

Parcelforce Worldwide, our express parcels business, has improved services for heavy and bulky parcels. Parcelforce has introduced two new next day services for contract customers. It has also extended the express48^{large} service for consumers. It builds on Parcelforce's position as a premium quality carrier within the courier express market.

The recent acquisition (June 2016) of ASM has significantly extended the GLS service offering in Spain, in particular, in the B2C segment, where growth rates are expected to be higher than business-to-business (B2B). GLS Spain now has a much bigger footprint both in terms of size and scale. ASM has exceeded performance expectations since acquisition. Given the potential synergies, the transaction is expected to be economic profit accretive for GLS in 2018-19.

GLS has also rolled out its ParcelLockers in four countries across Eastern Europe – the first parcel provider to do so. More than 70 terminals have been installed, offering consumers an easy to use and secure way of receiving their parcels. Other options include collecting parcels from a GLS ParcelShop or delivery within a certain time frame.

Defending letters

- **Rolling out collaborative projects with the advertising industry**
- **Continuing to win back and retain key contracts**
- **Coordinating an industry-wide response to tackle fraudulent mail at its source**

We are seeing the impact of overall business uncertainty in the UK on letter volumes, in particular, on advertising and business letters. Marketing mail is sensitive to changes in economic activity. In 2016-17, our marketing mail revenue decreased by eight per cent, the same trend as at the half year. Other forms of advertising, particularly print media, have seen steeper declines. In 2016, there was an overall decline of 10 per cent in direct mail. Print advertising saw a 13 per cent decline in revenues[7].

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[5] National Federation of Self Employed & Small Businesses Limited.

[6] Triangle Management Insights, 2015.

[7] WARC expenditure report for 2016 calendar year.

In March 2017, the price of a First Class stamp went up by 1p to 65p and the price of a Second Class stamp increased by 1p to 56p. These changes are needed to help ensure the sustainability of the Universal Postal Service. Royal Mail's stamp prices are amongst the best value in Europe. The UK has one of the highest quality of service specifications of any major European country.

From the Residential Postal Tracker 2016, Ofcom found that a large majority of residential customers said that they were satisfied with postal services overall in 2016. 82 per cent of respondents stated they were either 'very satisfied' or 'fairly satisfied' with Royal Mail's services[8]. In a previous report, the regulator also found postal services/delivery to be the only sector where customers' perceptions of value for money had increased from 2005 to 2015[9].

Promoting the value of mail

This year, we launched and built upon a number of initiatives to add value to letters. We are working with mailing customers and access operators to incentivise customer mailings.

We have rolled out initiatives to mitigate the impact of e-substitution and business uncertainty on letter volumes and revenues. Through our MarketReach business, we are demonstrating the positive impact marketing mail can have on campaign results.

The Strategic Mailing Partnership™, a joint initiative with the mailing house industry, promotes mail through collaboration and working to resolve critical industry issues. It aims to improve overall efficiency and operational processes and to grow mail volumes.

We are winning business. For example, in 2016, we won a three-year contract to handle all London Boroughs' postal services. We also announced that we had been awarded a three-year framework to provide Scottish Public Bodies with postal services. The framework means that Royal Mail has become the supplier for Scottish Government, local authority and public body postal services.

Improving mail handling

We continue to transform our network with more automation of letter sorting and the reorganisation of delivery routes. We have increased letter sequencing to the final delivery point to 83 per cent. We plan to install more letter sorting machines and automation equipment for large letters. This is further increasing our efficiency.

Around 80 per cent of suitable letters now carry a Mailmark® barcode. This enables sending customers to track the delivery progress of mail more closely and ensures that we are accurately billing for the services we provide.

Cotswold Collections mails seven catalogues a year. Customers know the collections are unique so many orders are received within the first few hours after delivery. It is critical the business can respond to customer demand. Royal Mail's Mailmark® has helped Cotswold Collections improve its business management with accurate tracking. Mailmark® allows Cotswold Collections to know exactly when, where and how many catalogues are delivered each day. This ensures staffing is at peak efficiency, reducing costs and maximising customer satisfaction.

Tackling the scourge of scam mail

We understand the upset and distress that scam mail causes. This year, we worked with our employees, industry partners and law enforcement agencies to tackle this issue even more vigorously. A range of new measures were implemented to strengthen our ability to stem the flow of scam mail. We launched an industry-wide Code of Practice and secured all major UK mail operators' commitment to it. We changed the terms and conditions for retail customers. We can now check items we suspect to be scam mail, refuse to process or deliver them and terminate a customer's contract in certain circumstances. Since launching this new scheme, we have stopped over 700,000 suspect mail items from reaching customers.

Since November 2016, over 700,000 items of scam mail have been stopped from reaching customers.

Following the year end, we launched a major new initiative for customers who – we believe – are receiving high volumes of scam mail. We will block and impound scam mail at our major distribution centres before it reaches the customer's letterbox. Legitimate business and personal mail will continue to be delivered to the customer in the usual way. This latest anti-scam initiative will initially focus on the most impacted customers, with plans for it to be extended in the future.

[8] Ofcom, Review of the Regulation of Royal Mail, 1 March 2017, Paragraph 3.17.
[9] Ofcom, Consultation on Review of the Regulation of Royal Mail, 25 May 2016, Paragraph 4.12.

Regulation

The USO is a key driver of UK economic growth. It is a key part of the digital economy – the physical fulfilment arm – and is crucial to the UK's economic future.

We note that Ofcom continues to find high levels of customer satisfaction and value for money with postal services. Ofcom has also recognised our progress on efficiency.

We are disappointed that Ofcom does not agree with us that there is a pressing need for proactive framework to help sustain the Universal Service. There is a real need to ensure that the revenue pools that sustain the USO are underpinned. We need a proactive sustainability framework and a focus on removing regulation which restricts these vital revenue pools.

In a similar vein, we welcome the UK Government's focus on employment models, and in particular, the Taylor Review. We believe there is a public policy issue around fictitious self-employment and poor labour standards in the delivery sector. A level playing field is needed.

Growing in new areas

- **Acquisition of GSO and Postal Express[10]**
- **Developed customer-facing products and services that leverage our data and relationships**

We have made investments in projects to support growth. We are looking at areas where there is a market opportunity and the potential to make the most of our existing assets, experience and relationships.

We are an international parcels business, through both our UK and GLS operations. GLS has a very strong network. Together with network partners, it operates across 42 countries with different languages, labour models and regulatory environments. In addition, its expertise and focus on parcels positions GLS to be an accelerating force for growth for the whole Company.

In line with its strategy of targeted and focused geographic expansion, GLS acquired GSO in California. The area in which GSO operates has a gross domestic product (GDP) roughly equivalent to the UK. The region is experiencing faster GDP growth than both the UK and continental Europe. GSO is well-positioned to benefit from growth in intra-state deliveries within its existing geographic footprint. We expect GSO to perform in line with our expectations in the first full year of its ownership by the Group. The transaction is expected to be profit accretive for GLS in 2019-20.

In April 2017, we announced the acquisition of the US overnight parcel delivery company, Postal Express. Postal Express is a regional overnight carrier operating in the states of Washington, Oregon, and Idaho. It offers overnight parcel delivery, mainly to B2B customers, across a number of industries.

Our corporate strategy is in part enabled by our focus on becoming a digital organisation. We are becoming more digitally-enabled internally as well as in our interactions with customers and consumers. We are trialling a number of initiatives as part of our customer-facing digitisation. This approach is supported by a more resilient IT backbone as a result of our major IT transformation programme. We have also developed apps such as LovetoPost, enabling customers to turn photographs into personalised postcards. In 2016-17, we saw a 60 per cent increase in consumers visiting our website using smartphones. This leaves us well placed for the continued growth in the use of mobile devices to purchase delivery services.

Strategic focus on costs

- **Achieved our cost reduction targets for three consecutive years**
- **Delivered productivity improvement of 2.7 per cent in 2016-17, at the higher end of our target range**
- **Cost avoidance programme on track, with £225 million of costs avoided in 2016-17**
- **Reducing the number of managerial layers**

We are transforming our UK network at an absorbable rate of change. UKPIL adjusted operating costs before transformation costs reduced by one per cent. This is the third year we have been able to deliver underlying cost reduction in UKPIL.

The USO and the regulated quality of service standards require a large fixed cost base in order to be able to deliver our obligations. While we are proud to be the Universal Service Provider, it is expensive to deliver. In addition, our workforce has the best pay and terms and conditions in the industry. Almost 70 per cent of our UKPIL costs are in relation to people and their benefits.

UKPIL collections, processing and delivery productivity increased by 2.7 per cent. This is at the better end of our target range of a 2.0-3.0 per cent improvement per annum. This improvement in productivity was achieved through a 1.9 per cent reduction in core network hours, despite an increase in workload.

We know that becoming more efficient has a human face. Over the last four years, we have seen a net reduction of around 12,000 UKPIL employees. We continue to reduce the number of managerial layers – which brings down costs and streamlines our decision making. We work closely with our unions to ensure our people exiting the business do so with dignity and respect.

Non-people costs have reduced in real terms by 15 per cent over the last four years. We continue to reduce the number of our facilities while ensuring we have – by some distance – the most accessible and convenient Delivery Office network in the UK.

[10] Postal Express was acquired after the financial year end.

We are targeting to avoid around £600 million of annualised operating costs by 2017-18[11]. More significant cost reduction will need further modernisation of our processes and more streamlined structures. We are also facing the impact of wage inflation and increases due to employment legislation. In non-people costs, we are facing headwinds from increasing cost of sales associated with tracked parcels and export parcels growth and higher depreciation.

Technology and innovation

- **Completed roll-out of our new PDA technology in our core network**
- **Introduced new functionality to our online postage service Click & Drop**
- **Launched our new self-service solution, Labels to Go**

We have invested a significant amount in technology over the past five years. Some key technological builds had to be put in place before we could proceed. This investment is making us a better, safer and more cost effective operation. The rollout of our new PDA technology is now complete in our core network. This is one of the largest estates of its kind in Europe.

Our PDAs significantly increase our scanning capability. They give us more interfaces with our customers, expanding the number of interactions they have with their parcels. Our postmen and women handle over one billion parcels and nearly 15 billion letters every year.

Our shipping tools – Storefeeder, for example – connect retail customers and give us the ability to dynamically capture the choices for end customers. We introduced new functionality to Click & Drop. We are leading the way by providing account customers with free access to our multi-channel despatch management tool. Marketplace traders can now use our software to integrate with the marketplace and print off their barcoded shipping labels.

We have developed digital capabilities to enhance customer convenience. In April 2017, we launched our new self-service solution, Labels to Go. Customers buying postage online can now print off delivery and return labels from their mobile phones at the majority of our 1,200 Customer Service Points.

Telemetry lowers maintenance costs due to improved driving styles. The more telemetry we have, the better our driver behaviour and safety should be. It is more cost effective if we know where our vehicles are and we are better able to get paid fairly for what we do.

Our Click & Drop service integrates data from online shopping platforms (e.g. eBay, Amazon) to make it quicker and easier to buy postage and print address labels online. Individuals, marketplace sellers and businesses can manage all their sending needs. Customers can pay by PayPal, credit card or via their Royal Mail Online Business Account. Account features include multi-marketplace integration and the ability for customers to print up to 100 labels in one transaction.

Our workforce

- **Exceeded our full year regulatory First Class target of 93.0 per cent**
- **Mean business satisfaction score increased to 78**

As one of the largest employers in the UK, we are proud to provide the best pay and terms and conditions in our sector. We remain committed to high quality employment in a very competitive industry.

We know how important pensions are to our people. Our focus is on continuing to provide the best retirement benefits in the industry. We were sorry to have to conclude that the Royal Mail Pension Plan (RMPP) is not affordable in its current form. The RMPP was closed to new employees joining the Group from 1 April 2008. The RMPP is currently in surplus[12] but we expect this surplus would run out in 2018 if members continued to build up benefits on the current defined benefit pension basis. The Company's contributions would then increase to £1.15 billion a year. We could not increase the cash contributions without materially reducing the necessary investment in the UKPIL business. We set out our proposal for the RMPP's future after March 2018, for consultation with all active members. We are committed to not making any changes before April 2018.

The consultation closed on 10 March 2017. We have concluded that there is no affordable solution to keeping the RMPP open in its current form. Therefore, the Company has come to the decision that the RMPP will close to future accrual on 31 March 2018. We continue to work closely with our unions on a sustainable and affordable solution for the provision of future pension benefits. We will write to RMPP members once further decisions have been made.

Our people are at the heart of everything we do. Our mean business customer satisfaction score – across large and medium sized businesses and SMEs – increased from 76 to 78. Royal Mail is committed to delivering a high Quality of Service.

We are pleased to report that we exceeded our full year regulatory First Class target of 93.0 per cent, with 93.1 per cent of mail delivered the next day. We again exceeded our Second class target of 98.5 per cent, with a performance of 98.9 per cent.

[11] Cumulative over financial years 2015-16, 2016-17 and 2017-18.
[12] On an actuarial funding basis using 2015 valuation assumptions.

We were disappointed to see an increase in the overall number of complaints. This is against the backdrop of an increase in customer text and email delivery notifications as the number of tracked parcels we handle continues to increase. Customers have increased visibility over whether their parcel has been delivered or an attempt has been made to deliver it, which can lead to an increase in complaints.

Royal Mail takes complaints seriously and we have a consistent approach to tackling any issues. We continue to highlight business standards and key procedures to tackle denial of receipt through the use of 'With your Neighbour' cards and correct doorstep scanning. Our focus on tackling issues as quickly as possible contributed to an improvement in two out of our five main complaint categories[13].

Delivery to home remains the most popular way to receive a parcel. Around 81 per cent of customers prefer delivery to home over other options[14].

Outlook

These results demonstrate that as a business we can respond to our challenging operating environment and continue to focus on sustainable cash generation.

Royal Mail operates internationally and in many markets with different dynamics.

In the UK, IT-enabled innovation has improved our parcel offering, such that we expect to be able to keep in step with the addressable UK parcels market growth of around three per cent. Pricing remains constrained due to the highly competitive market but parcel revenue should benefit from improvements in mix.

We maintain our outlook for addressed letter volume declines of between four to six per cent per annum (excluding the impact of political parties' election mailings) over the medium term but would expect to be at the higher end of the range of decline in 2017-18 if the current climate of business uncertainty persists. We continue to focus on costs and remain on track to avoid around £600 million of annualised operating costs in UKPIL by 2017-18.

GLS has consistently performed well since IPO, growing revenue on an organic basis as well as through acquisitions. It now contributes nearly a third of adjusted Group operating profit. We will continue to invest in GLS' careful and focused international expansion to help drive growth for the Group.

We now expect net cash investment of around £450 million in 2017-18 and less than £500 million per annum going forward. Through a combination of our strategic approach to costs and more efficient investment spend, we will support our progressive dividend policy with the in-year trading cash flow generation of the Group.

Thank you

The 500th anniversary of the postal service was all about our people – they are the ones who have sustained our continued important role over the centuries in the UK. Simply put, they are our Company. We will continue to focus on delivering our key mission: connecting companies, customers and communities and making e-commerce happen.

Moya Greene
Chief Executive Officer
17 May 2017

[13] Redirections and misdeliveries.
[14] IMRG UK Consumer Home Delivery Review 2016.

FINANCIAL REVIEW

Reported results and Alternative Performance Measures (APMs)
Reported results are prepared in accordance with International Financial Reporting Standards (IFRS).

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

These APMs are explained in detail on pages 22 to 26 and include reconciliations to the closest measure prescribed under IFRS where appropriate. The analysis of underlying movements in adjusted results is set out at the end of the Financial Review. Following the publication of an amendment to IAS 1, the Group no longer shows non-IFRS adjustments on the face of its income statement.

UK PARCELS, INTERNATIONAL & LETTERS (UKPIL)

Summary trading results (£m)	**Adjusted 52 weeks ended 26 March 2017**	Re-presented[1] 52 weeks ended 27 March 2016	Underlying change
Letters and other revenue	**3,234**	3,299	(3%)
Marketing mail	**1,087**	1,176	(8%)
Total letters	**4,321**	4,475	(5%)
Parcels	**3,337**	3,196	3%
Revenue[2]	**7,658**	7,671	(2%)
Operating costs before transformation costs	**(7,110)**	(7,046)	(1%)
Operating profit before transformation costs	**548**	625	(11%)
Transformation costs	**(137)**	(191)	
Operating profit after transformation costs	**411**	434	(4%)
Margin	***5.4%***	*5.7%*	*(10bps)*
Volumes (m)			
Letters			
Addressed letters	**11,922**	12,563	(6%)
Unaddressed letters	**2,934**	2,993	(3%)
Parcels			
Core network	**1,073**	1,034	3%
Parcelforce Worldwide	**96**	96	(1%)
Total	**1,169**	1,130	3%

Reported results
UKPIL revenue decreased to £7,658 million (2015-16: £7,671 million). Operating costs before transformation costs increased to £7,332 million (2015-16: £7,303 million). UKPIL operating profit before transformation costs decreased to £326 million (2015-16: £368 million) and operating profit after transformation costs increased to £189 million (2015-16: £177 million).

Adjusted results
UKPIL revenue declined by two per cent, with parcel revenue up three per cent and total letter revenue down five per cent. Weaker Sterling had a positive impact of £28 million on UKPIL revenue. This has been excluded from underlying movements.

