Independent Auditor's Report to the members of Royal Mail plc

Opinions and conclusions arising from our audit

1 Our opinion on the financial statements is unmodified

We have audited the financial statements of Royal Mail plc for the 52 weeks ended 27 March 2016 set out on pages 89-150. In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 27 March 2016 and of the Group's profit for the 52 weeks then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with UK Accounting Standards, including FRS 101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

2 Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements the risks of material misstatement that had the greatest effect on our audit in decreasing order of significance were as follows:

The determination of deferred revenue associated with advance customer payments arising from stamps and meter credits sold £252 million (2014-15: £259 million)

Refer to page 53 (Audit and Risk Committee report), page 138 (accounting policy) and page 118 (financial disclosures).

Risk

Advance payments are made by households, retailers and businesses who purchase stamps and meter credits in advance of actual usage. The Group estimates the amounts that have been sold but not used at year end and defers revenue to reflect that the service will need to be provided by the Group during future accounting periods for pre-purchased stamps and meter credits.

As no unique identification of the stamps and meter credits unused is possible, the calculation and methodology of the advance customer payments balance is inherently subjective by nature and is based on inputs including third party surveys, Group sales data and internal survey data on meter usage. The methodology adjusts for stamp holdings which are considered to be abnormal.

Our response

Our procedures included:

- Assessing the methodology and assumptions used to determine the number of stamps and meter credits held at the balance sheet date and its consistency of application year on year. We used our own statistical specialists and held discussions with the independent third party specialist to assist us in evaluating the methodologies used by the Group.
- Evaluating the methodology and results of the external surveys (including consideration of survey size, household adjustment and caps in place to address the impact of abnormal holdings) using our own specialists to assist us in this evaluation.
- Assessing the competence, independence and integrity of the Group's third party survey specialist which provides the survey data.
- Independently testing the revenue data in the calculation.

Independent Auditor's Report to the members of Royal Mail plc (continued)

The carrying valuation of pension scheme surplus (£3,430m asset) (2014-15: £3,367m asset)

Refer to page 54 (Audit and Risk Committee report), page 145 (accounting policy) and page 105 (financial disclosures).

Risk
Significant estimates are made in valuing the Group's post-retirement defined benefit plan's obligations, including in particular the discount rate, the inflation assumptions and the mortality assumptions used to calculate the retirement benefit obligation. Small changes in the assumptions used in the valuation could have a significant effect on the financial position of the Group.

Our response
Our procedures included:

- Challenging the key assumptions applied being the discount rate, inflation rate, mortality and salary growth with the support of our own actuarial specialists. This included a comparison of these key assumptions against externally derived data.
- Assessing the competence, independence and integrity of the Group's actuarial expert.
- Considering the adequacy of the Group's disclosures in respect of the sensitivity of the surplus to these assumptions.

The recognition, measurement and disclosure of the Group's provisions and contingent liabilities associated with the potential industrial diseases and the Ofcom investigation under its competition authority powers

Refer to page 53 and 54 (Audit and Risk Committee report), page 139 (accounting policy) and page 131 and 133 (financial disclosures).

Risk
A number of significant judgments are made by the Group in the accounting for the industrial diseases provision and in assessing whether any contingent liability or provision arises from the ongoing Ofcom regulatory investigation. The assessment of the likelihood and quantum of any liability in respect of legal and regulatory matters can be judgmental due to the uncertainty inherent in their nature.

Response
Our procedures included:

- Challenging the estimates and ranges underlying the Group's independent adviser's reports on the industrial disease provision by assessing the methodology used to calculate the provision and independently assessing the inputs into the report including the discount rate and the historical incidence of claims. We used our own valuation specialists to assist us in evaluating the assumptions and methodologies used by the Group.
- Assessing the competence, independence and integrity of the Group's third party independent adviser.
- Examining the latest correspondence and other evidence used by the Group in assessing whether a contingent liability or provision arises in relation to the ongoing Ofcom investigation.
- Inspecting correspondence and holding discussions with the Group's legal advisers on all significant legal cases.
- Considering the adequacy of the Group's disclosures in respect of these claims

3 Our application of materiality and an overview of the scope of our audit
The materiality for the Group financial statements as a whole was set at £18 million. This was determined with reference to a benchmark of five per cent of Group profit before tax adjusted to add back the IFRS 2 charge for employee free shares issues and to deduct the profit on disposal of DPD assets. We consider adjusted profit to be one of the principal considerations for members of the company in assessing the financial performance of the Group. The specific items not included in the benchmark were all subject to audit procedures.

