

Directors' report

The Directors present their report together with audited financial statements for the year ended 27 March 2016.

Strategic report

To enable the assessment of how the Directors have performed their duty to promote the success of the Company, the Companies Act 2006 requires the Directors to set out in this report a fair review of the business of the Group during the year, the position of the Group at the end of the year and a description of the principal risks and uncertainties facing the Group. This information can be found in the following sections of the Annual Report and Financial Statements and are incorporated by reference.

The information required to be disclosed in the Annual Report under Listing Rule 9.8.4R is marked with an asterisk below.

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Disclosure and Transparency Rules

The Strategic report and the Directors' report together include the management report required by the Disclosure and Transparency Rules (DTR4.1) of the UK Financial Conduct Authority (Disclosure and Transparency

Rules), the Directors having consulted with the Management on such matters.

Corporate governance statement

The Disclosure and Transparency Rules require certain information to be included in a corporate governance statement in the Directors' Report. This information can be found in the Statement of corporate governance on pages 49-80 and is incorporated into this Directors' Report by reference.

Dividends

Final dividend

The Board recommends a final dividend of 15.1 pence per ordinary share, giving a total dividend for the year of 22.1 pence per ordinary share. The final dividend will be payable on 29 July 2016 to shareholders whose names appear on the register of members on 1 July 2016.

Dividends and distribution

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

Dividend waivers

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

Political donations

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

Future developments

Possible future developments are described in our strategy on pages 16-17 and Principal risks on pages 32-35 of the Strategic report.

Share capital

As at 27 March 2016, the Company's issued share capital comprised 1,000,000,000 ordinary shares of one penny each as set out in note 23 to the accounts on page 132.

A block listing of 5,000,000 shares was undertaken in November 2014, to date no new shares have been issued.

Rights and obligations attaching to shares

Voting

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

- On a show of hands, every member present in person has one vote and every proxy present who has been duly appointed by one or more members will have one vote, except that a proxy has one vote for and one vote against if the proxy has been duly appointed by more than one member and the proxy has been instructed by one or more members to vote for and by one or more other members to vote against;
- For this purpose, the Articles provide that, where a proxy is given discretion as to how to vote on a show of hands, this will be treated as an instruction by the relevant member to vote in the way that the proxy decides to exercise that discretion; and
- On a poll, every member has one vote per share held by him, her or it and he, she or it may vote in person or by one or more proxies. Where he, she or it appoints more than one proxy, the proxies appointed by him, her or it taken together shall not have more extensive voting rights than the member could exercise in person.

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

No member shall be entitled to vote at any general meeting or class meeting in respect of any share held by him, her or it if any call or other sum then payable by him, her or it in respect of that share remains unpaid or if

a member has been served with a restriction notice (as defined in the Articles) after failure to provide the Company with information concerning interests in those shares required to be provided under the Companies Act 2006. Currently, all issued shares are fully paid.

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

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

Deadline for voting rights

Full details of the deadlines for exercising voting rights in respect of the resolutions to be considered at the AGM to be held on 21 July 2016 will be set out in the Notice of Annual General Meeting.

Special rights

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

Transfer of shares

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

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

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

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

Registration of a transfer of an uncertificated share may be refused in the circumstances

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

Authority of the Directors to allot shares

By a resolution passed by shareholders on 23 July 2015, at the AGM, the Directors were authorised subject to certain limitations to allot shares in the Company and to grant rights to subscribe for or to convert any security into shares in the Company:

- a. up to a nominal amount of £3,333,333; and
- b. comprising equity securities up to a nominal amount of £6,666,666 (such amount to be reduced by any allotments made under paragraph (a) above) in connection with an offer by way of a rights issue;

The authorities conferred on the Directors to allot securities under paragraph (a) and (b) will expire on the date of the 2016 AGM or on 31 July 2016, whichever is sooner, (the 'Expiry Date'). The Directors will be seeking a new authority for the Directors to allot shares and to grant subscription and conversion rights to ensure that the Directors continue to have the flexibility to act in the best interests of shareholders when opportunities arise by issuing new shares or granting such rights.

The Board was also given authority to allot equity securities for cash or to sell Ordinary Shares as treasury shares for cash subject to certain limitations, such authority to apply until the Expiry Date.

Purchase of own shares by the Company

By a resolution passed by shareholders on 23 July 2015, at the AGM, the Company was authorised to purchase up to a maximum number of 100,000,000 of its Ordinary Shares pursuant to certain limitations, such power to apply until the Expiry Date. The Company did not repurchase any of its Ordinary Shares during the year ended 27 March 2016.

The Directors require express authorisation from shareholders to purchase our own shares. Accordingly, at the 2016 AGM, the Directors will seek authority to make market purchases of up to a maximum of ten per cent of issued share capital. At the present time the Company has no plans to exercise this authority.

Employee Benefit Trust

As at 27 March 2016 a total of 27,042 (2014-15 40,935) shares were held by the EBT on behalf of the Company.

Substantial shareholdings

As at 27 March 2016, the Company had been notified, in accordance with the Disclosure and Transparency Rules, of the following interests amounting to three per cent or more of the voting rights in the issued ordinary share capital of the Company:

Shareholder	Number of shares	% of voting rights
BlackRock, Inc	55,076,360	5.50%

As at 18 May 2016, the Company had been notified, in accordance with the Disclosure and Transparency Rules, of the following interests amounting to three per cent or more of the voting rights in the issued ordinary share capital of the Company:

Shareholder	Number of shares	% of voting rights
BlackRock, Inc	55,076,360	5.50%

Amendment to the Company's Articles of Association

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

Indemnity of Directors

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

These types of indemnity are qualifying third-party indemnities as defined by section 243 of the Company's Act 2006. No amount was paid under this provision during the year.