Total parcel volumes increased by three per cent, with growth largely driven by Royal Mail account parcels. Account parcel volumes, excluding Amazon, grew by four per cent. In the consumer channel, we saw improving trends in volume and revenue. The weakening of Sterling has impacted our international parcel volumes. The rate of growth of import volumes slowed compared with last year. We undertook a number of initiatives, including working to improve the UK delivery service with China Post which improved import AURs and revenue. Export volumes declined for the year overall but grew in the second half. Total parcel revenue was up three per cent.

[1] Following the Group's acquisition of the remaining 49 per cent shareholding in Romec Limited (Romec) at the beginning of 2016-17, Romec has been consolidated into the UKPIL segment (previously the Group's 51 per cent shareholding was reported within 'Other' segment). The 2015-16 UKPIL results have been re-presented to reflect this change.
[2] Stamped, metered and other prepaid revenue channels are subject to statistical sampling surveys to derive the revenue relating to parcels, marketing mail and letters. These surveys are subject to continuous refinement, which may over time reallocate revenue between the products above, and which may occasionally lead to a consequent change to this estimate.

Addressed letter volumes declined by six per cent (excluding the impact of political parties' election mailings), at the higher end of our forecast range of decline of four to six per cent per annum. This reflected the levels of business uncertainty following the EU Referendum and a strong prior year which saw a one-off return of direct delivery volumes. Total letter revenue (including marketing mail) decreased by five per cent reflecting the impact of low inflation on pricing and declines in volumes across all main letter products.

The methodology used to estimate the value of marketing mail revenue was refined during the year. The prior year estimate for marketing mail revenue has been re-presented to reflect the change in methodology resulting in a reallocation of £18 million of revenue from 'Letters and other' to 'Marketing mail' revenue.

Marketing mail revenue, which includes our data businesses, declined by eight per cent. There was a slowdown in marketing activity over the year reflecting a softening in economic conditions. Low AUR unaddressed letter volumes were down three per cent.

Revenue from election mailings relating to the EU Referendum was in line with that in the prior year relating to the 2015 General Election. We are expecting revenue from election mailings relating to the General Election called for June 2017. Given the short run-up, it is likely to be lower than in 2016-17.

UKPIL's performance in the first half of 2017-18 will be impacted by the phasing of performance over the prior year. In particular, letters performance in the first quarter of 2017-18 may look relatively weak given the strong comparative quarter last year (Q1 2016-17: Addressed letter volume two per cent decline).

Operating costs before transformation costs

(£m)	**Adjusted 52 weeks ended 26 March 2017**	Re-presented[1] 52 weeks ended 27 March 2016	Underlying change
People costs	(4,865)	(4,841)	(1%)
Non-people costs	(2,245)	(2,205)	Flat
Distribution and conveyance costs	(828)	(776)	1%
Infrastructure costs	(740)	(749)	(1%)
Other operating costs	(677)	(680)	Flat
Total	(7,110)	(7,046)	(1%)

Total adjusted operating costs before transformation costs were down one per cent on an underlying basis, reflecting a better performance in the second half. Our cost avoidance programme in UKPIL delivered £225 million costs avoided in the year, comprising people costs of £132 million and non-people costs of £93 million. We have delivered benefits across a number of initiatives during the year, including reducing layers in our management structures within operations, better vehicle utilisation, transformation of our IT infrastructure and lower property costs.

As previously disclosed, as a result of the new single-tier state pension scheme introduced in April 2016, the Group saw an increase in its employer National Insurance contributions for employees participating in the RMPP of £65 million in the year. This has been excluded from underlying movements.

People costs declined by one per cent, largely driven by a 2.7 per cent improvement in collections, processing and delivery productivity in the core network. This more than offset pay increases, largely the 1.6 per cent frontline pay award. The improvement in productivity was achieved through a 1.9 per cent reduction in core network hours, coupled with the absorption of a higher workload. The higher workload was driven by an increase in tracked products which more than offset the impact of declining letter volumes. We continue to target annual productivity improvements of 2.0-3.0 per cent per annum.

As previously disclosed, wage legislation such as the Working Time Directive, Apprentice Levy and increased costs relating to redundancy payments will impact people costs in the future. The impact of the Apprentice Levy for 2017-18 is expected to be around £20 million. We would expect to exclude the first year impact of such legislative changes from underlying movements if material.

Non-people costs were flat. Distribution and conveyance costs increased by one per cent, driven by increases in the cost of sales related to the international business. Terminal dues increased by £62 million, of which £37 million reflects weaker Sterling and has been excluded from underlying movements. The remaining £25 million of the increase reflects the mix of export parcels revenue. This trend is expected to continue next year. In addition, we have seen increased costs associated with handling tracked volumes and larger parcels and we expect this to continue. Total diesel and jet fuel costs of £159 million were £13 million lower than the prior year due to lower pricing and improved fleet management. We expect diesel and jet fuel costs to be around £140 million in 2017-18.

Infrastructure costs were down one per cent with benefits from our cost avoidance programme more than offsetting the increase in depreciation and amortisation of around £20 million, due to parcels systems and tracking investments coming into use. Within infrastructure costs, the cost avoidance programme has delivered benefits in property through the integration of Romec, IT transformation and lower discretionary spend across the entire estate. Over the past five years, we have invested significantly in IT and other assets as part of the transformation programme. As a result, the depreciation and amortisation charge is expected to increase by a further £30 million in 2017-18 but should stabilise thereafter.

Other operating costs were flat, with the increased cost of marketing and other spend in our new business areas being offset by activity within the cost avoidance programme, including lower discretionary spend.

We remain on track to avoid annualised operating costs of around £600 million by 2017-18. However, there remain cost pressures, in particular the next pay deal and increased depreciation.

Transformation costs

(£m)	**Adjusted 52 weeks ended 26 March 2017**	Adjusted 52 weeks ended 27 March 2016
Voluntary redundancy	**(62)**	(117)
Project costs	**(75)**	(72)
Business transformation payments	**–**	(2)
Total	**(137)**	(191)

Transformation costs were £137 million, at the lower end of our range of £130 to £160 million due to a change in mix of activity within the cost avoidance programme. There was a net decrease of around 730 employees in UKPIL in the year. However, there was a reduction of around 3,500 full time equivalent employees (FTEs)[3] to 148,170 FTEs reflecting a change in the mix of full-time and part-time employees and a reduction in variable hours. Project costs were £75 million, largely relating to projects supporting the cost avoidance programme.

We expect transformation costs to be in the range £130 to £150 million per annum going forward.

Operating profit after transformation costs

Adjusted operating profit after transformation costs was £411 million, giving a margin of 5.4 per cent, down 10 basis points on an underlying basis.

[3] Full time equivalent (FTE) numbers relate to the total number of paid hours (including part-time, full-time and agency hours) divided by the standard full-time working hours in the same period.

GENERAL LOGISTICS SYSTEMS (GLS)

Reported results

The tables below reflect the reported Euro results. Underlying change excludes the impact of acquisitions.

Summary trading results (continuing operations) (€m)	Reported Year ended March 2017	Reported Year ended March 2016	Underlying change
Revenue	**2,521**	2,158	9%
Operating costs	**(2,325)**	(1,998)	9%
Operating profit	**196**	160	17%
Margin	***7.8%***	*7.4%*	50bps
(£m)			
Revenue	**2,118**	1,580	
Operating costs	**(1,954)**	(1,463)	
Operating profit	**164**	117	
Volumes (m)	**508**	431	9%

Revenue and volumes

GLS continued to perform well. Performance in the period benefited from the timing of Easter and other public holidays across Europe, which is estimated to have accounted for around two percentage points of the volume and revenue underlying change. Volumes were up nine per cent, with continued strong growth in international volumes. Revenue increased by nine per cent, as pricing was impacted by lower average parcel weights. Revenue in Sterling terms benefited from a £233 million impact from exchange rate movements which is excluded from underlying movements. Revenue growth was achieved in almost all markets and from a broad customer base, with the largest customer accounting for around two per cent of total GLS revenue. The three major markets, Germany, Italy and France, accounted for 63 per cent of total GLS revenue down from 68 per cent in 2015-16 reflecting the impact of the acquisitions in Spain and the US.

In 2017-18, the timing of public holidays across Europe is expected to have the effect of reducing underlying revenue and volume movements by around two percentage points compared with 2016-17.

Operating costs (€m)	Reported Year ended March 2017	Reported Year ended March 2016	Underlying change
People costs	**(582)**	(489)	8%
Non-people costs	**(1,743)**	(1,509)	9%
Distribution and conveyance costs	**(1,521)**	(1,312)	10%
Infrastructure costs	**(152)**	(143)	Flat
Other operating costs	**(70)**	(54)	11%
Total	**(2,325)**	(1,998)	9%

Total operating costs were up nine per cent in line with volume.

People costs increased by eight per cent as a result of increased semi-variable costs linked to volume and increases in rates of pay. Distribution and conveyance costs were up ten per cent, driven by higher volumes. Infrastructure costs were flat, with a one-off provision release of €3 million for IT related costs offsetting inflationary pressures. Other operating costs increased by 11 per cent partly driven by costs associated with our geographic expansion activities. The prior year benefited from a one-off provision release of around €3 million.

Operating profit

Operating profit was €196 million giving a reported margin of 7.8 per cent. This represents an underlying margin improvement of 50 basis points over the prior year. This performance was largely due to improved profitability in Italy, Germany and France. Reported profit in Sterling terms benefited from an £18 million impact from exchange rate movements which is excluded from underlying movements.

Germany

Germany remains the largest market for GLS by revenue. Revenue in GLS Germany grew by five per cent, driven by international volumes and improved domestic pricing. Profitability has been impacted by legislation which increased the minimum wage by four per cent from 1 January 2017. This has increased costs in the period by €1 million with an estimated twelve month impact of €5 million.

Italy
GLS Italy continues to perform strongly. Revenue growth of 13 per cent was due to strong B2C volume growth, driven by Amazon and other customers. Given the strong performance over the last two years, it will be challenging to maintain this rate of growth in the future.

France
GLS France delivered an improved rate of revenue growth of eight per cent, largely from domestic volumes. Reported operating losses reduced by €5 million to €8 million. France remains a challenging market and while actions are underway which target a break-even result, higher cost of sales including those associated with a changing mix of parcel sizes means that it is unlikely we will achieve this in the short term.

Other developed European markets (including Austria, Belgium, Denmark, Ireland, Netherlands, Portugal and Spain)
Revenue growth was achieved in the majority of other developed European markets with strong growth in Denmark. In June 2016, we announced the acquisition of ASM for a total consideration (including debt taken on) of €71 million. ASM has exceeded performance expectations since acquisition. Given the potential synergies, the transaction is expected to be economic profit accretive for GLS in 2018-19.

Other developing/emerging European markets (including Croatia, Czech Republic, Hungary, Poland, Romania, Slovakia and Slovenia)
We saw revenue growth in all developing/emerging European markets, with particularly strong growth in Romania. This has been largely driven by the growing parcels markets in these countries.

USA
On 4 October 2016, we announced the acquisition of GSO, a regional next day parcel delivery company operating primarily in California, for a total consideration of $90 million. We expect GSO to perform in line with our expectations in the first full year of its ownership by the Group. The transaction is expected to be economic profit accretive for GLS in 2019-20.

On 6 April 2017, we announced the acquisition of Postal Express, a regional overnight parcel carrier operating in the states of Washington, Oregon and Idaho for a total consideration of $13.3 million. Postal Express offers overnight parcel delivery, mainly to B2B customers, across a number of industries. The transaction is expected to be economic profit accretive for GLS in 2018-19.

GSO and Postal Express will be operated as standalone businesses but will be incorporated into the results of GLS.

GROUP RESULTS

Reported results

Group revenue increased to £9,776 million (2015-16: £9,251 million). Operating costs before transformation costs increased to £9,286 million (2015-16: £8,766 million). Group operating profit before transformation costs increased to £490 million (2015-16: £485 million). Operating profit after transformation costs increased to £353 million (2015-16: £294 million). Operating specific items decreased to £134 million (2015-16: £156 million). As a result, Group operating profit was £219 million (2015-16: £138 million). Profit before tax from continuing operations increased to £335 million (2015-16: £267 million), of which, UKPIL accounted for £183 million (2015-16: £150 million) and GLS accounted for £152 million (2015-16: £117 million). Earnings per share from continuing operations increased from 21.5 pence to 27.5 pence.

There is a full reconciliation of reported to adjusted results set out on page 23.

Adjusted results

Group revenue

(£m)	**Adjusted 52 weeks ended 26 March 2017**	Re-presented[1] 52 weeks ended 27 March 2016	Underlying change
UKPIL	**7,658**	7,671	(2%)
GLS	**2,118**	1,580	9%
Total	**9,776**	9,251	1%

Parcel revenue accounted for 56 per cent of Group revenue (2015-16: 52 per cent). The main factors impacting revenue in the year are described in the sections entitled 'UK Parcels, International & Letters (UKPIL)' and 'General Logistics Systems (GLS)'.

Group operating costs

(£m)	**Adjusted 52 weeks ended 26 March 2017**	Re-presented[1] 52 weeks ended 27 March 2016	Underlying change
People costs	**(5,354)**	(5,199)	Flat
Non-people costs	**(3,710)**	(3,310)	3%
Distribution and conveyance costs	**(2,106)**	(1,736)	6%
Infrastructure costs	**(868)**	(854)	(1%)
Other operating costs	**(736)**	(720)	Flat
Total	**(9,064)**	(8,509)	1%

Group operating costs increased by one per cent due to increases at GLS. The main factors impacting operating costs in the year are described in the sections entitled 'UK Parcels, International & Letters (UKPIL)' and 'General Logistics Systems (GLS)'.

Group operating profit after transformation costs

(£m)	**Adjusted 52 weeks ended 26 March 2017**	Re-presented[1] 52 weeks ended 27 March 2016
UKPIL	**411**	434
GLS	**164**	117
Total	**575**	551
Margin	**5.9%**	6.0%

Lower transformation costs in UKPIL led to Group operating profit margin after transformation costs increasing by 10 basis points on an underlying basis to 5.9 per cent.

[1] Following the Group's acquisition of the remaining 49 per cent. shareholding in Romec Limited (Romec) at the beginning of 2016-17, Romec has been consolidated into the UKPIL segment (previously the Group's 51 per cent shareholding was reported within 'Other' segment). The 2015-16 UKPIL results have been re-presented to reflect this change.

Specific items and pension charge to cash difference adjustment

(£m)	52 weeks ended 26 March 2017	52 weeks ended 27 March 2016
Pension charge to cash difference adjustment (within People costs)	**(222)**	(257)
Operating specific items		
Employee Free Shares charge	**(105)**	(158)
Amortisation of acquired intangible assets	**(11)**	–
Legacy/other (costs)/credit	**(18)**	2
Potential industrial diseases claims	**(6)**	3
Personal injury provision discount rate decrease	**(4)**	–
Other	**(8)**	(1)
Total operating specific items and pensions adjustment	**(356)**	(413)
Non-operating specific items		
Profit on disposal of property, plant and equipment	**14**	29
Loss on disposal of business	**(2)**	–
Net pension interest	**120**	113
Profit on disposal of discontinued operations	**–**	31
Total non-operating specific items	**132**	173
Total specific items and pensions adjustment before tax	**(224)**	(240)
Total tax credit on specific items and pensions adjustment	**59**	68

The pension charge to cash difference adjustment was £222 million (2015-16: £257 million). The difference between the pension charge and cash cost largely comprises the difference between the IAS 19 income statement pension charge rate of 28.8 per cent and the actual cash payments agreed with the RMPP Trustee of 17.1 per cent. The IAS 19 pension service charge rate for 2017-18 is projected to significantly increase to 41.1 per cent as a result of the reduction in corporate bond yields which means that the pension charge to cash difference adjustment for 2017-18 is expected to increase to around £440 million.

Operating specific items in the year related mainly to the Employee Free Shares charge of £105 million (2015-16: £158 million). The Employee Free Shares charge has decreased as a result of SIP 2013 maturing in October 2016. This has been partially offset by the charge in relation to the Free Shares awarded in October 2015 (SIP 2015) and October 2016 (SIP 2016). The charge for Employee Free Shares will reduce over time reflecting the phasing of the charge over the vesting period. For 2017-18, the Employee Free Shares charge is expected to be around £40 million.

Amortisation of acquired intangibles of £11 million reflects the amortisation of goodwill relating largely to ASM and GSO.

The increase in the provision for legacy costs is driven by a reduction in the discount rate used to calculate the industrial diseases provision and the legislative decrease in discount rate used to determine personal injury claims announced in February 2017. Other specific items mainly relate to the integration of Romec into the Group.

Non-operating specific items include a profit on disposal of property, plant and equipment of £14 million (2015-16: £29 million). This mainly arises from the sale of a GLS property in Munich and the Maidstone Delivery Office. The loss on disposal of business relates to the sale of NDC 2000 Limited (NDC) and reflects the transfer of cash and other assets to the purchasers. The net pension interest credit was £120 million (2015-16: £113 million), higher than the prior year due to the increase in the accounting surplus at 27 March 2016. The net pension interest is expected to be £91 million in 2017-18 due to the lower discount rate more than offsetting the impact of the increased surplus.

Net finance costs

Reported net finance costs were £16 million compared with £13 million in the prior year. Interest on the €500 million bond was £11 million, £2 million higher than the prior year as a result of weaker Sterling.