We agreed with the Audit and Risk Committee to report to it all corrected and uncorrected misstatements we identified through our audit with a value in excess of £0.9 million, in addition to other audit misstatements below that threshold that we consider warranted reporting on qualitative grounds.

Audits for Group reporting purposes were performed at the key reporting components being, UKPIL (the core UK and international parcels and letter delivery business) and GLS (the Group's European parcels business). The Group engagement team performed the audit of UKPIL and instructed component auditors to perform the audit of GLS. These Group procedures covered 99.9 per cent of total Group revenue; 87 per cent of Group profit before taxation; and 99.5 per cent of total Group assets. For the remaining components, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The audits undertaken for Group reporting purposes at the key reporting components of the Group were all performed to materiality levels set by, or agreed with, the Group audit team.

The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team visited the GLS component during the planning, execution and finalisation phases of the GLS audit.

Independent Auditor's Report to the members of Royal Mail plc (continued)

The Group team also held regular telephone conference meetings with this component team. At these visits and meetings, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.

4 Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

- the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic report and the Directors' report for the financial reporting year for which the financial statements are prepared is consistent with the financial statements.

5 We have nothing to report on the disclosures of principal risks

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

- the Directors' statement of viability on page 35, concerning the principal risks, their management, and, based on that, the Directors' assessment and expectations of the Group's continuing in operation over the three years to 2019; or
- the disclosures in Note 1 of the financial statements concerning the use of the going concern basis of accounting.

6 We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the Annual Report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the Directors' statement that they consider that the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the Audit and Risk Committee report does not appropriately address matters communicated by us to the Audit and Risk Committee.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' statements, set out on page 84, in relation to going concern and longer-term viability; and
- the part of the Corporate Governance Statement on page 42 relating to the Company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope and responsibilities

As explained more fully in the Directors' responsibilities statement set out on page 84, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Richard Pinckard (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
18 May 2016

Consolidated income statement

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

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

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

Consolidated statement of comprehensive income

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

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

[1] Restated for the 52 weeks ended 29 March 2015 for change in accounting policy relating to pensions administration costs (see Note 1)
[2] Includes £2 million charge (2014-15 £3 million credit) in relation to net deferred tax liabilities (see Note 7)

Consolidated balance sheet

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

	Notes	Reported at 27 March 2016 £m	Reported at 29 March 2015 Restated[1] £m	Reported at 30 March 2014 Restated[1] £m
Non-current assets				
Property, plant and equipment	11	**2,000**	1,933	1,989
Leasehold land payment		**2**	2	3
Goodwill	12	**206**	182	197
Intangible assets	13	**451**	300	195
Investments in associates and joint venture	14	**9**	5	4
Financial assets				
Pension escrow investments	21	**20**	20	20
Derivatives	21	**2**	2	3
Retirement benefit surplus – net of IFRIC 14 adjustment[1]	10	**3,430**	3,367	1,889
Other receivables		**12**	11	13
Deferred tax assets	7	**9**	8	9
		6,141	5,830	4,322
Assets held for sale	16	**39**	32	3
Current assets				
Inventories		**21**	20	22
Trade and other receivables	17	**1,020**	944	920
Income tax receivable		**6**	5	6
Financial assets				
Derivatives	21	**5**	5	2
Short-term deposits	21	**-**	56	1
Cash and cash equivalents	18/21	**368**	287	366
		1,420	1,317	1,317
Total assets		**7,600**	7,179	5,642
Current liabilities				
Trade and other payables	19	**(1,700)**	(1,668)	(1,652)
Financial liabilities				
Obligations under finance leases	21/24	**(84)**	(93)	(87)
Derivatives	21	**(33)**	(34)	(12)
Income tax payable		**(23)**	(14)	(14)
Provisions	22	**(151)**	(149)	(173)
		(1,991)	(1,958)	(1,938)
Non-current liabilities				
Financial liabilities				
Interest-bearing loans and borrowings	20/21	**(392)**	(366)	(600)
Obligations under finance leases	21/24	**(136)**	(179)	(255)
Derivatives	21	**(8)**	(14)	(5)
Provisions	22	**(96)**	(104)	(95)
Other payables		**(41)**	(40)	(31)
Deferred tax liabilities[1]	7	**(469)**	(512)	(184)
		(1,142)	(1,215)	(1,170)
Liabilities associated with assets held for sale	16	**-**	(10)	-
Total liabilities		**(3,133)**	(3,183)	(3,108)
Net assets		**4,467**	3,996	2,534
Equity				
Share capital	23	**10**	10	10
Retained earnings[1]		**4,451**	3,993	2,465
Other reserves		**(3)**	(16)	52
Equity attributable to parent Company		**4,458**	3,987	2,527
Non-controlling interests		**9**	9	7
Total equity		**4,467**	3,996	2,534