Appointment and replacement of Directors

Unless otherwise determined by ordinary resolution of the Company, the Directors shall be no fewer than two and no more than 15 in number.

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

In accordance with the Code, all Directors of the Company are subject to annual re-election.

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

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

Directors and their interests

The Directors of the Company during the year are given on pages 43-45. Details of the interest of the Directors and, where applicable, their Connected Persons in the Ordinary Shares of the Company and of Long-Term Incentive Plan Awards over Ordinary Shares of the Company are set out in the Directors' remuneration report on pages 60-80.

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

Powers of the Directors

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

Directors' annual bonus and Long Term Incentive Plan awards upon a change in the control of the Company

Upon a change of control of the Company, share awards under the annual bonus and vesting under the 2014 LTIP arrangements could pay out on a pro-rated basis if the performance conditions have been met. The performance-testing period would automatically end on the date of the change in control. Under the 2011 LTIP arrangements, awards granted more than 12 months prior to a change in control would not be pro-rated. Awards granted less than 12 months prior to a change in control would typically be pro-rated, unless the Remuneration Committee decides otherwise.

Events after the reporting period

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

Please see Note 27 on page 135 for further detail about the payment of the fine levied by the French Competition Authority (Autorité de la Concurrence).

Financial risk management

The Group's financial risk management objectives and policies and the main risks arising from the Group's financial assets and liabilities are summarised in note 21 to the accounts on page 120. See the financial risks and related hedging contained on page 29 of the Financial Review in the Strategic Report.

Change of control

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

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

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

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

The Syndicated Loan Facility with various financial institutions provides the Group with a revolving credit facility for general corporate and working capital purposes. The agreement contains provision on a change of control of the Group for negotiation of the continuation of the agreement or cancellation by a lender.

The €500 million bond issued by the Company in July 2014 contains provisions such that, on a change of control that is combined with a credit

rating downgrade in certain circumstances, the noteholders may require the Company to redeem or, at the Company's option, purchase the notes for their principal amount, together with interest accrued to (but excluding) the date of redemption or repurchase.

Branches

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

New products and services

In the ordinary course of business the Group develops new products and services in each of its business units.

Environmental social and governance risks

The Strategic Report, together with greenhouse gas (GHG) emissions which are located on page 40, set out key environmental, social and governance (ESG) risks faced by the business.

The Board identifies and assesses significant risks, including those relating to ESG matters, through the maintenance and review of the Group Risk Profile. This contains significant current risks, including ESG risks, which are identified at an early stage of becoming known as part of the long-term business perspective. Emerging risk identification is conducted by experts in the business and risk management is owned and managed at the operational level, supported centrally. An independent effectiveness review by an independent external auditor confirmed good links between the strategy of the Company and currently identified risks and that appropriate importance is placed on risk management by executives within the Group. The Company maintains a range of policies and procedures for managing business risks, which include ESG-related matters.

The Board annually reviews the Company's Corporate Responsibility report, which covers in detail the Group's non-financial (ESG) performance. The report is prepared in alignment with the reporting framework of the Global Reporting Initiative Index and the Company's performance is assessed against international sustainability indices. The Company reports progress against corporate responsibility objectives under five areas: Customer, People, Community, Suppliers and Environment. See also pages 37-41 for a summary of key corporate responsibility aspects.

Going concern

These consolidated financial statements have been prepared on a going concern basis. The financial performance and position of the Group, its cash flows and its approach to capital management are set out in the Financial review on pages 25-31. The Board has reviewed the Group's projections for the next 12 months and the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for at least 12 months.

Viability Statement

The Viability Statement can be viewed on page 35 of the Strategic Report.

Audit information

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

The Directors confirm full compliance with the Competition and Markets Authority's Statutory Audit Services Order. A full competitive audit tender was undertaken in 2014, which resulted in KPMG LLP being appointed in place of Ernst & Young LLP. Further information about the audit transition can be found on page 52 of the Audit and Risk Committee Report.

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

Disclaimer

The purpose of this Annual Report and financial statements is to provide information to the members of the Company. The Annual Report and financial statements have been prepared for, and only for, the members of the Company, as a body, and no other persons. The Company, its Directors and employees, agents or advisers, do not accept or assume responsibility to any other person to whom this document is shown or into whose hands it may come and any such responsibility or liability is expressly disclaimed.

The Annual Report and financial statements contain certain forward-looking statements with respect to the operations, performance and financial condition of the Group. By their nature, these statements involve uncertainty, since future events and circumstances can cause results and developments to differ materially from those anticipated. The forward-looking statements reflect

knowledge and information available at the date of preparation of this Annual Report and financial statements and the Company undertakes no obligation to update these forward-looking statements. Nothing in this Annual Report and financial statements should be construed as a profit forecast.

By Order of the Board

Kulbinder Dosanjh
Company Secretary
18 May 2016

Royal Mail plc
100 Victoria Embankment
London
EC4Y OHQ

Company number 08680755

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

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

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRS as adopted by the EU;

- for the parent Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent Company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent Company will continue in business.

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

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

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

Each of the Directors, whose names and function are set out on pages 43-45 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.