Facility	Rate	Facility (£m)	Drawn (£m)	Facility end date
€500 million bond	2.5%	430	430	2024
Loans in GLS (Spain)	2.0%	1	1	2017
Revolving credit facility	LIBOR+0.55%	1,050	32	2020-22
Total		**1,481**	**463**	

The blended interest rate on gross debt, including finance leases for 2017-18, is expected to be approximately three per cent. The retranslation impact of the €500 million bond is accounted for within equity.

Taxation

(£m)	52 weeks ended 26 March 2017			52 weeks ended 27 March 2016		
	UK	**GLS**	**Group**	UK	GLS	Group
Reported						
Profit before tax	**183**	**152**	**335**	150	117	267
Tax charge	**(20)**	**(42)**	**(62)**	(14)	(31)	(45)
Effective tax rate	***11%***	***28%***	***19%***	*9%*	*26%*	*17%*
Adjusted						
Profit before tax	**398**	**161**	**559**	421	117	538
Tax charge	**(76)**	**(45)**	**(121)**	(84)	(34)	(118)
Effective tax rate	***19%***	***28%***	***22%***	*20%*	*29%*	*22%*

The Group effective tax rate on adjusted profit before tax was 22 per cent. The UK adjusted effective tax rate of 19 per cent is broadly in line with the UK statutory tax rate. GLS' effective tax rate of 28 per cent has reduced due to lower French losses for which no deferred tax is recognised and increased notional interest deductions in Italy.

In the UK, the reported effective tax rate is lower than the adjusted effective tax rate as the impact of the one-off deferred tax credit due to a reduction in future corporation tax rate is treated as a specific item and excluded from the adjusted tax result. Additionally, tax associated with property disposal profits within the reported result is offset by reinvestment relief contributing to the lower reported effective tax rate.

Earnings per share (EPS)

Adjusted basic EPS for continuing operations was 44.1 pence compared with 41.3 pence in the prior year, largely reflecting the decrease in transformation costs.

In-year trading cash flow

(£m)	**52 weeks ended 26 March 2017**	52 weeks ended 27 March 2016
EBITDA before transformation costs	**793**	756
Pension charge to cash difference	**222**	257
Adjusted EBITDA before transformation costs	**1,015**	1,013
Trading working capital movements	**(3)**	(26)
Share-based awards (SAYE and LTIP) charge	**11**	13
Dividends received from associate	**-**	1
Total investment	**(529)**	(694)
Income tax paid	**(60)**	(40)
Net finance costs paid	**(14)**	(13)
Total	**420**	254

In-year trading cash flow inflow was £420 million, £166 million higher than the prior year, mainly driven by lower investment spend and lower trading working capital absorption. Adjusted EBITDA before transformation costs was broadly flat, as higher EBITDA was offset by the lower pension charge to cash difference adjustment. Trading working capital outflow was £3 million, an improvement of £23 million compared with the prior year due to a change in international sales mix. Income tax paid was £60 million, £20 million higher than the prior year mainly due to a repayment received in the prior year and tax paid this year on the sale of DPD SL.

On a cash tax basis, in the UK, we continue to be able to offset the majority of taxable profits with capital allowances and brought forward losses. UK cash tax paid is now expected to stay at similar levels until 2019-20 due to research and development credits and patent box tax reliefs, and normalise thereafter.

Net cash Investment

(£m)	52 weeks ended 26 March 2017	52 weeks ended 27 March 2016
Growth capital expenditure	**(208)**	(253)
Replacement capital expenditure	**(179)**	(208)
Transformation operating expenditure	**(142)**	(233)
Voluntary redundancy	**(66)**	(159)
Project costs	**(76)**	(72)
Business transformation payments	**–**	(2)
Total investment	**(529)**	(694)
Proceeds from disposal of property (excluding London property portfolio), plant and equipment	**37**	38
Total	**(492)**	(656)

Total gross cash investment decreased from £694 million to £529 million, due to lower spend in relation to voluntary redundancy payments and more efficient investment spend. Total gross investment was skewed towards growth capital expenditure of which parcels automation, parcel systems, PDA initiatives and investment in GLS represented the majority of spend in the year. Replacement capital expenditure reduced by £29 million, due to the timing of ongoing property maintenance and lower spending on certain property and technology projects. Both growth and replacement capital expenditure have reduced in 2016-17.

We are past the peak of investment and are targeting net cash investment of around £450 million in 2017-18 and less than £500 million per annum going forward.

Net debt

Net debt was £338 million at 26 March 2017, £114 million higher than at 27 March 2016.

A reconciliation of net debt is set out below.

(£m)		52 weeks ended 26 March 2017		52 weeks ended 27 March 2016
Net debt brought forward at 27 March 2016 and 29 March 2015		**(224)**		(275)
In-year trading cash flow	**420**		254	
Other working capital movements	**(6)**		6	
Cash cost of operating specific items	**(61)**		(6)	
Proceeds from disposal of property (excluding London property portfolio), plant and equipment	**37**		38	
Cash impact of disposal of discontinued operations and subsidiary	**(3)**		41	
Acquisition of business interests	**(144)**		(18)	
Cash flows relating to London property portfolio	**(34)**		(23)	
Debt transferred on acquisitions	**(10)**		-	
Purchase of own shares	**(53)**		-	
Foreign currency exchange impact	**(30)**		(21)	
Dividends paid to equity holders of the parent Company	**(222)**		(213)	
Dividends paid to non-controlling interests	**(8)**		(7)	
Net debt carried forward		**(338)**		(224)

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

The cash cost of operating specific items largely related to the French Competition Authority fine of €55 million that was paid in April 2016. Property disposal proceeds of £37 million largely relate to the sale of a GLS property in Munich and the Maidstone Delivery Office.

A reconciliation of cash flows relating to acquisitions is shown below.

(£m)	52 weeks ended 26 March 2017
GSO	**(66)**
ASM	**(49)**
Other	**(11)**
Total consideration (see Note 10)	**(126)**
Add back net cash acquired on acquisition of business	**4**
Acquisition of business interests, net of cash acquired (see statutory cash flow statement)	**(122)**
Deferred consideration paid in respect of prior years' acquisitions	**(4)**
Acquisition of Non-controlling interests	**(18)**
Acquisition of business interests	**(144)**

Other acquisitions included eCourier. The acquisition of non-controlling interests represents the purchase of the remaining 49 per cent of Romec.

Debt transferred on acquisitions includes £3 million of finance leases and £7 million of interest bearing loans and borrowings on GLS acquisitions.

Cash outflows relating to the London property portfolio of £34 million largely relate to remediation work, reprovisioning costs and planning and marketing costs in relation to the Nine Elms and Mount Pleasant sites. These sites, in particular Mount Pleasant, will require further investment once sales proceeds are received. Both sites continue to be marketed.

Approach to capital management
The Group has established four key objectives for capital management.

Objectives	Enablers	2016-17 Update
Meet the Group's obligations as they fall due	By maintaining sufficient cash reserves and committed facilities to – • meet all obligations, including pensions; and • manage future risks, including those set out in the Principal Risks section on pages 27 to 31	At 26 March 2017, the Group had available resources of £1,317 million (2015-16: £1,418 million); made up of cash and cash equivalents of £299 million (2015-16: £368 million) and undrawn committed revolving credit facilities of £1,018 million (2015-16: £1,050 million) The Group met the loan covenants and other obligations for its revolving credit facility and €500 million bond As set out in the Viability Statement, the Directors have a reasonable expectation that the Group will continue to meet its obligations as they fall due
Support a progressive dividend policy	Generate sufficient in-year trading cash flow to cover the ordinary dividend and maintain sufficient distributable reserves to sustain the Group's dividend policy	Generated £420 million of in-year trading cash flow (2015-16: £254 million) to cover the full year dividend of 23.0 pence per share (2015-16: 22.1 pence per share) equivalent to £230 million Capital managed by the Group excluding the net assets of the pension scheme is £1,806 million (2015-16: £1,602 million)[2] The Group had retained earnings of £4,940 million at 26 March 2017 (2015-16: £4,451 million). The Group considers it has a maximum level of distributable reserves of around £2 billion which excludes the impact of the pension surplus on retained earnings, more than sufficient to cover the dividend
Reduce the cost of capital for the Group	Target investment grade standard credit metrics i.e. no lower than BBB- under Standard & Poor's rating methodology	During the year, the Group maintained a credit rating of BBB with a stable outlook from Standard & Poor's
Retain sufficient flexibility to invest in the future of the business	Funded by retained cash flows and manageable levels of debt consistent with our target credit rating	During the year, the Group made total gross investments of £529 million (2015-16: £694 million) and acquisition of business interests of £144 million (2015-16: £18 million) while retaining sufficient capital headroom

Pensions
The Company's overall IAS 19 pension position at 26 March 2017 was a surplus of £3,839 million, compared with a surplus of £3,430 million at 27 March 2016. The IAS 19 accounting position and key assumptions for the valuation are provided in Note 9 to the consolidated financial statements.

The accounting liabilities have increased over the year due to the fall in corporate bond yields. This has been offset by the increase in the RMPP assets, largely due to the hedging strategy adopted by the RMPP.

[2] At 26 March 2017 consists of net assets (comprising investment balances, working capital, provisions and net debt) of £4,998 million (2015-16: £4,467 million), less pension assets of £3,839 million (2015-16: £3,430 million), with the associated deferred tax liability on pension assets of £647 million credited back (2015-16: £565 million).

Royal Mail Pension Plan (RMPP)

The triennial valuation of RMPP at 31 March 2015 was agreed on 8 May 2017. Based on this set of assumptions, the RMPP actuarial surplus at 31 March 2017 was estimated to be £1,074 million, comprising of assets of £9,603 million and liabilities of £8,529 million (2015-16: £1,765 million).

Using these assumptions, the projected cost of benefits being accrued each year, based on market conditions at the end of March 2017, would currently be around £1,260 million. This is significantly greater than projected 2017-18 contributions of £320 million by the Company and £110 million by employees. Accordingly, we expect that the actuarial funding surplus would be exhausted during 2018 if the RMPP had remained open in its current form.

Following the Company's decision, the RMPP will close to future accrual on 31 March 2018.

In accordance with the new Schedule of Contributions, the service contribution rate for 2017-18 will remain at 17.1 per cent. The March 2015 valuation continues to show the scheme in surplus and therefore no deficit correction payments are expected to be made.

Royal Mail Senior Executives Pension Plan (RMSEPP)

The RMSEPP triennial valuation at 31 March 2015 has been completed, based on the assumptions agreed as part of the Funding Agreement made between the Company and the Trustees in 2013. On this basis, the actuarial surplus was £16 million at 31 March 2015 comprising assets of £410 million and liabilities of £394 million.

The RMSEPP closed in December 2012 to future accrual. Therefore the Company makes no regular future service contributions. As agreed in the February 2013 Funding Agreement with the Trustees, the Company makes deficit correction payments of £10 million per annum until at least the date on which the March 2018 valuation is completed (no later than 30 September 2018).

Dividends

The final dividend of 15.1 pence per ordinary share in respect of the 2015-16 financial year was paid on 29 July 2016, following shareholder approval.

The interim dividend of 7.4 pence per ordinary share in respect of the 2016-17 financial year was paid on 11 January 2017 to shareholders on the register at the close of business on 9 December 2016.

The Board is recommending a final dividend of 15.6 pence per ordinary share, payable on 28 July 2017 to shareholders on the register at the close of business on 30 June 2017, subject to shareholder approval at the AGM on 20 July 2017. This gives a total dividend for the year of 23.0 pence.

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

Financial risks and related hedging

The Group is exposed to commodity and currency price risk. The Group operates hedging policies which will be described in the Notes to the Annual Report and Financial Statements 2016-17.

The forecast diesel and jet commodity exposures in UKPIL are set out below together with the sensitivity of 2017-18 operating profit to changes in commodity prices and fuel duty.

2017-18 Exposure	Forecast total cost £m	Fuel duty/other costs (incl irrecoverable VAT) - not hedged 2017-18 £m	Underlying commodity exposure (incl irrecoverable VAT) 2017-18 £m	Underlying commodity volume hedged %	Residual unhedged underlying commodity exposure (incl irrecoverable VAT) £m	Impact on 2017-18 operating profit of a further 10% increase in commodity price £m	Impact on 2017-18 operating profit of a further 10% increase in fuel duty/ other costs £m
Diesel	134	92	42	94	3	–	(9)
Jet	8	3	5	79	1	–	–
Total	**142**	**95**	**47**	**92**	**4**	**–**	**(9)**

As a result of hedging, it is anticipated that the diesel commodity cost for 2017-18 will reduce by £10 million. Without hedging, the cost reduction would have been £12 million (based upon closing fuel prices at 26 March 2017).

The Group is exposed to foreign currency risk due to interest payments on the €500 million bond, certain obligations under Euro denominated finance leases, trading with overseas postal administrations and various purchase contracts denominated in foreign currency. GLS' functional currency is the Euro which results in translational exposure to the Group's operating profit.

The average exchange rate between Sterling and the Euro was £1/€1.19, representing a 13 per cent weakening in Sterling compared with £1/€1.37 in 2015-16, which resulted in an £18 million increase in GLS' reported operating profit before tax in 2016-17. This weakness of Sterling resulted in lower UKPIL operating profit of £9 million in the international business. The net impact on Group operating profit before tax was therefore £9 million.

The Group manages its interest rate risk through a combination of fixed rate loans and leasing, floating rate loans/facilities and floating rate financial investments. At 26 March 2017, all of the gross debt of £657 million was at fixed rates to maturity.

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

Events after the reporting year

Acquisition of Postal Express
On 6 April 2017, we announced the acquisition of Postal Express for $13.3 million. Operating in the states of Washington, Oregon and Idaho Postal Express offers overnight parcel delivery services, mainly to B2B customers, across a number of industries.

Closure of Royal Mail Pension Plan (RMPP)
On 8 May 2017, the Company and the RMPP Trustee agreed the March 2015 actuarial valuation and revised Schedule of Contributions following the decision to close the RMPP to future accrual from 31 March 2018.

PRESENTATION OF RESULTS AND ALTERNATIVE PERFORMANCE MEASURES (APMs)

In its financial reporting, the Group uses certain measures that are not defined under International Financial Reporting Standards (IFRS), the Generally Accepted Accounting Principles (GAAP) under which the Group produces its statutory financial information. These APMs are not a substitute, or superior to, any IFRS measures of performance. They are used as Management considers them to be an important means of comparing performance year-on-year and are key measures used within the business for assessing performance.

The Group makes adjustments to results reported under IFRS to exclude specific items and the pension charge to cash difference adjustment (see definitions below). Management believes this is a more meaningful basis upon which to analyse the business performance (in particular given the volatile nature of the IAS 19 charge) and is consistent with the way financial performance is reported to the Board.

IFRS can have the impact of causing high levels of volatility in reported earnings which do not relate to changes in the operations of the Company. Management has reviewed the long term differences between reported and adjusted profit after tax. Cumulative reported profit after taxation for the five years ended March 2017 was £2,632 million. Cumulative adjusted profit after tax was £1,820 million. Annual reported profit after tax showed a range of £222 million to £1,280 million. The principal cause of the difference and volatility is due to pension-related accounting.

APMs should not be considered in isolation from, or as a substitute to, financial information presented in compliance with GAAP. Where appropriate, reconciliations to the nearest GAAP measure have been provided. The APMs used may not be directly comparable with similarly titled APMs used by other companies.