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

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

Moya Greene
Chief Executive Officer

Matthew Lester
Chief Finance Officer

Consolidated statement of changes in equity

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

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

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

A description of the reserves in the above table is included in Note 23.

Consolidated statement of cash flows

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

	Notes	Reported 52 weeks 2016 £m	Reported 52 weeks 2015 £m
Cash flow from operating activities			
Profit before tax		**267**	400
Adjustment for:			
Net pension interest		**(113)**	(75)
Net finance costs		**13**	26
Profit on disposal of property, plant and equipment		**(29)**	(133)
Legacy credit/(costs) and impairment		**(2)**	79
Employee Free Shares charge		**158**	169
Transformation costs		**191**	145
Operating profit before transformation costs		**485**	611
Adjustment for:			
Depreciation and amortisation	11/13	**272**	279
Share of post-tax profit from associates	14	**(1)**	(1)
EBITDA before transformation costs		**756**	889
Working capital movements		**(20)**	12
(Increase)/decrease in inventories		(1)	1
Increase in receivables		(62)	(52)
Increase in payables		22	72
Net decrease/(increase) in derivative assets		1	(8)
Increase/(decrease) in provisions (non-specific items)		20	(1)
Pension charge to cash difference (operating specific item)		**257**	129
Share-based awards (SAYE and LTIP) charge to cash difference		**13**	5
Cash cost of transformation operating expenditure[1]		**(233)**	(228)
Cash cost of operating specific items		**(6)**	(8)
Cash inflow from operations		**767**	799
Income tax paid		**(40)**	(37)
Net cash inflow from operating activities		**727**	762
Cash flow from investing activities			
Dividend received from associate company	14	**1**	-
Finance income received		**3**	4
Proceeds from disposal of property (excluding London property portfolio), plant and equipment (non-operating specific item)		**38**	39
London property portfolio (costs)/net proceeds (non-operating specific item)		**(23)**	100
Proceeds from disposal of discontinued operations (non-operating specific item)	16	**41**	-
Purchase of property, plant and equipment[1]		**(270)**	(267)
Acquisition of business interests		**(14)**	(7)
Purchase of intangible assets (software)[1]		**(191)**	(153)
Payment of deferred consideration in respect of prior years' acquisitions		**(4)**	(3)
Net sale/(purchase) of financial asset investments (current)		**56**	(55)
Net cash outflow from investing activities		**(363)**	(342)
Net cash inflow before financing activities		**364**	420
Cash flow from financing activities			
Finance costs paid		**(16)**	(22)
Payment of capital element of obligations under finance lease contracts		**(90)**	(75)
Cash received on sale and leasebacks		**36**	13
New loans		**-**	393
Repayment of loans and borrowings		**-**	(600)
Dividends paid to equity holders of the parent Company	9	**(213)**	(200)
Dividend paid to non-controlling interests		**(7)**	(1)
Net cash outflow from financing activities		**(290)**	(492)
Net increase/(decrease) in cash and cash equivalents		**74**	(72)
Effect of foreign currency exchange rates on cash and cash equivalents		**7**	(7)
Cash and cash equivalents at the beginning of the year	18	**287**	366
Cash and cash equivalents at the end of the year	18	**368**	287

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

Notes to the consolidated financial statements

1. Basis of preparation

This note explains how these consolidated financial statements have been prepared, including details of; an accounting policy change relating to pensions administration costs; non-GAAP performance measures; and the Directors' going concern assessment.

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

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

The consolidated financial statements for the 52 weeks ended 27 March 2016 were authorised for issue by the Board on 18 May 2016.

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

Accounting reference date
The financial reporting year ends on the last Sunday in March and, accordingly, these financial statements are prepared for the 52 weeks ended 27 March 2016 (2014-15 52 weeks ended 29 March 2015).

Presentation of results and accounting policies
The Group's significant accounting policies, including details of new accounting standards adopted in the reporting year, can be found after the notes to the consolidated financial statements on page 138. Details of a change in accounting policy impacting the balance sheet, other comprehensive income and the statement of changes in equity in the current and comparative years are given below.

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

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

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

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

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

Notes to the consolidated financial statements (continued)

1. Basis of preparation (continued)

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

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

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

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

These non-GAAP measures (see definitions on page 140) are not a substitute, or superior to, any IFRS measures of performance, but they have been disclosed as Management consider them to be an important means of comparing performance year-on-year and they include key measures used within the business for assessing performance.

Going concern
In assessing the going concern status of the Group, the Directors are required to look forward by a minimum of 12 months from the signing date of these financial statements, to ensure that there is sufficient headroom to enable the Group to pay its creditors as they fall due.

The Directors have reviewed business projections and assessed these against committed and undrawn funding facilities (£1,050 million at 27 March 2016) and other liquid resources available to the Group (cash at bank £185 million and cash equivalent investments £170 million at 27 March 2016). Funding facilities and cash and cash equivalents available to the Group are described in further detail in notes 18 and 21.

The Directors are satisfied that these facilities, coupled with business projections, show that the Group will continue to operate for a minimum of 12 months from the signing date of these financial statements.

Notes to the consolidated financial statements (continued)

2. Segment information

The Group's revenue, costs and earnings before interest and tax are segmented in this note to align with how business performance is managed and reported to the Board.

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

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

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

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

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

52 weeks 2016

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

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

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

Notes to the consolidated financial statements (continued)

2. Segment information (continued)

52 weeks 2015

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

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

52 weeks 2016

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

52 weeks 2015

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

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

Notes to the consolidated financial statements (continued)

3. Operating costs

This analysis of operating costs in the income statement includes amounts that require either separate disclosure under IFRS or have been disclosed because of their nature and/or materiality.

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

	52 weeks 2016 £m	52 weeks 2015 £m
People costs (see Note 4)	**(5,456)**	(5,359)
Distribution and conveyance costs		
Charges from overseas postal administrations	**(294)**	(311)
Fuel costs	**(172)**	(186)
Operating lease costs – vehicles	**(11)**	(11)
Infrastructure costs		
Depreciation and amortisation	**(272)**	(279)
Depreciation of property, plant and equipment (see Note 11)	(224)	(242)
Amortisation of intangible assets (mainly software – see Note 13)	(48)	(37)
Other operating costs		
Post Office Limited charges	**(342)**	(358)
Inventory expensed	**(46)**	(43)
Operating lease costs – property, plant and equipment	**(134)**	(136)

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

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

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

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

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

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

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

Notes to the consolidated financial statements (continued)

4. People information

People costs account for 62 per cent (2014-15 61 per cent) of total Group operating costs. The analysis below provides details of people costs and numbers as well as specific disclosures in relation to Directors' remuneration. Further details on Directors' remuneration paid can be found in the Directors' remuneration report.

People costs

	52 weeks 2016 £m	52 weeks 2015 £m
Wages and salaries	**(4,323)**	(4,433)
UK based	(4,020)	(4,138)
GLS	(303)	(295)
Pensions (see note 10)	**(768)**	(552)
Defined benefit UK	(619)	(508)
Defined contribution UK	(45)	(38)
UK defined benefit and defined contribution Pension Salary Exchange (PSE)	(99)	-
GLS	(5)	(6)
Social security	**(365)**	(374)
UK based	(315)	(321)
GLS	(50)	(53)
Group total people costs	**(5,456)**	(5,359)

	52 weeks 2016	52 weeks 2015
Defined benefit pension plan rates:		
Income statement	**29.8%**	23.6%
Cash flow	**17.1%**	17.1%
Defined contribution pension plan average rate:		
Income statement and cash flow[1]	**5.7%**	5.4%