Presentation of results

Re-presentation of 2015-16 results

As a result of the acquisition of the minority shareholding in Romec Limited ('Romec') on 31 March 2016, the external revenues, costs and profits of Romec, previously reported in the 'Other' segment, have been incorporated into UKPIL for 2016-17. As a result, £5 million of Romec revenue in 2015-16 is now reported within letters and other revenue. The £141 million facilities management charge previously included within infrastructure costs has been reallocated between people and non-people costs. UKPIL operating profit in 2015-16 increased by £17 million as a result. There is no impact on Group operating profit. Both the Group and UKPIL operating costs for 2015-16 have been re-presented to reflect these changes as shown below:

	Adjusted 52 weeks ended 27 March 2016 £m	Romec adjustment £m	Re-presented 52 weeks ended 27 March 2016 £m
Group			
Revenue	**9,251**	–	9,251
Operating costs	**(8,509)**	–	(8,509)
People	**(5,199)**	–	(5,199)
Non-people	**(3,310)**	–	(3,310)
Distribution and conveyance costs	**(1,736)**	–	(1,736)
Infrastructure costs	**(995)**	141	(854)
Other operating costs	**(579)**	(141)	(720)
Operating profit before transformation costs	**742**	–	742
UKPIL			
Revenue	**7,666**	5	7,671
Operating costs	**(7,058)**	12	(7,046)
People	**(4,764)**	(77)	(4,841)
Non-people	**(2,294)**	89	(2,205)
Distribution and conveyance costs	**(776)**	–	(776)
Infrastructure costs	**(890)**	141	(749)
Other operating costs	**(628)**	(52)	(680)
Operating profit before transformation costs	**608**	17	625
Other			
Revenue	**5**	(5)	–
Operating costs	**12**	(12)	–
People	**(77)**	77	–
Non-people	**89**	(89)	–
Distribution and conveyance costs	**-**	–	–
Infrastructure costs	**-**	-	–
Other operating costs	**89**	(89)	–
Operating profit before transformation costs	**17**	(17)	–

Adjusted results

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

(£m)	52 weeks ended 26 March 2017 Reported	52 weeks ended 26 March 2017 Specific items and pension adjustment	52 weeks ended 26 March 2017 Adjusted	52 weeks ended 26 March 2016 Reported[1]	52 weeks ended 26 March 2016 Specific items and pension adjustment	52 weeks ended 26 March 2016 Adjusted[1]
Revenue	**9,776**	**–**	**9,776**	9,251	–	9,251
Operating costs	**(9,286)**	**(222)**	**(9,064)**	(8,766)	(257)	(8,509)
People costs[1]	**(5,576)**	**(222)**	**(5,354)**	(5,456)	(257)	(5,199)
Non-people costs	**(3,710)**	**–**	**(3,710)**	(3,310)	–	(3,310)
Distribution and conveyance costs	**(2,106)**	**–**	**(2,106)**	(1,736)	–	(1,736)
Infrastructure costs[1]	**(868)**	**–**	**(868)**	(854)	–	(854)
Other operating costs[1]	**(736)**	**–**	**(736)**	(720)	–	(720)
Operating profit before transformation costs	**490**	**(222)**	**712**	485	(257)	742
Transformation costs	**(137)**	**–**	**(137)**	(191)	–	(191)
Operating profit after transformation costs	**353**	**(222)**	**575**	294	(257)	551
Operating specific items:						
Employee Free Shares charge	**(105)**	**(105)**	**–**	(158)	(158)	–
Legacy/other (costs)/credit	**(18)**	**(18)**	**–**	2	2	–
Amortisation of intangible assets in acquisitions	**(11)**	**(11)**	**–**	–	–	–
Operating profit	**219**	**(356)**	**575**	138	(413)	551
Non-operating specific items:						
Profit on disposal of property, plant and equipment	**14**	**14**	**–**	29	29	–
Loss on disposal of business	**(2)**	**(2)**	**–**	–	–	–
Earnings before interest and tax	**231**	**(344)**	**575**	167	(384)	551
Finance costs	**(18)**	**–**	**(18)**	(16)	–	(16)
Finance income	**2**	**–**	**2**	3	–	3
Net pension interest (non-operating specific item)	**120**	**120**	**–**	113	113	–
Profit before tax	**335**	**(224)**	**559**	267	(271)	538
Tax charge	**(62)**	**(59)**	**(121)**	(45)	73	(118)
Profit for the period from continuing operations	**273**	**(165)**	**438**	222	(198)	420
Discontinued operations						
Profit from disposal of discontinued operations (non-operating specific item)	**–**	**–**	**–**	31	31	–
Tax on profit from disposal of discontinued operations	**–**	**–**	**–**	(5)	(5)	–
Profit for the period	**273**	**(165)**	**438**	248	(172)	420
Profit for the period attributable to:						
Equity holders of the parent Company	**272**	**(165)**	**437**	241	(172)	413
Non-controlling interests	**1**	**–**	**1**	7	–	7
Earnings per share						
Basic – continuing operations	**27.5p**	**(16.6p)**	**44.1p**	21.5p	(19.8p)	41.3p
Diluted – continuing operations	**27.3p**	**(16.5p)**	**43.8p**	21.4p	(19.7p)	41.1p
Basic – total Group	**27.5p**	**(16.6p)**	**44.1p**	24.1p	(17.2p)	41.3p
Diluted – total Group	**27.3p**	**(16.5p)**	**43.8p**	24.0p	(17.1p)	41.1p

[1] Re-presented to reflect the Group's acquisition of the remaining 49 per cent shareholding in Romec at the beginning of 2016-17, and to consolidate the results of Romec into the UKPIL segment (previously the Group's 51 per cent shareholding was reported within the 'Other' segment). The 2015-16 UKPIL results have been re-presented to reflect this change.

Alternative performance measures

Non-IFRS measures

Adjusted operating profit before transformation costs, adjusted operating profit after transformation costs and adjusted operating profit margin after transformation costs reflect reported operating profit excluding the 'pension charge to cash difference' adjustment.

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

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

EBITDA is considered to be a useful measure of operating performance because it approximates the underlying operating cash flow by eliminating depreciation, amortisation and the performance of associate companies.

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

(£m)	52 weeks ended 26 March 2017	52 weeks ended 27 March 2016
Reported operating profit before transformation costs	**490**	485
Depreciation and amortisation	**301**	272
Share of post-tax (loss)/profit from associates	**2**	(1)
Reported EBITDA before transformation costs	**793**	756
Pension charge to cash difference adjustment	**222**	257
Adjusted EBITDA before transformation costs	**1,015**	1,013

Adjusted earnings per share

Adjusted earnings per share is reported basic earnings per share, excluding operating and non-operating specific items and the pension charge to cash difference adjustment. A reconciliation of this number to reported basic earnings per share is included in the adjusted results table on page 23.

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 include items that have resulted from events that are non-recurring in nature, even though related income/expense can be recognised in subsequent periods.

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.

Further details of specific items can be found on page 16.

Pension charge to cash difference adjustment

This adjustment represents the difference between the IFRS income statement pension charge rate of 28.8 per cent and the actual cash payments into the RMPP at 17.1 per cent. This adjustment is made to eliminate the volatility of the IAS 19 accounting charge and to include only the true cash cost of the pension plans in the adjusted operating profit of the Group.

In-year trading cash flow

In-year trading cash flow reflects the cash generated from the trading activities of the Group. It is based on reported net cash inflow from operating activities, adjusted to exclude other working capital movements and the cash cost of operating specific items and to include the cash cost of property, plant and equipment and intangible asset acquisitions and net finance payments. Other working capital movements include movements in GLS client cash held and in deferred revenue from stamps purchased in prior periods. In-year trading cash flow is used primarily by Management as a measure of liquidity, showing cash being generated by operations less cash investment.

The following table reconciles in-year trading cash flow to the nearest IFRS measure 'net cash inflow from operating activities'.

(£m)	Reported 52 weeks ended 26 March 2017	Reported 52 weeks ended 27 March 2016
Net cash inflow from operating activities	**754**	727
Adjustment for:		
Other working capital movements	**6**	(6)
Cash cost of operating specific items	**61**	6
Purchase of property, plant and equipment	**(230)**	(270)
Purchase of intangible assets (software)	**(157)**	(191)
Dividend received from associate company	**–**	1
Net finance costs paid	**(14)**	(13)
In-year trading cash inflow	**420**	254

Net debt

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

Net debt is a measure of the Group's net indebtedness that provides an indicator of the overall balance sheet strength. It is also a single measure that can be used to assess the combined impact of the Group's indebtedness and its cash position. The use of the term net debt does not necessarily mean that the cash included in the net debt calculation is available to settle the liabilities included in this measure.

A reconciliation of net debt to reported balance sheet line items is shown below.

(£m)	At 26 March 2017	At 27 March 2016
Loans/bonds	**463**	392
Finance leases	**194**	220
Cash and cash equivalents	**(299)**	(368)
Pension escrow (RMSEPP)	**(20)**	(20)
Net debt	**338**	224

Underlying change

Movements in revenue, costs, profits and margins are shown on an underlying basis. Underlying movements take into account differences in working days in UKPIL (2016-17: 305.6; 2015-16: 303.0) and movements in foreign exchange (2016-17: £1/€ 1.19; 2015-16: £1/€ 1.37) by re-presenting the 2015-16 results at 2016-17 working days/rates. In addition, adjustments are made for non-recurring or distorting items, which by their nature may be unpredictable, such as the results of acquisitions and changes in wage legislation such as National Insurance. For volumes, underlying movements are adjusted for working days in UKPIL, acquisitions and exclude political parties' election mailings in letters volumes. For 2017-18, the estimated revenue and profit impact of working days in UKPIL is a reduction of around £15 million (2017-18: 305 days)

(£m)	Adjusted 52 weeks ended 26 March 17	Re-presented 52 weeks ended 27 March 16	Working days	Wage legislation	Foreign exchange	Acquisitions	Underlying 52 weeks ended 27 March 16	Underlying change
Revenue								
UKPIL	**7,658**	7,671	66	–	28	13	7,778	(2%)
GLS	**2,118**	1,580	–	–	233	124	1,937	9%
Group	**9,776**	9,251	66	–	261	137	9,715	1%
Group costs								
People	**(5,354)**	(5,199)	–	(65)	(53)	(45)	(5,362)	Flat
Distribution and conveyance costs	**(2,106)**	(1,736)	–	–	(179)	(68)	(1,983)	6%
Infrastructure costs	**(868)**	(854)	–	–	(15)	(9)	(878)	(1%)
Other operating costs	**(736)**	(720)	–	–	(5)	(8)	(733)	Flat
Non-people costs	**(3,710)**	(3,310)	–	–	(199)	(85)	(3,594)	3%
Operating costs before transformation costs	**(9,064)**	(8,509)	–	(65)	(252)	(130)	(8,956)	1%
UKPIL								
People	**(4,865)**	(4,841)	–	(65)	–	(3)	(4,909)	(1%)
Distribution and conveyance costs	**(828)**	(776)	–	–	(37)	(8)	(821)	1%
Infrastructure costs	**(740)**	(749)	–	–	–	(1)	(750)	(1%)
Other operating costs	**(677)**	(680)	–	–	–	–	(680)	Flat
Non-people costs	**(2,245)**	(2,205)	–	–	(37)	(9)	(2,251)	Flat
Operating costs before transformation costs	**(7,110)**	(7,046)	–	(65)	(37)	(12)	(7,160)	(1%)
GLS								
Operating costs	**(1,954)**	(1,463)	–	–	(215)	(118)	(1,796)	9%
Profit, margins and EPS								
Group								
Operating profit before transformation costs	**712**	742	66	(65)	9	7	759	(6%)
Transformation costs	**(137)**	(191)	–	–	–	–	(191)	(28%)
Operating profit after transformation costs	**575**	551	66	(65)	9	7	568	2%
Margin	***5.9%***	*6.0%*	–	–	–	–	*5.8%*	*10bps*
Profit before tax	**559**	538	66	(65)	9	7	555	1%
Tax	**(121)**	(118)					(118)	–
Profit for the period	**438**	420					420	–
Profit attributable to equity holders of the parent Company	**437**	413					413	–
Earnings per share (pence)	**44.1**	41.3	–	–	–	–	41.3	–
UKPIL								
Operating profit before transformation costs	**548**	625	66	(65)	(9)	1	618	(11%)
Transformation costs	**(137)**	(191)	–	–	–	–	(191)	(28%)
Operating profit after transformation costs	**411**	434	66	(65)	(9)	1	427	(4%)
Margin	***5.4%***	*5.7%*	–	–	–	–	*5.5%*	*(10bps)*
GLS								
Operating profit before transformation costs	**164**	117	–	–	18	6	141	16%
Margin	***7.7%***	*7.4%*	–	–	–	–	*7.3%*	*40bps*

PRINCIPAL RISKS

The Governance section in our Annual Report and Financial Statements 2016-17 will describe in detail how the Group manages its risk from the Group Board level, its respective sub-committees and throughout the organisation.

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

Key

Link to strategy	Relative severity	Change during the year	Speed at which the risk could impact
P Winning in parcels	High	↑ Increasing risk	Fast: 6 months
L Defending letters	Medium	↓ Decreasing risk	Medium: 6-12 months
G Growing in new areas	Low	↔ Stable	Slow: >12 months

Principal risk	Status	How we are mitigating the risk

New arrangements and the risk of industrial action

There is extensive trade union recognition in respect of our workforce in the UK with a strong and active trade union. As Royal Mail Group continues to pursue the necessary efficiency programmes in order to remain competitive in the letters and parcels markets and implements the new pension arrangements, there is an even greater risk of industrial action.

Industrial action

P L G

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

Widespread localised or national industrial action would cause material disruption to our business in the UK and would be likely to result in an immediate and potentially ongoing significant loss of revenue for the Group. It may also cause Royal Mail to fail to meet the Quality of Service targets prescribed by Ofcom, leading to enforcement action and fines.

↔

The Agenda for Growth agreement developed jointly with the Communications Workers Union (CWU) represented a fundamental change in our relationship with the CWU, and continues to promote stability in industrial relations.

Industrial relations is an inherent risk within our business. We are negotiating a new pay deal for 2017-18 onwards and have completed a consultation on the future of the Royal Mail Pension Plan (RMPP). This, in combination with the continued pressure on costs and efficiencies in an increasingly competitive market, may put additional strain on the stability of our industrial relations.

- Our Agenda for Growth agreement with the CWU provides a joint commitment to improved industrial relations, and to resolving disputes at pace and in a way that is beneficial to both employees and Royal Mail.
- A resolution process for local disputes uses trained mediators nominated by and representing both the CWU and the business.
- The Agenda for Growth agreement has legally binding protections for the workforce in respect of future job security and our employment model, but which can be rescinded in the event of national industrial action.

Pension arrangements

P L

We recognise that pension benefits are important to our people.

There is a risk that we are unable to continue to provide sustainable and affordable pension arrangements which are acceptable to our people and unions, leading to industrial action.

The Group is exposed to financial market conditions, changes in life expectancy and regulatory changes for

↔

In 2013, we committed to keeping the RMPP open until at least March 2018, subject to certain conditions. The RMPP Trustee put in place a hedging strategy for that period of accrual which means we will be able to meet this commitment despite significant reductions in real interest rates.

While the RMPP is currently in surplus, we expect this surplus will run out in 2018. On 8 May 2017,

- We are exploring a range of options with our people, unions and advisers regarding future pension benefits. We have a clear set of affordability and capital allocation criteria for assessing any future pension arrangements.
- The March 2015 Royal Mail Pension Plan valuation was agreed on 8 May 2017 with the RMPP Trustee. This is based on a prudent set of assumptions,

Principal risk	Status	How we are mitigating the risk
defined benefits already accrued. Benefits accrued in the Royal Mail Pension Plan before April 2012 have been transferred to Government.	the Company and the Trustee agreed the March 2015 actuarial valuation and revised Schedule of Contributions following the decision to close the RMPP to future accrual from 31 March 2018. Closing the RMPP now avoids an unaffordable increase in pension costs for the Group. As noted, the RMPP is hedged against future interest rate and inflation rate exposures, arising on commitments made until March 2018, so we are confident that this will enable us to meet our commitment to keep the RMPP open to accrual up to 31 March 2018. We remain in discussions with our unions regarding the provision of future pension benefits from April 2018.	appropriate to the Company's circumstances. • After the RMPP closes to accrual, we will continue to work closely with the Trustee to limit the risk of any deficit recovery payments being required from the Company in future.
Efficiency Royal Mail must continuously become more efficient and flexible in order to compete effectively in the letter and parcel markets. The success of our strategy relies on the effective control of costs across all areas and the delivery of efficiency benefits. In the current industrial relations environment, there is a risk we cannot make the required short term business as usual and/or programme level cost reductions in a timely way; nor can we trial, with a view to broader roll out, more fundamental changes in methods required to meet customer requirements and to underpin future cost reductions.	 We are continuing to see the positive impact of our cost reduction activities across the UK business. This has involved continuous focus on our efficiency performance in all areas, while providing a high quality service to our customers through our engaged workforce. Our productivity improvement is towards the upper range of our 2-3 per cent target, and we are confident that we will deliver the £600 million cumulative annualised cost avoided target, previously announced. As we negotiate fundamental changes to our pension and other terms and conditions, there is a risk that our workforce will delay the change we need.	• We have ongoing collaborative meetings with our unions to involve them in the efficiency improvements and growth opportunities. • We are delivering efficiencies both in and outside of the core operations and have over 200 projects and initiatives which underpin the £600 million cumulative annualised cost avoided target. • We continue to scope additional cost saving opportunities beyond 2017-18. However, the present trend of cost savings may not be sustainable and the need to deliver operational efficiencies will become greater.

Changes in market conditions and customer behaviour
The industry sectors in which we operate remain highly competitive, with customers demanding more and our competitors responding quickly to these changing demands.

Principal risk	Status	How we are mitigating the risk
Customer expectations and Royal Mail's responsiveness to market changes Changes in customer expectations, and changes in the markets in which the Group operates, could impact the demand for our products and services. There is a risk that our product offerings and customer experience may not adequately meet evolving customer expectations, or that we are unable to innovate or adapt our commercial and operational activities fast enough to respond to changes in the market.	 We expect the letters sector to remain in structural decline, in the medium term, driven by e-substitution and further economic uncertainty. The parcels sector is undergoing rapid change. Competition in the UK domestic and international markets continues to intensify, with competitors offering innovative solutions that include convenient, reliable delivery and return options, and improved tracking facilities. The UK has one of the most developed e-commerce markets in the world. Growth available in the addressable UK parcels market continues to be impacted by Amazon's activities. Capacity expansion in the sector continues to exert downward pressure on prices. In the parcels business, disintermediation in online marketplaces may divert traffic to other carriers. There is a continuing requirement to invest in	• We use continuous in depth market monitoring and research to track how well we match our customers' expectations, including relative to our competitors, and to predict volume trends. • We continue to invest and introduce, at pace, new and improved products and services that: enhance customers' online and delivery experience; expand our core offering to small and medium sized businesses and marketplace sellers; and extend our product coverage. We target investments that will extend our value chain offer and increase our presence in faster growing areas of the parcels sector. • We continue to work with Amazon to provide enhanced propositions and high quality of service. • We promote the value of letters to customers through targeting advertisers and ad agencies, using our Mailmen campaign. We are also giving customers

Principal risk	Status	How we are mitigating the risk

targeted growth and innovation to meet these challenges in the marketplace as well as reducing cost to ensure better price competitiveness.