People numbers

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

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

Directors' remuneration

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

[1] Employer contribution rates are one per cent for employees in the entry level category and seven to nine per cent for those in the standard level category, depending on the employees' selected contribution rate

[2] These people numbers relate to the total number of paid hours (including part-time, full-time and agency hours) divided by the number of standard full-time working hours in the same period

[3] The discontinued operations relate to the GLS Germany subsidiary DPD Systemlogistik GmbH & Co. KG (DPD SL – sold on 31 March 2015) (see Note 16)

[4] These amounts include any cash supplements received in lieu of pension. Details of the highest paid Director are included in the Directors' remuneration report

Notes to the consolidated financial statements (continued)

5. Specific items

These are both recurring and non-recurring income/expense items which in the Directors' view should be disclosed separately to provide greater understanding of the underlying performance of the business. A definition of specific items is provided on page 140.

	52 weeks 2016 £m	52 weeks 2015 £m
Operating specific items		
Pension charge to cash difference (within People costs)	**(257)**	(129)
Employee Free Shares charge	**(158)**	(169)
Legacy credit/(costs) and impairment	**2**	(79)
Potential industrial diseases claims	3	(19)
Historical employment costs	-	15
Impairment	-	(24)
French Competition Authority investigation costs (including fine)	-	(46)
Other	(1)	(5)
Total operating specific items	**(413)**	(377)
Non-operating specific items		
Profit on disposal of property, plant and equipment	**29**	133
Net pension interest	**113**	75
Profit from disposal of discontinued operations (see Note 16)	**31**	-
Total non-operating specific items	**173**	208
Total specific items before tax	**(240)**	(169)
Total tax credit on specific items (see Note 7)	**68**	66

6. Net finance costs

This note provides details of interest payable on loans and finance lease obligations and interest received from investments and loans. This analysis excludes net pension interest which is a non-cash item and is derived to comply with the requirements of the relevant accounting standard IAS 19.

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

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

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

Notes to the consolidated financial statements (continued)

7. Taxation

This note provides details about current tax (charges)/credits on profit and deferred tax (charges)/credits relating to the impact of past events on expected future tax. The note also provides details about the tax impact of specific items.

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

Notes to the consolidated financial statements (continued)

7. Taxation (continued)

Reconciliation of the total tax charge

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

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

Tax on specific items

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

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

Current tax

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

Effective tax rate

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

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

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

Notes to the consolidated financial statements (continued)

7. Taxation (continued)

Deferred tax

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

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

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

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

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

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

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

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

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

Notes to the consolidated financial statements (continued)

7. Taxation (continued)

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

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

8. Earnings per share

This note explains the calculation of the Group's earnings per share. The adjusted earnings per share (a non-IFRS measure) is a key indicator used by Management to assess earnings performance.

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

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

9. Dividends

This note provides details on the amount of dividends paid to equity holders of the parent Company during the year. Details are also provided on the amount of dividends per share which have been paid and proposed.

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

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

Notes to the consolidated financial statements (continued)

10. Retirement benefit plans

In applying IAS 19, the Group has recognised a pension asset of £3,430 million at 27 March 2016, compared with £3,367 million at 29 March 2015. This note includes the key assumptions used in determining the pension asset and also provides details of the pension surplus on an actuarial basis.

Summary pension information

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

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

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

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

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

Notes to the consolidated financial statements (continued)

10. Retirement benefit plans (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Notes to the consolidated financial statements (continued)

10. Retirement benefit plans (continued)

Accounting and actuarial surplus position (RMPP and RMSEPP)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Notes to the consolidated financial statements (continued)

10. Retirement benefit plans (continued)

Mortality

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

Sensitivity analysis for RMPP liabilities

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

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

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

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

b) RMPP and RMSEPP assets

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

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

Risk exposure and investment strategy

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

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

Notes to the consolidated financial statements (continued)

10. Retirement benefit plans (continued)

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

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

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

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

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

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

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

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

Notes to the consolidated financial statements (continued)

11. Property, plant and equipment

Below are details of the Group's property, equipment and vehicle assets, which are recorded at their historic cost (i.e. what the Group paid for them) less accumulated depreciation, reflecting their usage within the business over their useful life – from two to 50 years.