There are also potential behavioural changes by customers relating to the upcoming regulatory developments at the European level around data, including marketing mail.

incentives to test new ways of using mail at a discounted rate.

- We are investing in our Mail Centre equipment to ensure we get the best out of our machinery. To help add value to mail and keep customers using it, we invested in Mailmark® last year. It gives customers visibility of their items in our pipeline and data on the effectiveness of their mailings. Around 80 per cent of suitable letters are sent using Mailmark®. Further, we are planning investment to rollout barcodes to unsorted letters next year.
- We continue to monitor developments and actively promote the value of marketing mail.

Economic environment

Historically, there has been a correlation between economic conditions and the level of letter and parcel volumes. Flat or adverse economic conditions could impact our ability to maintain and grow revenue, either by reducing volumes or encouraging customers to adopt cheaper service options for sending letters and parcels.

While economic conditions in the UK have proved resilient, business uncertainty before and after the EU referendum has resulted in a slowdown in marketing activity. We continue to monitor the broader long term economic impact on the UK economy.

Economic growth in the Eurozone remains fragile. Low growth or recession in Europe could impact our international parcel volumes, including those handled by GLS.

- We have a challenging cost avoidance programme in place to respond to revenue headwinds.
- Net cash investment is expected to be around £450 million in 2017-18 and less than £500 million per annum going forward.
- In the event of an economic shock, we are able to reduce investment over the short term to protect the cash and indebtedness position of the business.

Growing in new areas

Our success in growing in new areas of business is dependent on such factors as our continued ability to identify new profitable and sustainable areas of business, implementing appropriate investments, and having in place suitable structures to support continued transformation of the business.

Royal Mail Group is well positioned to grow in new markets through its subsidiary, GLS. It has a replicable and scalable business model founded on the development of strong regional businesses.

Through increasing its footprint and focusing on growth opportunities in the deferred parcels space, with selective growth in the B2C parcels market, GLS is well positioned to support Royal Mail Group's overall strategy.

- Our acquisitions are primarily delivered through a targeted and focused expansion of GLS' geographic footprint, investing behind a proven operating model with a track record of identification, integration and optimisation of acquisitions over many years.
- We are also developing partnerships with retailers and network partners to stimulate cross-border volumes between the UK and Asia, as well as working with China Post to provide Chinese and UK customers with faster delivery and tracking services.
- We also have a number of small scale initiatives to seek new revenues which leverage our existing assets.

Regulatory and legislative environment

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

Absence of a sustainability framework to sustain the USO

USO finances are fragile. The regulatory system applies constraints to Royal Mail's ability to compete for traffic to support the costs of the Universal Service network. It

Ofcom concluded its Fundamental Review of the Regulation of Royal Mail (FRR) in March 2017. It did not re-introduce price controls or add binding

We are continuing to lobby BEIS and Ofcom to tackle emerging issues of USO sustainability. We are arguing for fundamental changes in the regulatory

Principal risk	Status	How we are mitigating the risk
imposes operational requirements not applied generally to the industry. These may impact our revenues and our ability to compete in the highly competitive sectors in which we operate. This could ultimately impact our ability to deliver the Universal Service on a sustainable basis.	efficiency targets. However, it has not taken forward our proposal for a proactive sustainability framework. It has also not taken forward the opportunity to raise consumer protection standards across the industry. In terms of follow-up consultations, Ofcom is consulting on a new regulatory reporting framework to reflect the outcome of its FRR. It is also planning on conducting a cost allocation review. This will review the allocation of Royal Mail's delivery costs between parcels and letters.	environment including: • greater focus on sustainability, rather than on competition issues, including through the prompt introduction of a proactive sustainability framework; • procedural fairness issues and enforcement; • a material decrease in the significant regulatory burden; and • a level playing field across the whole industry, including higher consumer protection standards in parcels. We will engage fully with Ofcom's regulatory reporting review, to ensure a more targeted regime that reduces the regulatory burden.

Competition Act investigation

Principal risk	Status	How we are mitigating the risk
In January 2014, Royal Mail issued Contract Change Notices (CCNs) under the terms of the access contract regime. In February 2014, Ofcom announced that they would investigate some of these CCNs. The opening of the investigation automatically suspended the CCNs that were the subject of the investigation. These CCNs were therefore never implemented. Ofcom issued a statement of objections in July 2015. This statement sets out Ofcom's provisional view that Royal Mail breached competition law by engaging in conduct that amounted to unlawful discrimination against postal operators competing with Royal Mail in delivery. Depending on the outcome of the Ofcom investigation and any appeal, Royal Mail may be fined.	Royal Mail is refuting all of the allegations. Ofcom has stated that their final decision is likely to be made in 2017-18.	• We have robustly defended our conduct in both written and oral representations to Ofcom. • This reflects our belief that the 2014 CCNs under investigation, which were never implemented and have now been withdrawn, were fully compliant with competition law. • We will continue to defend our case.

Employment legislation and regulation

Principal risk	Status	How we are mitigating the risk
Changes to laws and regulations relating to employment (including the interpretation and enforcement of those laws and regulations) could, directly or indirectly, increase the Group's labour costs. Given the size of the Group's workforce, this could have an adverse effect on the Group.	Recent case law has suggested that, in some circumstances, regular overtime and commission payments should form part of holiday pay calculations. The legal position remains unclear as case law is still evolving in this area. We have commenced discussions with the trade union about the application of holiday pay for part timers but anticipate that this still will take some time to implement. Other risks to our cost base associated with employment legislation have emerged and were disclosed in our financial results for the half year ended 27 September 2016. These are: • The Apprenticeship Levy came into effect in April 2017, with an estimated cost to Royal Mail of around £20 million. • Proposed changes to National Insurance (NI) on termination of employment have been announced, which will increase employers' NI costs from April 2018.	• We continue to monitor developments in case law relating to the application of the Working Time Directive in respect of holiday pay calculations. Based on our estimates of the potential financial impact, we believe that we have made sufficient provision for any historic liabilities that may arise. • We liaise with the CBI, HMRC and HM Treasury to influence employment tax developments and minimise the impacts for Royal Mail as far as possible.

Principal risk	Status	How we are mitigating the risk
	• Changes to tax/NI on salary sacrifice benefits came into effect from 1 April 2017, although pensions have specifically been excluded from these regulations.	

Other

Cyber security

We are subject to a range of regulations, contractual compliance obligations, and customer expectations around the governance and protection of various classes of data. In common with all major organisations, we are the potential target of cyber attacks that could threaten the confidentiality, integrity and availability of data in our systems.

A cyber security incident could also trigger material service interruption.

Either of these outcomes could result in financial and reputation damage, including loss of customer confidence.

While no material losses related to cyber security breaches have been suffered, given the increasing sophistication and evolving nature of this threat, and our reliance on technology and data for operational and strategic purposes, we consider cyber security a principal risk.

- As external threats become more sophisticated, and the potential impact of service disruption increases, we continue to invest in cyber security. Recognising that this risk cannot be eliminated, we have implemented significant protective measures which will need to be continuously enhanced in light of the changes and threats we face.

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 talent identification and development programmes.

Viability Statement

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

While the Directors have no reason to believe that the Group will not be viable over the longer term, they consider the three financial years to March 2020 to be an appropriate planning time horizon to assess Royal Mail's viability and to determine the probability and impact of our principal risks. This is the same time frame of our existing medium term planning cycle and therefore a period over which planning assumptions and the impact of strategic initiatives are scrutinised. This period also aligns with the performance criteria in our long term incentive plans (LTIP).

Business divisions prepare detailed annual forecasts for a 12 month period and project performance over three years with reference to economic assumptions and strategic initiatives.

The key assumptions within the projections were stress-tested with reference to risks set out in the Principal Risks section on pages 27-31 but focused on those that could have a plausible and severe financial impact over the plan horizon.

This year, the Directors considered (i) the potential impact of industrial action; (ii) deteriorating economic and market conditions which could result in letters volume decline greater than our projected four to six per cent range and (iii) increased competition in the UK parcels sector. In addition we have not assumed any material impact from our initiatives to grow in new areas.

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

The Company has decided that the Royal Mail Pension Plan will close to future accrual on 31 March 2018. On 8 May 2017, the Company and the RMPP Trustee agreed the March 2015 actuarial valuation and revised Schedule of Contributions following this decision. We continue to work closely with our unions on a sustainable and affordable solution for the provision of future pension benefits. In making their assessment of viability, the Directors have assumed that future cash pension contributions are consistent with those made in 2016-17.

Based on the results of their analysis, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to March 2020.

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

Consolidated income statement

Consolidated statement of comprehensive income

Consolidated balance sheet

Consolidated statement of changes in equity

Consolidated statement of cash flows

Notes to the financial statements

1. Basis of preparation
2. Segment information
3. Operating costs
4. People information
5. Net finance costs
6. Taxation
7. Earnings per share
8. Dividends
9. Retirement benefit plans
10. Acquisition of businesses
11. Events after the reporting year

Shareholder information

Forward-looking statements

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

Each of the Directors, whose names and function are set out on pages 49-51 of the Annual Report and Financial Statements 2016-17 confirm that, to the best of their knowledge:

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

CONSOLIDATED INCOME STATEMENT

For the 52 weeks ended 26 March 2017 and 52 weeks ended 27 March 2016

	Notes	**Reported[1] 52 weeks 2017 £m**	Reported[1,2] 52 weeks 2016 £m
Continuing operations			
Revenue	2	**9,776**	9,251
Operating costs[3]	3/4	**(9,286)**	(8,766)
People costs		**(5,576)**	(5,456)
Distribution and conveyance costs		**(2,106)**	(1,736)
Infrastructure costs		**(868)**	(854)
Other operating costs		**(736)**	(720)
Operating profit before transformation costs		**490**	485
Transformation costs		**(137)**	(191)
Operating profit after transformation costs		**353**	294
Operating specific items:			
Employee Free Shares charge		**(105)**	(158)
Legacy/other (costs)/credit		**(18)**	2
Amortisation of intangible assets in acquisitions		**(11)**	-
Operating profit		**219**	138
Profit on disposal of property, plant and equipment (non-operating specific item)		**14**	29
Loss on disposal of business		**(2)**	-
Earnings before interest and tax		**231**	167
Finance costs	5	**(18)**	(16)
Finance income	5	**2**	3
Net pension interest (non-operating specific item)	9(c)	**120**	113
Profit before tax		**335**	267
Tax charge	6	**(62)**	(45)
Profit for the year from continuing operations		**273**	222
Discontinued operations			
Profit from disposal of discontinued operations (non-operating specific item)		**-**	31
Tax on profit from disposal of discontinued operations	6	**-**	(5)
Profit for the year		**273**	248
Profit for the year attributable to:			
Equity holders of the parent Company		**272**	241
Non-controlling interests		**1**	7
Earnings per share			
Basic – continuing operations	7	**27.5p**	21.5p
Diluted – continuing operations	7	**27.3p**	21.4p
Basic – total Group	7	**27.5p**	24.1p
Diluted – total Group	7	**27.3p**	24.0p

[1] Reported – prepared in accordance with International Financial Reporting Standards (IFRS).
[2] The sub-analysis of operating costs has been re-presented as stated in Note 2. Total operating costs remain unchanged.
[3] Operating costs are stated before transformation costs, Employee Free Shares charge, Legacy/other (costs)/credit and amortisation of intangible assets in acquisitions.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the 52 weeks ended 26 March 2017 and 52 weeks ended 27 March 2016

	Notes	**Reported 52 weeks 2017 £m**	Reported 52 weeks 2016 £m
Profit for the year		**273**	248
Other comprehensive income/(expense) for the year from continuing operations:			
Items that will not be subsequently reclassified to profit or loss:			
Amounts relating to pensions accounting		**405**	255
IFRIC 14 adjustment relating to defined benefit surplus	9	113	(114)
Remeasurement gains of the defined benefit surplus	9(c)	399	320
Tax on above items	6	(107)	49
Items that may be subsequently reclassified to profit or loss:			
Foreign exchange translation differences		**18**	8
Exchange differences on translation of foreign operations (GLS)[1]		59	36
Net loss on hedge of a net investment (€500 million bond)		(38)	(26)
Net loss on hedge of a net investment (euro-denominated finance lease payable)		(3)	(2)
Designated cash flow hedges		**32**	5
Gains/(losses) on cash flow hedges deferred into equity		22	(34)
Losses on cash flow hedges released from equity to income		16	42
Gains on cash flow hedges released from equity to the carrying amount of non-financial assets		(1)	-
Tax on above items	6	(5)	(3)
Total other comprehensive income for the year		**455**	268
Total comprehensive income for the year		**728**	516
Total comprehensive income for the year attributable to:			
Equity holders of the parent Company		**727**	509
Non-controlling interests		**1**	7

[1] Includes net £4 million charge (2015-16: £2 million) in relation to tax liabilities (see Note 6).

CONSOLIDATED BALANCE SHEET

At 26 March 2017 and 27 March 2016

	Notes	**Reported at 26 March 2017 £m**	Reported at 27 March 2016 £m
Non-current assets			
Property, plant and equipment		**2,062**	2,002
Goodwill		**316**	206
Intangible assets		**567**	451
Investments in associates and joint venture		**7**	9
Financial assets			
Pension escrow investments		**20**	20
Derivatives		**4**	2
Retirement benefit surplus – net of IFRIC 14 adjustment	9	**3,839**	3,430
Other receivables		**13**	12
Deferred tax assets	6	**15**	9
		6,843	6,141
Assets held for sale		**37**	39
Current assets			
Inventories		**23**	21
Trade and other receivables		**1,117**	1,020
Income tax receivable		**7**	6
Financial assets			
Derivatives		**8**	5
Cash and cash equivalents		**299**	368
		1,454	1,420
Total assets		**8,334**	7,600
Current liabilities			
Trade and other payables		**(1,810)**	(1,700)
Financial liabilities			
Interest-bearing loans and borrowings		**(33)**	–
Obligations under finance leases		**(64)**	(84)
Derivatives		**(9)**	(33)
Income tax payable		**(12)**	(23)
Provisions		**(88)**	(151)
		(2,016)	(1,991)
Non-current liabilities			
Financial liabilities			
Interest-bearing loans and borrowings		**(430)**	(392)
Obligations under finance leases		**(130)**	(136)
Derivatives		**(2)**	(8)
Provisions		**(108)**	(96)
Other payables		**(47)**	(41)
Deferred tax liabilities	6	**(603)**	(469)
		(1,320)	(1,142)
Total liabilities		**(3,336)**	(3,133)
Net assets		**4,998**	4,467
Equity			
Share capital		**10**	10
Retained earnings		**4,940**	4,451
Other reserves		**47**	(3)
Equity attributable to parent Company		**4,997**	4,458
Non-controlling interests		**1**	9
Total equity		**4,998**	4,467

The financial statements were approved and authorised for issue by the Board of Directors on 17 May 2017 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 26 March 2017 and 52 weeks ended 27 March 2016

	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 29 March 2015	10	3,993	14	(30)	3,987	9	3,996
Profit for the year	–	241	–	–	241	7	248
Other comprehensive income for the year	–	255	8	5	268	–	268
Total comprehensive income for the year	–	496	8	5	509	7	516
Transactions with owners of the Company, recognised directly in equity							
Release of Post Office Limited separation provision	–	5	–	–	5	–	5
Dividend paid to equity holders of the parent Company	–	(213)	–	–	(213)	–	(213)
Dividend paid to non-controlling interests	–	–	–	–	–	(7)	(7)
Share-based payments							
Employee Free Shares issue[1]	–	152	–	–	152	–	152
Save As You Earn (SAYE) scheme	–	3	–	–	3	–	3
Long Term Incentive Plan (LTIP)[2]	–	15	–	–	15	–	15
Reported at 27 March 2016	10	4,451	22	(25)	4,458	9	4,467
Profit for the year	**–**	**272**	**–**	**–**	**272**	**1**	**273**
Other comprehensive income for the year	**–**	**405**	**18**	**32**	**455**	**–**	**455**
Total comprehensive income for the year	**–**	**677**	**18**	**32**	**727**	**1**	**728**
Transactions with owners of the Company, recognised directly in equity							
Release of Post Office Limited separation provision	**–**	**1**	**–**	**–**	**1**	**–**	**1**
Dividend paid to equity holders of the parent Company	**–**	**(222)**	**–**	**–**	**(222)**	**–**	**(222)**
Dividend paid to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**(8)**	**(8)**
Acquisition of non-controlling interests	**–**	**(15)**	**–**	**–**	**(15)**	**(6)**	**(21)**
Recognition of put options for non-controlling interests	**–**	**(6)**	**–**	**–**	**(6)**	**–**	**(6)**
Disposal of subsidiary	**–**	**–**	**–**	**–**	**–**	**(1)**	**(1)**
Acquisition of subsidiary	**–**	**–**	**–**	**–**	**–**	**6**	**6**
Share-based payments							
Employee Free Shares issue[1]	**–**	**100**	**–**	**–**	**100**	**–**	**100**
Save As You Earn (SAYE) scheme	**–**	**2**	**–**	**–**	**2**	**–**	**2**
Long Term Incentive Plan (LTIP)[2]	**–**	**9**	**–**	**–**	**9**	**–**	**9**
Purchase of own shares[3]	**–**	**(53)**	**–**	**–**	**(53)**	**–**	**(53)**
Settlement of LTIP 2013	**–**	**(4)**	**–**	**–**	**(4)**	**–**	**(4)**
Reported at 26 March 2017	**10**	**4,940**	**40**	**7**	**4,997**	**1**	**4,998**

[1] Excludes £5 million (2015-16: £6 million) National Insurance, charged to the income statement, included in provisions on the balance sheet.