	Land and buildings						
	Freehold £m	Long leasehold £m	Short leasehold £m	Plant and machinery £m	Motor vehicles £m	Fixtures and equipment £m	Total £m
Cost							
At 30 March 2015	**1,614**	**263**	**719**	**1,048**	**657**	**367**	**4,668**
Exchange rate movements	**18**	**1**	**–**	**10**	**3**	**6**	**38**
Reclassification	**(31)**	**5**	**26**	**–**	**–**	**–**	**–**
Additions	**88**	**10**	**30**	**50**	**43**	**83**	**304**
Disposals	**(5)**	**–**	**(2)**	**(30)**	**(49)**	**(2)**	**(88)**
Reclassification to non-current assets held for sale	**(38)**	**–**	**–**	**–**	**–**	**–**	**(38)**
At 27 March 2016	**1,646**	**279**	**773**	**1,078**	**654**	**454**	**4,884**
Depreciation							
At 30 March 2015	**812**	**170**	**494**	**670**	**310**	**279**	**2,735**
Exchange rate movements	**6**	**1**	**–**	**6**	**2**	**4**	**19**
Reclassification	**(1)**	**1**	**–**	**–**	**–**	**–**	**–**
Depreciation (see Note 3)	**42**	**7**	**40**	**51**	**47**	**37**	**224**
Disposals	**(5)**	**–**	**(2)**	**(29)**	**(45)**	**(2)**	**(83)**
Reclassification to non-current assets held for sale	**(11)**	**–**	**–**	**–**	**–**	**–**	**(11)**
At 27 March 2016	**843**	**179**	**532**	**698**	**314**	**318**	**2,884**
Net book value:							
At 27 March 2016	**803**	**100**	**241**	**380**	**340**	**136**	**2,000**
At 29 March 2015	802	93	225	378	347	88	1,933
Net book value comprises:							
Owned assets	**803**	**89**	**236**	**274**	**133**	**136**	**1,671**
Finance leased assets	**–**	**11**	**5**	**106**	**207**	**–**	**329**
At 27 March 2016	**803**	**100**	**241**	**380**	**340**	**136**	**2,000**

Notes to the consolidated financial statements (continued)

11. Property, plant and equipment (continued)

	Land and buildings						
	Freehold £m	Long leasehold £m	Short leasehold £m	Plant and machinery £m	Motor vehicles £m	Fixtures and equipment £m	Total £m
Cost							
At 31 March 2014	1,649	265	692	1,184	609	379	4,778
Exchange rate movements	(35)	(2)	-	(18)	(6)	(11)	(72)
Reclassification	(19)	3	15	1	-	-	-
Additions	89	(1)	22	28	94	25	257
Disposals	(14)	(1)	(10)	(133)	(38)	(24)	(220)
Reclassification to non-current assets held for sale	(56)	(1)	–	(14)	(2)	(2)	(75)
At 29 March 2015	1,614	263	719	1,048	657	367	4,668
Depreciation							
At 31 March 2014	825	167	463	762	296	276	2,789
Exchange rate movements	(10)	(1)	–	(12)	(4)	(9)	(36)
Depreciation (see Note 3)	43	6	41	62	53	37	242
Disposals	(12)	(1)	(10)	(133)	(34)	(23)	(213)
Reclassification to non-current assets held for sale	(34)	(1)	–	(9)	(1)	(2)	(47)
At 29 March 2015	812	170	494	670	310	279	2,735
Net book value:							
At 29 March 2015	802	93	225	378	347	88	1,933
At 30 March 2014	824	98	229	422	313	103	1,989
Net book value comprises:							
Owned assets	802	82	220	259	145	88	1,596
Finance leased assets	–	11	5	119	202	–	337
At 29 March 2015	802	93	225	378	347	88	1,933

Depreciation rates are disclosed within 'Significant accounting policies'. No depreciation is provided on land, which represents £198 million (2014-15 £202 million) of the total cost of properties.

The net book value of the Group's property, plant and equipment includes £119 million (2014-15 £127 million) in respect of assets in the course of construction. The net book value of the Group's land and buildings includes £431 million (2014-15 £413 million) in respect of building fit-out.