[2] Excludes £1 million (2015-16: £1 million) National Insurance, charged to the income statement, included in provisions on the balance sheet.

[3] Purchases in respect of LTIP and Employee Free Shares schemes.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the 52 weeks ended 26 March 2017 and 52 weeks ended 27 March 2016

	Notes	Reported 52 weeks 2017 £m	Reported 52 weeks 2016 £m
Cash flow from operating activities			
Profit before tax		**335**	267
Adjustment for:			
Net pension interest		**(120)**	(113)
Net finance costs		**16**	13
Profit on disposal of property, plant and equipment		**(14)**	(29)
Loss on disposal of business		**2**	-
Legacy/other costs/(credit)		**29**	(2)
Employee Free Shares charge		**105**	158
Transformation costs		**137**	191
Operating profit before transformation costs		**490**	485
Adjustment for:			
Depreciation and amortisation		**301**	272
Share of post-tax loss/(profit) from associates and joint venture		**2**	(1)
EBITDA before transformation costs		**793**	756
Working capital movements		**(9)**	(20)
Increase in inventories		(2)	(1)
Increase in receivables		(40)	(62)
Increase in payables		56	22
Net decrease in derivative assets		2	1
(Decrease)/increase in provisions (non-specific items)		(25)	20
Pension charge to cash difference adjustment		**222**	257
Share-based awards (SAYE and LTIP) charge		**11**	13
Cash cost of transformation operating expenditure[1]		**(142)**	(233)
Cash cost of operating specific items		**(61)**	(6)
Cash inflow from operations		**814**	767
Income tax paid		**(60)**	(40)
Net cash inflow from operating activities		**754**	727
Cash flow from investing activities			
Dividend received from associate company		**-**	1
Finance income received		**3**	3
Proceeds from disposal of property (excluding London property portfolio), plant and equipment (non-operating specific item)		**37**	38
London property portfolio costs (non-operating specific item)		**(34)**	(23)
Proceeds from disposal of discontinued operations (non-operating specific item)		**-**	41
Disposal of subsidiary (non-operating specific item)		**(3)**	-
Purchase of property, plant and equipment[1]		**(230)**	(270)
Acquisition of business interests, net of cash acquired		**(122)**	(14)
Purchase of intangible assets (software)[1]		**(157)**	(191)
Payment of deferred consideration in respect of prior years' acquisitions		**(4)**	(4)
Net sale of financial asset investments (current)		**-**	56
Net cash outflow from investing activities		**(510)**	(363)
Net cash inflow before financing activities		**244**	364
Cash flow from financing activities			
Finance costs paid		**(17)**	(16)
Acquisition of non-controlling interests		**(18)**	-
Purchase of own shares		**(53)**	-
Payment of capital element of obligations under finance lease contracts		**(74)**	(90)
Cash received on sale and leasebacks		**41**	36
Drawdown of loan facility		**31**	-
Repayment of loans and borrowings		**(7)**	-
Dividends paid to equity holders of the parent Company	8	**(222)**	(213)
Dividend paid to non-controlling interests		**(8)**	(7)
Net cash outflow from financing activities		**(327)**	(290)
Net (decrease)/increase in cash and cash equivalents		**(83)**	74
Effect of foreign currency exchange rates on cash and cash equivalents		**14**	7
Cash and cash equivalents at the beginning of the year		**368**	287
Cash and cash equivalents at the end of the year		**299**	368

[1] Items comprise total investment within 'In-year trading cash flow' measure (see Financial Review).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation

General information

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

The consolidated financial statements of the Company for the 52 weeks ended 26 March 2017 (2015-16: 52 weeks ended 27 March 2016) comprise the Company and its subsidiaries (together referred to as 'the Group') and the Group's interest in its associate undertakings and joint venture.

Basis of preparation and accounting

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

(b) The consolidated financial statements of the Group have been prepared in accordance with the Companies Act 2006 and applicable IFRS as adopted for use in the EU. The consolidated financial statements have been prepared in accordance with the accounting policies stated in the Group's Annual Report and Financial Statements for the reporting year ended 26 March 2017.

The financial information set out in this document does not constitute the Group's statutory financial statements for the reporting years ended 26 March 2017 or 27 March 2016, but is derived from those financial statements. The auditor's report on those statutory financial statements was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006. Statutory financial statements for the reporting year ended 27 March 2016 have been delivered to the Registrar of Companies. The statutory financial statements for the reporting year ended 26 March 2017 were approved by the Board of Directors on 17 May 2017 along with this Financial report, but will be delivered to the Registrar of Companies in due course.

The Annual Report and Financial Statements 2016-17, together with details of the Annual General Meeting (AGM), will be despatched to shareholders before the AGM. The AGM will take place on 20 July 2017.

Presentation of results and accounting policies

The Group's significant accounting policies, including details of new and amended accounting standards adopted in the reporting year, can be found in the Annual Report and Financial Statements 2016-17. Details of key sources of estimation uncertainty, are provided below.

These financial statements and associated Notes have been prepared in accordance with IFRS as adopted by the EU and as issued by the International Accounting Standards Board (IASB) (i.e. on a 'reported' basis). In some instances, Alternative Performance Measures (APMs) are used by the Group. This is because Management are of the view that these APMs provide a more meaningful basis on which to analyse business performance, and are consistent with the way that financial performance is measured by Management and reported to the Board. Details of the APMs used by the Group are provided on page 22.

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 for RMPP are included within Note 9.

Deferred revenue

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

1. Basis of preparation (continued)

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

At 26 March 2017	Capped			Uncapped
	30	As reported 99	300	
Public stamp holdings value (£m)	152	184	200	216

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

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

Provisions

Due to the nature of provisions, a significant part of their determination is based upon estimates and/or judgements concerning the future. The industrial diseases claims provision is considered to be the area where the application of judgement has the most significant impact.

The industrial diseases claims provision arose as a result of a Court of Appeals judgement in 2010 and relates to individuals who were employed in the General Post Office Telecommunications division prior to October 1981. The provision requires estimates to be made of the likely volume and cost of future claims, as well as the discount rate to be applied to these, and is based on the best information available as at the year end, which incorporates independent expert actuarial advice. The result of a 0.5 per cent decrease in the discount rate estimate would be a £6 million increase in the overall industrial diseases provision.

Business acquisitions

Identifiable assets acquired and liabilities and contingent liabilities assumed in business acquisitions are measured initially at their fair values at the acquisition date. The fair value of an asset or liability represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Independent valuers were used to assist in the valuation of the Group's in-year acquisitions.

In determining the fair value of the intangible assets acquired, risk-adjusted future cash flows discounted using discount rates specific to the asset are generally used. In determining cash flows, a combination of historical data and estimates regarding revenue growth, profit margins and operating cash flows have been used.

- customer relationships required judgement on future cash flows, churn, and the expected remaining life of the customer relationship.
- brands were measured by estimating the savings realised by owning or holding the right to use the brand name (as opposed to paying a royalty fee to a third party). This includes an estimate of the projected revenues generated and the estimated life of the brand to a third party.
- internally developed software acquired was valued using the relief from royalty approach, taking into account software licencing costs in the postage, courier and shipping service sector. Internally developed software acquired, was valued on the basis of the estimated cost to recreate the software.
- tangible assets were valued by estimating the current cost to purchase or replace the assets, whilst also taking into account available market data for the sale or transfer of such assets.

The excess of the consideration transferred over the fair value of the net identifiable assets acquired is recorded as goodwill. The Group has one year from the acquisition date to re-measure the fair values of the acquired assets and liabilities and the resulting goodwill if new information is obtained relating to conditions that existed at the acquisition date.

Acquisition related costs are expensed as incurred. The business acquisitions during the period are disclosed in Note 10.

Goodwill allocation and impairment testing

Goodwill recognised in a business combination is not amortised and, as such, must be tested annually for impairment in line with IAS 36 'Impairment of Assets'. In making assessments for impairment, assets that do not generate independent cash flows, such as goodwill, are allocated to an appropriate cash-generating unit (CGU), or group of CGUs, on the basis of whether those CGUs are expected to benefit from the synergies of the combination. Management necessarily applies judgement in allocating goodwill to CGUs. As at 26 March 2017 £299 million of the total goodwill balance of £316 million was allocated to the Group of CGUs making up the GLS reportable segment.

In assessing whether there has been any impairment of goodwill, Management determines whether the goodwill carrying value is higher than the recoverable amount of the underlying CGUs. The recoverable amount is the higher of a CGU's fair value less costs to sell (realisable value) and value-in-use. In the case of goodwill allocated to the GLS reportable segment the realisable value is estimated by applying an average share price/earnings ratios of quoted peers to the current year results of GLS. Judgement must be made by Management in choosing a suitable peer group against which to compare the realisable value of GLS.

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.

2. Segment information

The Group's operating segments are based on geographic business units whose primary services and products relate to the delivery of parcels and letters. These segments are evaluated regularly by the Chief Executive's Committee and the Royal Mail plc Board – the Chief Operating Decision Maker (CODM) as defined by IFRS 8 'Operating Segments' – in deciding how to allocate resources and assess performance.

In the year, following the acquisition of the minority shareholding (49 per cent) on 31 March 2016, Romec Limited, previously reported in a third operating segment in 2015-16, has been incorporated into the UKPIL segment. This is to better reflect how the segment's resources are managed and reported to the CODM. The 2015-16 comparative information has been restated accordingly. There has also been a re-presentation of £141 million costs between infrastructure costs and other operating costs in the Group income statement.

Of the residual businesses previously included in the 'Other' segment in 2015-16, the Group disposed of its 51 per cent shareholding in NDC 2000 Limited (NDC) on 24 April 2016 and the results of the Quadrant Catering Limited associate company do not materially impact Group results. A loss of £2 million has been recognised in the income statement for the disposal of NDC.

A key measure of segment performance is operating profit before transformation costs (used internally for the Corporate Balanced Scorecard). This measure of performance is disclosed on an 'adjusted' basis, a non-IFRS measure, excluding specific items and the pension charge to cash difference adjustment (see APMs section on page 22). This is consistent with how financial performance is measured internally and reported to the CODM.

Segment revenues have been attributed to the respective countries based on the primary location of the service performed. Transfer prices between segments are set at arm's length/fair value on the basis of charges reached through negotiation between the relevant business units that form part of the segments. Trading between UKPIL and GLS is not material.

	UK operations	Non-UK operations	Group		
52 weeks 2017		Adjusted		Specific items and pension adjustment[1]	Reported Group
Continuing operations	UKPIL £m	GLS £m	Total £m	£m	Total £m
Revenue	7,658	2,118	9,776	-	9,776
People costs	(4,865)	(489)	(5,354)	(222)	(5,576)
Non-people costs	(2,245)	(1,465)	(3,710)	-	(3,710)
Operating profit before transformation costs	548	164	712	(222)	490
Transformation costs	(137)	-	(137)	-	(137)
Operating profit after transformation costs	411	164	575	(222)	353
Operating specific items					
Employee Free Shares charge	-	-	-	(105)	(105)
Legacy/other costs	-	-	-	(18)	(18)
Amortisation of intangible assets in acquisitions	-	-	-	(11)	(11)
Operating profit	411	164	575	(356)	219
Non-operating specific items					
Profit on disposal of property, plant and equipment	-	-	-	14	14
Loss on disposal of business	-	-	-	(2)	(2)
Earnings before interest and tax	411	164	575	(344)	231
Net finance costs	(13)	(3)	(16)	-	(16)
Net pension interest (non-operating specific item)	-	-	-	120	120
Profit before tax	398	161	559	(224)	335

[1] A £7 million credit for specific items and a £222 million charge for the pension charge to cash difference adjustment relate to UKPIL. A £9 million charge for specific items relates to GLS, comprising £10 million amortisation offset by £1 million profit on disposal of property, plant and equipment.

2. Segment information (continued)

	UK operations	Non-UK operations	Group		
52 weeks 2016		Adjusted		Specific items and pension adjustment[1]	Reported Group
Continuing operations	UKPIL £m	GLS £m	Total £m	£m	Total £m
Revenue	7,671	1,580	9,251	–	9,251
People costs	(4,841)	(358)	(5,199)	(257)	(5,456)
Non-people costs	(2,205)	(1,105)	(3,310)	–	(3,310)
Operating profit before transformation costs	625	117	742	(257)	485
Transformation costs	(191)	–	(191)	–	(191)
Operating profit after transformation costs	434	117	551	(257)	294
Operating specific items					
Employee Free Shares charge	–	–	–	(158)	(158)
Legacy/other credit	–	–	–	2	2
Operating profit	434	117	551	(413)	138
Non-operating specific items					
Profit on disposal of property, plant and equipment	–	–	–	29	29
Earnings before interest and tax	434	117	551	(384)	167
Net finance costs	(13)	–	(13)	–	(13)
Net pension interest (non-operating specific item)	–	–	–	113	113
Profit before tax	421	117	538	(271)	267

[1] Specific items and pension charge to cash difference adjustment all relate to UKPIL.

The expenses and share of loss from associates and joint venture below are included within operating profit before transformation costs in the income statement.

The non-current assets below are included within non-current assets on the balance sheet but exclude financial assets, retirement benefit surplus and deferred tax.

	UK operations	**Non-UK operations**	
52 weeks 2017	**UKPIL £m**	**GLS £m**	**Total £m**
Depreciation	**(198)**	**(37)**	**(235)**
Amortisation of intangible assets (mainly software)[2]	**(56)**	**(21)**	**(77)**
Share of post-tax loss from associates and joint venture	**(1)**	**(1)**	**(2)**
Non-current assets	**2,199**	**766**	**2,965**

	UK operations	Non-UK operations	
52 weeks 2016	UKPIL £m	GLS £m	Total £m
Depreciation	(194)	(30)	(224)
Amortisation of intangible assets (mainly software)[2]	(39)	(9)	(48)
Share of post-tax profit from associates and joint venture	1	–	1
Non-current assets	2,125	555	2,680

[2] Includes £11 million (2015-16: £nil) presented as an operating specific item in the income statement.

3. Operating costs

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

	52 weeks 2017 £m	52 weeks 2016 £m
People costs (see Note 4)	**(5,576)**	(5,456)
Distribution and conveyance costs		
Charges from overseas postal administrations	**(356)**	(294)
Fuel costs	**(159)**	(172)
Operating lease costs – vehicles	**(17)**	(11)
Infrastructure costs		
Depreciation and amortisation	**(301)**	(272)
Depreciation of property, plant and equipment	(235)	(224)
Amortisation of intangible assets[1]	(66)	(48)

[1] Excludes £11 million (2015-16: £nil) amortisation of intangible assets in acquisitions, presented as an operating specific item in the income statement.

	52 weeks 2017 £m	52 weeks 2016 £m
Other operating costs		
Post Office Limited charges	**(343)**	(342)
Inventory expensed	**(49)**	(46)
Operating lease costs – property, plant and equipment	**(143)**	(134)

Research and development

During the year, the Group continued to develop products and services within the business. An indication of the nature of the activities performed will be provided in the Strategic Report in the Annual Report and Financial Statements 2016-17.

Regulatory body costs

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

	52 weeks 2017 £m	52 weeks 2016 £m
Ofcom	**(4)**	(5)
Citizens Advice/Consumer Council for Northern Ireland	**(3)**	(3)
Total	**(7)**	(8)

Statutory audit costs

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

Auditor's fees	**52 weeks 2017 £000**	52 weeks 2016 £000
Audit of Group statutory financial statements	**(2,178)**	(1,887)
Other fees to Auditor:		
Regulatory audit	**(122)**	(122)
Other assurance	**(44)**	(6)
Taxation services	**–**	(29)
Other non-audit services	**(342)**	(216)
Total	**(2,686)**	(2,260)

The 2016-17 fees relate to the services of the Group's appointed auditor KPMG LLP who, in addition to the above amounts, were paid by the respective Trustees, £88,000 for the audit of the Royal Mail Pension Plan (2015-16: £85,000) and £28,000 for the audit of the Royal Mail Defined Contribution Plan (2015-16: £31,000).

4. People information

People costs

	52 weeks 2017 £m	52 weeks 2016 £m
Wages and salaries	**(4,371)**	(4,323)
UK-based	(3,949)	(4,020)
GLS	(422)	(303)
Pensions (see Note 9)	**(776)**	(768)
Defined benefit UK	(568)	(619)
Defined contribution UK	(51)	(45)
UK defined benefit and defined contribution Pension Salary Exchange (PSE)	(151)	(99)
GLS	(6)	(5)
Social security	**(429)**	(365)
UK-based	(368)	(315)
GLS	(61)	(50)
Total people costs	**(5,576)**	(5,456)

Defined benefit pension plan rates:		
Income statement	**28.8%**	29.8%
Cash flow	**17.1%**	17.1%
Defined contribution pension plan average rate:		
Income statement and cash flow[1]	**6.0%**	5.7%

People numbers

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

	Full-time equivalents[2]				Headcount			
	Year end		Average		Year end		Average	
	52 weeks 2017	52 weeks 2016	52 weeks 2017	52 weeks 2016	52 weeks 2017	52 weeks 2016	52 weeks 2017	52 weeks 2016
UKPIL	**148,170**	151,713	**151,601**	154,572	**141,819**	142,544	**142,579**	143,835
GLS – continuing operations	**12,966**	9,683	**12,617**	9,471	**17,136**	13,991	**16,912**	13,829
Total	**161,136**	161,396	**164,218**	164,043	**158,955**	156,535	**159,491**	157,664

Directors' remuneration

	52 weeks 2017 £000	52 weeks 2016 £000
Directors' remuneration[3]	**(3,345)**	(2,830)
Amounts earned under Long Term Incentive Plans (LTIP)	**(400)**	(676)
Number of Directors accruing benefits under defined benefit plans	**–**	–
Number of Directors accruing benefits under defined contribution plans	**1**	1

[1] Employer contribution rates are one per cent for employees in the entry level category and seven to nine per cent for those in the standard level category, depending on the employees' selected contribution rate.
[2] These people numbers relate to the total number of paid hours (including part-time, full-time and agency hours) divided by the number of standard full-time working hours in the same year.
[3] These amounts include any cash supplements received in lieu of pension.

5. Net finance costs

	52 weeks 2017 £m	52 weeks 2016 £m
Unwinding of discount relating to industrial diseases claims provision	**(2)**	(2)
Interest payable on financial liabilities	**(16)**	(14)
Syndicated bank loan facility		
Loans and borrowings	(1)	-
Unused facility fees	(2)	(2)
Arrangement fees	(1)	(2)
€500 million bond – 2.375% Senior Fixed Rate Notes due July 2024	(11)	(9)
Finance leases	(4)	(5)
Capitalisation of borrowing costs on specific qualifying assets	4	4
Other finance costs	(1)	-
Finance costs	**(18)**	(16)
Finance income – interest receivable on financial assets	**2**	3
Net finance costs	**(16)**	(13)

6. Taxation

	52 weeks 2017 £m	52 weeks 2016 £m
Tax (charged)/credited in the income statement		
Current income tax:		
Current UK income tax charge	**(16)**	(16)
Foreign tax	**(45)**	(35)
Current income tax charge	**(61)**	(51)
Amounts overprovided in previous years	**1**	1
Total current income tax charge	**(60)**	(50)
Deferred income tax:		
Effect of change in tax rates	**9**	6
Relating to origination and reversal of temporary differences	**(20)**	(17)
Amounts overprovided in previous years	**9**	11
Total deferred income tax charge	**(2)**	-
Tax charge in the consolidated income statement	**(62)**	(50)
Tax credited/(charged) to other comprehensive income		
Current tax:		
Tax credit on foreign currency translation	**1**	-
Deferred tax:		
Tax (charge)/credit in relation to actuarial gains on defined benefit pension plans	**(107)**	49
Tax charge on revaluation of cash flow hedges	**(5)**	(3)
Tax charge on foreign currency translation	**(5)**	(2)
Total deferred income tax (charge)/credit	**(117)**	44
Total (charge)/credit in the consolidated statement of other comprehensive income	**(116)**	44

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 26 March 2017 and 52 weeks ended 27 March 2016 is shown below.

	52 weeks 2017 £m	52 weeks 2016 £m
Profit before tax[1]	**335**	298
At UK standard rate of corporation tax of 20% (2015-16: 20%)	**(67)**	(60)
Effect of higher taxes on overseas earnings	**(9)**	(10)
Tax overprovided in previous years	**10**	12
Non-deductible expenses	**(5)**	(6)
Associates' profit after tax charge (included in Group pre-tax profit)	**-**	1
Tax effect of property disposals	**5**	7
Net increase in tax charge resulting from non-recognition of deferred tax assets and liabilities	**(5)**	-
Effect of change in tax rates	**9**	6
Tax charge in the income statement[2]	**(62)**	(50)

Tax on specific items

	52 weeks 2017 £m	52 weeks 2016 £m
Continuing operations	**59**	72
Discontinued operations	**-**	(5)
Tax specific items – adjustments in respect of previous years	**-**	1
Total tax credit on specific items	**59**	68

The tax credit on specific items of £59 million (2015-16: £68 million) includes the tax impact of property transactions and certain tax-only adjustments, such as the impact of changes in tax law.

Current tax

The current tax charge for the Group is mainly in respect of GLS. UK taxable profits in 2016-17 are partially covered by a combination of brought forward losses and capital allowance claims. Accordingly, the current tax rate for the Group is 18 per cent (2015-16: 17 per cent).

Effective tax rate

The effective tax rate on reported profit is 19 per cent (2015-16: 17 per cent), comprising current tax due on reported profits and deferred tax in relation to temporary differences. This rate is below the UK statutory rate, principally due to changes to tax law detailed below, tax overprovided in previous years and no tax charge recognised in relation to property disposals[3]. The majority of the prior year overprovision is in relation to tax incentives in earlier years.

GLS pays tax in a number of territories, with the majority of its profits in the reporting year to 26 March 2017 earned in territories where the tax rate is above the UK statutory tax rate. Certain subsidiaries, notably GLS France, continue to not recognise deferred tax credits on losses made during the reporting year as it is not sufficiently certain of its capacity to utilise them in the future. These factors contribute to GLS having a higher effective tax rate for the year than the UK statutory rate.

[1] The 2015-16 profit includes £31 million in respect of discontinued operations.
[2] The 2015-16 charge includes £5 million in respect of discontinued operations.
[3] 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 over) to be sold at their residual values, no capital gain would arise.

6. Taxation (continued)

Deferred tax

Deferred tax by balance sheet category 52 weeks ended 26 March 2017	**At 28 March 2016 £m**	**(Charged)/ credited to income statement £m**	**(Charged)/ credited to other comprehensive income £m**	**(Charged)/ credited directly to equity £m**	**Acquisition of subsidiaries £m**	**R&D credit £m**	**At 26 March 2017 £m**
Liabilities							
Accelerated capital allowances	(1)	(13)	(2)4	–	–	–	(16)
Pensions temporary differences	(565)	25	(107)	–	–	–	(647)
Employee share schemes	(25)	15	–	(1)	–	–	(11)
Intangible assets	(33)	17	(3)[4]	–	(17)	–	(36)
Hedging derivatives temporary differences	4	–	(5)	–	–	–	(1)
Deferred tax liabilities	(620)	44	(117)	(1)	(17)	–	(711)
Assets							
Deferred capital allowances	78	(41)	–	–	–	–	37
Provisions and other	19	–	–	–	1	–	20
Losses available for offset against future taxable income	63	(5)	–	–	4	–	62
R&D expenditure credit	–	–	–	–	–	4	4
Deferred tax assets	160	(46)	–	–	5	4	123
Net deferred tax liability	(460)	(2)	(117)	(1)	(12)	4	(588)

Deferred tax by balance sheet category 52 weeks ended 27 March 2016	At 30 March 2015 £m	(Charged)/ credited to income statement £m	(Charged)/ credited to other comprehensive income £m	At 27 March 2016 £m
Liabilities				
Accelerated capital allowances	(1)	–	–	(1)
Pensions temporary differences	(667)	53	49	(565)
Employee share schemes	(48)	23	–	(25)
Intangible assets	(29)	(2)	(2)[4]	(33)
Deferred tax liabilities	(745)	74	47	(624)
Assets				
Deferred capital allowances	127	(49)	–	78
Provisions and other	25	(6)	–	19
Losses available for offset against future taxable income	82	(19)	–	63
Hedging derivatives temporary differences	7	–	(3)	4
Deferred tax assets	241	(74)	(3)	164
Net deferred tax liability	(504)	–	44	(460)

Deferred tax – balance sheet presentation	**At 26 March 2017 £m**	At 27 March 2016 £m
Liabilities		
GLS group	**(50)**	(34)
Net UK position	**(553)**	(435)
Deferred tax liabilities	**(603)**	(469)
Assets		
GLS group	**15**	9
Net UK position	**–**	–
Net deferred tax liability	**(588)**	(460)

[4] £5 million charged (2015-16: £2 million) to the 'Foreign currency translation reserve'.

6. Taxation (continued)

The deferred tax position shows an increased overall liability in the reporting year to 26 March 2017.

This increase in the liability is primarily as a result of the deferred tax impact of the increase in the surplus in RMPP.

The movement in pensions temporary differences credited to 'Other comprehensive income' includes a credit of £43 million (2015-16: £48 million) relating to the change in tax law detailed below. Additionally a charge of £65 million (2015-16: £59 million credit) has been recognised in relation to the IFRIC 14 adjustment detailed in Note 9.

GLS has deferred tax assets and liabilities in various jurisdictions which cannot be offset against one another. The main elements of the liability relate to goodwill and intangibles in GLS Germany, for which the Group has already taken tax deductions, and acquisition intangibles in relation to ASM and GSO.

At 26 March 2017, the Group had unrecognised deferred tax assets of £73 million (2015-16: £68 million) comprising £68 million (2015-16: £62 million) relating to tax losses of £259 million (2015-16: £234 million), mainly in GLS, that are available for offset against future profits if generated in the relevant GLS companies, and £5 million (2015-16: £6 million) in relation to £30 million (2015-16: £30 million) of UK capital losses carried forward. The Group has not recognised these deferred tax assets on the basis that it is not sufficiently certain of its capacity to utilise them in the future.

The Group also has temporary differences in respect of £211 million (2015-16: £211 million) of capital losses, the tax effect of which is £36 million (2015-16: £38 million) in respect of assets previously qualifying for industrial buildings allowances. Further temporary differences exist in relation to £212 million (2015-16: £217 million) of gains for which rollover relief has been claimed, the tax effect of which is £36 million (2015-16: £40 million). No tax liability would be expected to crystallise on the basis that, were the assets (into which the gains have been rolled over) to be sold at their residual values, no capital gain would arise.

Changes to UK corporation tax rate
Reductions in the UK corporation tax rate from 20 per cent to 19 per cent (effective from 1 April 2017) and to 17 per cent (effective 1 April 2020) were substantively enacted on 26 October 2015 and 15 September 2016 respectively. In future, this will reduce the Group's current tax charge accordingly. In accordance with accounting standards, the effect of these rate reductions on deferred tax balances has been reflected in these financial statements, dependent upon when temporary differences are expected to reverse.

7. Earnings per share

	52 weeks 2017			52 weeks 2016		
	Reported	**Specific items[1]**	**Adjusted**	Reported	Specific items[1]	Adjusted
Attributable to equity holders of the parent Company						
Profit for the year from continuing operations (£million)	**272**	**(165)**	**437**	215	(198)	413
Weighted average number of shares issued (million)	**990**	**n/a**	**990**	1,000	n/a	1,000
Basic earnings per share from continuing operations (pence)	**27.5**	**n/a**	**44.1**	21.5	n/a	41.3
Diluted earnings per share from continuing operations (pence)	**27.3**	**n/a**	**43.8**	21.4	n/a	41.1
Profit for the year (£million)	**272**	**(165)**	**437**	241	(172)	413
Weighted average number of shares issued (million)	**990**	**n/a**	**990**	1,000	n/a	1,000
Basic earnings per share (pence)	**27.5**	**n/a**	**44.1**	24.1	n/a	41.3
Diluted earnings per share (pence)	**27.3**	**n/a**	**43.8**	24.0	n/a	41.1

[1] Further detail of the balances which make up the specific items totals can be found in the Financial Review on page 16.

The diluted earnings per share for the year ended 26 March 2017 is based on a weighted average number of shares of 996,593,330 (2015-16: 1,004,792,701) to take account of the potential issue of 3,252,077 ordinary shares resulting from the Long Term Incentive Plans (LTIP) for certain senior management and 2,923,428 ordinary shares resulting from the the Save As You Earn (SAYE) scheme. The 9,582,175 shares held in an Employee Benefit Trust for the settlement of options and awards to current and former employees, are treated as treasury shares for accounting purposes. The Company, however, does not hold any shares in treasury.

Basic and diluted earnings per share from discontinued operations were nil pence per share (2015-16: 2.6 pence per share).

8. Dividends

Dividends on ordinary shares	**52 weeks 2017 Pence per share**	52 weeks 2016 Pence per share	**52 weeks 2017 £m**	52 weeks 2016 £m
Final dividends paid	**15.1**	14.3	**149**	143
Interim dividends paid	**7.4**	7.0	**73**	70
Total dividends paid	**22.5**	21.3	**222**	213

In addition to the above dividends paid, the Directors are proposing a final dividend for the year ending 26 March 2017 of 15.6 pence per share, equivalent to £156 million. This dividend will be paid to shareholders on 28 July 2017 subject to approval at the AGM to be held on 20 July 2017.

9. Retirement benefit plans

Summary pension information

	52 weeks 2017 £m	52 weeks 2016 £m
Ongoing UK pension service costs		
UK defined benefit plan (including administration costs)[1]	**(568)**	(619)
UK defined contribution plan	**(51)**	(45)
UK defined benefit and defined contribution plans' Pension Salary Exchange (PSE)[2] employer contributions	**(151)**	(99)
Total UK ongoing pension service costs	**(770)**	(763)
GLS defined contribution type plan costs	**(6)**	(5)
Total Group ongoing pension service costs	**(776)**	(768)
Cash flows relating to ongoing pension service costs		
UK defined benefit plan employer contributions[3]	**(336)**	(352)
Defined contribution plans' employer contributions	**(57)**	(50)
UK defined benefit and defined contribution plans' PSE employer contributions	**(151)**	(99)
Total Group cash flows relating to ongoing pension service costs	**(544)**	(501)
RMSEPP deficit correction payments	**(10)**	(10)
Pension charge to cash difference adjustment	**(222)**	(257)

	At 26 March 2017 '000	At 27 March 2016 '000
UK pension plans – active membership		
UK defined benefit plan	**88**	93
UK defined contribution plan	**45**	42
Total	**133**	135

[1] These pension service costs are charged to the income statement. They represent the cost (as a percentage of pensionable payroll – 28.8 per cent (2015-16: 29.8 per cent)) of the increase in the defined benefit obligation due to members earning one more year's worth of pension benefits. They are calculated in accordance with IAS 19 and are based on market yields (high quality corporate bonds and inflation) at the beginning of the reporting year. Pensions administration costs for the Royal Mail Pension Plan (RMPP) of £5 million (2015-16: £6 million) continue to be included within the Group's ongoing UK pension service costs.

[2] At the beginning of August 2015, PSE was introduced under which eligible employees who are enrolled into PSE opt out of making employee contributions to their pension and the Group makes additional contributions in return for a reduction in basic pay. As a result, there is a decrease in wages and salaries and a corresponding increase in pension costs of £151 million (2015-16: £99 million) in the reporting year.

[3] The employer contribution cash flow rate (17.1 per cent in both the current and prior year) forms part of the payroll expense and is paid into the RMPP. 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.

9. Retirement benefit plans (continued)

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

Ongoing UK defined contribution plan costs have increased from £63 million in 2015-16 to £82 million (including £31 million PSE costs). This is mainly due to the introduction of PSE, but also as a result of the continued increase in plan membership and an increase in the average employer's contribution rate from 5.7 per cent in 2015-16 to 6.0 per cent in 2016-17.

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

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

The transfer left the Royal Mail section (RM section) of the RMPP fully funded on an actuarial basis. On this basis, using long-term actuarial assumptions agreed at that date, it was predicted the 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
The RMPP is funded by the payment of contributions to separate trustee administered funds. RMPP includes sections A, B and C, each with different terms and conditions:

- Section A is for members (or beneficiaries of members) who joined before 1 December 1971;
- Section B is for members (or beneficiaries of members) who joined on or after 1 December 1971 and before 1 April 1987, or for members of Section A who chose to receive Section B benefits; and
- Section C is for members (or beneficiaries of members) who joined on or after 1 April 1987 and before 1 April 2008.

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

Royal Mail Pensions Trustees Limited acts as the corporate trustee to the RMPP. Within the Trustee, there is a Trustee Board of nine nominated Trustee Directors. The Trustee Board is supported by an executive team of pension management professionals who provide day-to-day plan management, advise the Trustee on its responsibilities and ensures that decisions are fully implemented.

The Trustee has several responsibilities. It must always act in the best interests of all RMPP beneficiaries – including active members, deferred members, pensioners and beneficiaries. Specifically, it must pay all benefits as they fall due under the Trust Deed and Rules. The Trustee is responsible for:

- monitoring the RMPP - to help protect benefits, the Trustee monitors the financial strength of the participating employers;
- investing contributions - the Trustee invest the member and employer contributions in a mix of equities, bonds, property and other investments including derivatives. It holds all the contributions and investments on behalf of the members; and
- keeping members informed - the Trustee sends active members an annual benefit illustration, which shows what members can expect in the future, together with a summary of the RMPP's annual report and accounts.

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

This agreement enabled the March 2012 actuarial valuation to be concluded, and allowed the Company's regular future service contribution rate for RMPP, expressed as a percentage of pensionable pay, to remain at 17.1 per cent.

The RMPP's investment strategy was developed to mitigate the largest risks – movements in interest rates and inflation rates. This has enabled the Company to maintain its March 2018 commitment.

As part of the March 2012 actuarial valuation, the Group agreed to pay additional contributions of up to £50 million a year from April 2016 onwards if the RMPP Trustee considers these necessary to maintain the RMPP's projected funding position in March 2019. The RMPP Trustee has carried out its assessment of liabilities as at March 2016 and confirmed that no payment was due for 2016-17. Following agreement on the revised Schedule of Contributions, such assessments will no longer be carried out.

2018 Pensions Review
In January 2017, the Company consulted RMPP members about its proposal for the future of the RMPP. The consultation closed on 10 March 2017. Following a review of member feedback, on 13 April 2017 the Company announced that it had not found an affordable way to keep the RMPP open in its current form after March 2018, and had made the decision to close the RMPP[4] to future accrual on 31 March 2018.

On 8 May 2017, after the balance sheet date, agreement was reached between the Company and the RMPP Trustee on the March 2015 actuarial valuation and a revised Schedule of Contributions.

In accordance with the new Schedule of Contributions, the service contribution rate for 2017-18 will remain at 17.1 per cent. The March 2015 valuation continues to show the scheme in surplus and therefore no deficit correction payments are expected to be made. The Company expects to contribute around £320 million and employees around £110 million towards the RMPP in 2017-18.

[4] The decision was made to close Sections B and C of the RMPP to future accrual. Section A of the Plan which has a small number of active members remains open to future accrual.

9. Retirement benefit plans (continued)

Royal Mail Senior Executives Pension Plan (RMSEPP)
Royal Mail Group Limited also contributes to a smaller defined benefit plan for executives, RMSEPP – which closed in December 2012 to future accrual, therefore the Group makes no regular future service contributions. As agreed in the February 2013 Funding Agreement with the Trustees, the Group 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 2016-17 were £10 million (2015-16: £10 million). The RMSEPP triennial valuation at 31 March 2015 has been completed, based on the assumptions agreed as part of the Funding Agreement made between the Company and the Trustees in 2013.

In April 2016 the RMSEPP Trustees purchased a 'buy-in' policy of insurance in respect of pensions in payment of its oldest members. This is considered an asset of the RMSEPP and does not confer any rights to individual members. All benefit payments due from the RMSEPP remain unchanged. The insurance policy exactly matches the value and timing of the benefits payable under the RMSEPP (for the oldest members) and the fair value is deemed to be the present value of the related obligation. The buy-in policy valued at £151 million is included as a pension asset and a pension liability at 26 March 2017.

A liability of £2 million (2015-16: £2 million) has been recognised for future payment of pension benefits to a past Director.

Accounting and actuarial surplus position (RMPP and RMSEPP)

The combined plans' assets and liabilities are shown below.

	Accounting (IAS 19)		**Actuarial/cash funding**	
	At 26 March 2017 £m	At 27 March 2016 £m	**At 31 March 2017 £m**	At 31 March 2016 £m
Fair value of plans' assets (9(b) below)[5]	**9,847**	7,374	**10,066**	7,442
Present value of plans' liabilities	**(5,992)**	(3,815)	**(8,984)**	(5,665)
Surplus in plans (pre IFRIC 14 adjustment)	**3,855**	3,559	**1,082**	1,777
IFRIC 14 adjustment	**(16)**	(129)	**n/a**	n/a
Surplus in plans	**3,839**	3,430	**1,082**	1,777

[5] Difference between accounting and actuarial/cash funding asset fair values arises from the different year end dates used for the valuation of the assets under both methods.

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

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

In the current period, the RMPP surplus is assumed to be fully recoverable as a reduction to future employer contributions as the economic benefit resulting from comparing the future service costs to the employer contributions is more than the accounting surplus. Therefore, no IFRIC 14 adjustment is required.

Following the Company's decision to close the RMPP, after 31 March 2018 the surplus will no longer be assumed to be recoverable as a reduction to future employer contributions. If this had been the position at 26 March 2017, only one year of economic benefit would be recoverable as a reduction to future employer contributions, with the remaining surplus assumed to be available as a refund. This would result in an additional IFRIC 14 adjustment of £1,176 million and a reduction in the overall 26 March 2017 pension surplus (net of IFRIC 14) from £3,839 million to £2,663 million. On this basis, the deferred tax liability in respect of the surplus as at 26 March 2017 of £647 million would be reduced to £85 million. It is not currently anticipated that any curtailments will arise as a result of the closure of RMPP.

Included in the IAS 19 figures in the table above is an RMSEPP surplus at 26 March 2017 of £47 million (pre IFRIC 14) (2015-16: £37 million surplus).

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

The Directors do not believe that the current excess of pension plan assets over the liabilities on an accounting basis will result in an excess of pension assets on an actuarial/cash funding basis. However, the Directors are required to account for the pension plan based on their legal right to benefit from a surplus, using long-term actuarial assumptions current at the reporting date, as required by IFRS. The legal right to benefit from a surplus has not changed as a result of the changes agreed between the Company and Trustee on 8 May 2017.

Actuarial/cash funding
The actuarial funding surplus of the RMPP and RMSEPP is £1,082 million at 31 March 2017 (2015-16: £1,777 million surplus). The cost of benefits being accrued to RMPP each year, based on market conditions at the end of March 2017, would currently be £1,260 million. This is significantly greater than projected 2017-18 contributions of £320 million by the Company and £110 million by employees. Accordingly we expect the actuarial surplus would be exhausted during 2018 if the RMPP had remained open in its current form.

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

9. Retirement benefit plans (continued)

a) Major long-term assumptions used for accounting (IAS 19) purposes – RMPP and RMSEPP

The major assumptions used to calculate the accounting position of the pension plans are as follows:

	At 26 March 2017	At 27 March 2016
Retail Price Index (RPI)	**3.2%**	3.0%
Consumer Price Index (CPI)	**2.2%**	2.0%
Discount rate		
– nominal	**2.5%**	3.5%
– real (nominal less RPI)[6]	**(0.7)%**	0.5%
Rate of increase in pensionable salaries[7]	**RPI–0.1%**	RPI–0.1%
Rate of increase for deferred pensions	**CPI**	CPI
Rate of pension increases – RMPP Sections A/B	**CPI**	CPI
Rate of pension increases – RMPP Section C[7]	**RPI–0.1%**	RPI–0.1%
Rate of pension increases – RMSEPP members transferred from Section A or B of RMPP	**CPI**	CPI
Rate of pension increases – RMSEPP all other members[7]	**RPI–0.1%**	RPI–0.1%
Life expectancy from age 60 – for a current 40/60 year old male RMPP member	**28/26 years**	29/27 years
Life expectancy from age 60 – for a current 40/60 year old female RMPP member	**31/29 years**	32/30 years

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

Mortality

The March 2017 mortality assumptions have been updated in line with the March 2015 valuation. The RMPP assumptions are based on the latest Self-Administered Pension Scheme (SAPS) S2 mortality tables with appropriate scaling factors (116 per cent for male pensioners and 109 per cent for female pensioners). Future improvements are based on the CMI 2015 core projections with a long-term trend of 1.5 per cent per annum.

Sensitivity analysis for RMPP liabilities

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

Key assumption change	**Potential Increase in liabilities £m**
Additional one year of life expectancy	**220**
Increase in inflation rate (both RPI and CPI simultaneously) of 0.1% p.a.	**160**
Decrease in discount rate of 0.1% p.a.	**160**
Increase in CPI assumption (assuming RPI remains constant) of 0.1% p.a.	**30**

This sensitivity analysis has been determined based on a method that assesses the impact on the defined benefit obligation, resulting from reasonable changes in key assumptions occurring at the end of the reporting year. Changes inverse to those in the table (e.g. an increase in discount rate) would have the opposite effect on liabilities. The average duration of the RMPP obligation is 30 years (2015-16: 27 years).

9. Retirement benefit plans (continued)

b) RMPP and RMSEPP assets

	At 26 March 2017			At 27 March 2016		
	Quoted £m	**Unquoted £m**	**Total £m**	Quoted £m	Unquoted £m	Total £m
Equities						
UK	**22**	**126**	**148**	20	138	158
Overseas	**561**	**27**	**588**	427	–	427
Bonds						
Fixed interest – UK	**306**	**11**	**317**	272	7	279
– Overseas	**938**	**14**	**952**	793	2	795
Index linked – UK	**26**	**151**	**177**	191	–	191
Pooled investments						
Managed funds	**1,018**	**-**	**1,018**	775	–	775
Unit Trusts	**6,004**	**-**	**6,004**	4,188	–	4,188
Property (UK)	**26**	**317**	**343**	25	302	327
Cash and cash equivalents	**320**	**-**	**320**	210	–	210
Other	**5**	**-**	**5**	(3)	–	(3)
Derivatives	**(25)**	**-**	**(25)**	27	–	27
Total plans' assets	**9,201**	**646**	**9,847**	6,925	449	7,374

There were open equity derivatives within this portfolio with a fair value of £1 million at 26 March 2017 (2015-16: £48 million). £5 billion (2015-16: £4 billion) of HM Government Bonds are primarily included in Unit Trusts above. The plans' assets do not include property or assets used by the Group, but do include shares of the Royal Mail plc with an approximate market value of £21,000 at 26 March 2017 (2015-16: £27,000).

Risk exposure and investment strategy

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

The largest risks faced by the RMPP are movements in interest rates and inflation rates. To reduce the risk of movements in these rates driving the RMPP into a funding deficit, and the Group not being able to maintain its March 2018 commitment, the RMPP Trustee has hedged in advance, a significant proportion of the funding liabilities which it is estimated will build up by March 2018. It has done this predominantly through investment in index-linked gilts and derivatives (interest rate and inflation rate swaps) held in Unit Trust pooled investments providing economic exposure to gilts. The impact of the RMPP's advance hedging of projected funding liabilities is to increase near term volatility in the pension surplus, due to the return on the liability-hedging assets not being matched by an increase in the accrued liabilities.

As the accrued liabilities get closer to the projected liabilities that have been hedged, this volatility will reduce. The increase in the liability-hedged assets is predominantly reflected in the Unit Trust values above which have increased from £4,188 million at 27 March 2016 to £6,004 million at 26 March 2017.

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 26 March 2017 is £2.3 billion (2015-16: £2.6 billion) and the notional value covered by the inflation rate swaps at 26 March 2017 is £1.9 billion (2015-16: £1.8 billion).

The equity exposure of RMPP was reduced in October 2016 by means of a short Total Return Swap (TRS), a derivative that can be used to reduce exposure to a particular asset class without selling the physical assets held. TRS were introduced in order to control some downside risk whilst broadly maintaining the existing expected returns. The TRS economically offset £260 million of the Plan's global equity exposure.

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

In addition to holding return-seeking assets, RMSEPP holds long-dated index linked gilts of £26 million (2015-16: £191 million) and the buy-in annuity policy of £151 million at 26 March 2017 (2015-16: £nil) to match its liabilities.

9. Retirement benefit plans (continued)

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

Changes in the value of the defined benefit pension liabilities, fair value of the plans' assets and the net defined benefit surplus are analysed as follows:

	Defined benefit asset		Defined benefit liability		Net defined benefit surplus	
	2017 £m	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m
Retirement benefit surplus (pre IFRIC 14 adjustment) at 28 March 2016 and 30 March 2015	**7,374**	6,619	**(3,815)**	(3,237)	**3,559**	3,382
Amounts included in the income statement						
Ongoing UK defined benefit pension plan and administration costs (included in people costs)	**(5)**	(6)	**(683)**	(694)	**(688)**	(700)
Pension interest income/(cost)[8]	**265**	240	**(145)**	(127)	**120**	113
Total included in profit before tax	**260**	234	**(828)**	(821)	**(568)**	(587)
Amounts included in other comprehensive income – remeasurement gains/(losses)						
Actuarial gain/(loss) arising from:						
Financial assumptions	**-**	-	**(1,711)**	102	**(1,711)**	102
Demographic assumptions	**-**	-	**243**	-	**243**	-
Experience assumptions	**-**	-	**76**	186	**76**	186
Return on plans' assets (excluding interest income)	**1,791**	32	**-**	-	**1,791**	32
Total remeasurement gains/(losses) of the defined benefit surplus	**1,791**	32	**(1,392)**	288	**399**	320
Other						
Employer contributions	**476**	488	**-**	-	**476**	488
Employee contributions	**6**	48	**(6)**	(48)	**-**	-
Benefits paid	**(55)**	(47)	**55**	47	**-**	-
Curtailment costs	**-**	-	**(5)**	(45)	**(5)**	(45)
Movement in pension-related accruals	**(5)**	-	**(1)**	1	**(6)**	1
Total other movements	**422**	489	**43**	(45)	**465**	444
Retirement benefit surplus (pre IFRIC 14 adjustment) at 26 March 2017 and 27 March 2016	**9,847**	7,374	**(5,992)**	(3,815)	**3,855**	3,559

In addition to the above items which affect the net defined benefit surplus, estimated curtailment costs of £4 million (2015-16: £36 million) have been provided for in Transformation costs in the income statement, along with the associated redundancy costs.

[8] Pension interest income results from applying the plans' discount rate at 27 March 2016 to the plans' assets at that date. Similarly, the pension interest cost results from applying the plans' discount rate as at 27 March 2016 to the plans' liabilities at that date.

10. Acquisition of businesses

Acquisitions made in the year for a total consideration of £129 million in respect of Golden State Overnight Delivery Services Inc. (GSO), and other smaller acquisitions, Agencia Servicios Mensajería S.A.U. (ASM) and Revisecatch Limited (trading name eCourier), are detailed below. This information includes the provisional fair value of the identifiable assets and liabilities recognised as at the date of acquisition.

	52 weeks ended 26 March 2017		
	GSO £m	Other £m	Total £m
Tangible assets acquired	5	4	9
Intangible assets recognised on acquisition	24	32	56
Trade and other receivables	10	21	31
Cash and cash equivalents	1	3	4
Goodwill recognised on acquisition	46	44	90
Total assets acquired	86	104	190
Trade and other payables	(9)	(22)	(31)
Obligations under finance leases	(3)	-	(3)
Interest bearing loans and borrowings	-	(7)	(7)
Tax liabilities	(8)	(6)	(14)
Non-controlling interests	-	(6)	(6)
Net assets acquired	66	63	129
Cash paid during the period	66	60	126
Deferred consideration	-	3	3
Total consideration	66	63	129

The fair value of trade debtors is equal to the gross contractual amounts receivable. An initial review of trade debtors has not indicated any recoverability issues.

The intangible assets recognised at fair value on acquisition relate to customer lists, software and brands. The goodwill of £90 million arising on these acquisitions is indicative of the acquired business knowledge of products and markets, and synergies that are expected through the integration of services.

No material fair value adjustments have been identified in respect of the remaining assets and liabilities acquired in the year.

Revenue generated from these entities since the date of acquisition is £139 million and the combined profit is £7 million, of which £51 million and £1 million relates to GSO, respectively. If these combinations had taken place at the beginning of the financial year, revenue generated would have been £222 million and the combined profit would have been £11 million, of which £98 million and £3 million relates to GSO, respectively.

The Group obtained control of GSO on 30 September 2016, through the acquisition of 100 per cent of the company's voting equity interest. GSO is a regional next day parcel delivery company, operating principally in California, and was purchased as part of GLS' careful and focused expansion outside of Europe.

There are no material non-controlling interests in relation to these acquisitions.

11. Events after the reporting year

Acquisition of Postal Express
On 6 April 2017, GLS acquired the US overnight parcel delivery company, Postal Express.

Postal Express is a regional overnight carrier operating in the states of Washington, Oregon and Idaho. It offers overnight parcel delivery, mainly to business-to-business customers across a number of industries. The total consideration paid for 100 per cent of the shares in Postal Express was $13.3 million (approximately £10.6 million).

No fair value disclosure has been made in these financial statements as the acquisition balance sheet is still being compiled under the terms of the purchase agreement.

Royal Mail Pension Plan (RMPP)
On 13 April 2017, the Company announced its decision to close RMPP to future accrual on 31 March 2018.

On 8 May 2017, agreement was reached between the Company and the RMPP Trustee on the March 2015 actuarial valuation and a revised Schedule of Contributions.

Further details can be found in the Strategic Report in the Annual Report and Financial Statements 2016-17 and Note 9.

SHAREHOLDER INFORMATION

Managing your shares online
Shareholders are able to access an electronic version of shareholder information by registering through Shareview, a platform provided by Equiniti, the Company's registrars.

This service allows you to:

- Manage your shares online.
- Receive notifications of new shareholder information by e-mail.
- Arrange dividend payments.
- Update personal records.

Please go to www.shareview.co.uk for full details of the shareholder services and to register. When registering, you will need to have your 11-digit shareholder reference number to hand, which is found on your dividend tax voucher, share certificate or form of proxy.

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

Shareholder fraud
Share scams are often run from 'boiler rooms' where fraudsters cold-call investors offering them worthless, overpriced or even non-existent shares. While they promise high returns, investors usually end up losing their money.

5,000 people contact the Financial Conduct Authority (FCA) about share fraud each year, with victims losing an average of £20,000. As much as £200 million is lost in the UK each year.

It is strongly advised that you only deal with financial services firms that are authorised by the FCA. You can report a firm or scam by contacting the FCA Consumer Helpline on 0800 111 6768 or using the reporting form at https://www.fca.org.uk/consumers/report-scam-unauthorised-firm. If you have already bought or sold shares through a 'boiler room', be especially careful as fraudsters are likely to target you again or sell your details to other criminals.

Information for investors
Our website provides information for investors, such as trading updates, share price information, AGM and dividend information, shareholder FAQs and results and reports.

The website can be accessed via www.royalmailgroup.com/investor-centre.

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Financial Calendar

Trading update – 18 July 2017

Annual General Meeting – 20 July 2017

Ex-dividend date – 29 June 2017

Record date – 30 June 2017

Payment date – 28 July 2017

FORWARD-LOOKING STATEMENTS

Disclaimers

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

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

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

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

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