The £304 million (2014-15 £257 million) additions do not include any borrowing costs capitalised in relation to specific qualifying assets.

12. Goodwill

This note provides details of the Group's goodwill, most of which relates to the Group's acquisition of its overseas subsidiary, General Logistics Systems (GLS).

	2016 £m	2015 £m
Cost		
At 30 March 2015 and 31 March 2014	**512**	569
Exchange rate movements	**36**	(65)
Acquisition of businesses	**11**	8
At 27 March 2016 and 29 March 2015	**559**	512
Impairment		
At 30 March 2015 and 31 March 2014	**330**	372
Exchange rate movements	**23**	(42)
At 27 March 2016 and 29 March 2015	**353**	330
Net book value:		
At 27 March 2016 and 29 March 2015	**206**	182
At 29 March 2015 and 30 March 2014	**182**	197

Notes to the consolidated financial statements (continued)

12. Goodwill (continued)

The carrying value of goodwill of £206 million (2014-15 £182 million) at the balance sheet date includes £192 million (2014-15 £177 million) in relation to the acquisition of the GLS business unit. In line with the Group's accounting policy (see page 142), this goodwill has been reviewed for impairment. The carrying value of GLS, excluding interest-bearing and tax-related assets and liabilities, is £557 million (2014-15 £434 million) and the operating profit before transformation costs is £117 million (2014-15 £115 million) for the year (see Note 2).

The carrying value of GLS of £557 million represents a multiple of 4.8 (2014-15 3.8) of operating profit before transformation costs. The net realisable value of GLS, for the purposes of the impairment review (i.e. the 'fair value less costs of disposal'), has been assessed with reference to earnings multiples for quoted entities in a similar sector of 5.6 (fair value hierarchy level 2 input). On this basis, the net realisable value has been assessed to be in excess of the carrying value. The earnings multiples referenced would need to reduce by more than 33 per cent to 3.7 to reduce the net realisable value to below the carrying value.

The provisional goodwill of £11 million (2014-15 £8 million) arising from an aggregation of business acquisitions during the reporting year is not considered material in the context of the Group's total goodwill.

13. Intangible assets

Intangible assets, mainly software, are recorded in much the same way as the Group's physical assets such as property and vehicles, but with shorter useful lives over which they are amortised (three to ten years).

	2016				2015			
	Master franchise licences £m	**Customer listings £m**	**Software £m**	**Total £m**	Master franchise licences £m	Customer listings £m	Software £m	Total £m
Cost								
At 30 March 2015 and 31 March 2014	**21**	**31**	**496**	**548**	23	32	370	425
Additions	**–**	**–**	**194**	**194**	–	–	166	166
Disposals	**–**	**–**	**(25)**	**(25)**	–	–	(35)	(35)
Acquisition of business	**–**	**1**	**1**	**2**	–	3	–	3
Reclassification to non-current assets held for sale	**–**	**–**	**–**	**–**	–	–	(1)	(1)
Exchange rate movements	**–**	**4**	**4**	**8**	(2)	(4)	(4)	(10)
At 27 March 2016 and 29 March 2015	**21**	**36**	**670**	**727**	21	31	496	548
Amortisation and impairment								
At 30 March 2015 and 31 March 2014	**21**	**26**	**201**	**248**	23	28	179	230
Amortisation (see Note 3)	**–**	**2**	**46**	**48**	–	2	35	37
Impairment charge	**–**	**–**	**–**	**–**	–	–	24	24
Disposals	**–**	**–**	**(25)**	**(25)**	–	–	(35)	(35)
Reclassification to non-current assets held for sale	**–**	**–**	**–**	**–**	–	–	(1)	(1)
Exchange rate movements	**–**	**4**	**1**	**5**	(2)	(4)	(1)	(7)
At 27 March 2016 and 29 March 2015	**21**	**32**	**223**	**276**	21	26	201	248
Net book value:								
At 27 March 2016 and 29 March 2015	**–**	**4**	**447**	**451**	–	5	295	300
At 29 March 2015 and 30 March 2014	–	5	295	300	–	4	191	195

The intangible assets detailed above have finite lives and are being written down on a straight-line basis. The £194 million (2014-15 £166 million) additions include £4 million (2014-15 £1 million) borrowing costs capitalised in relation to specific qualifying assets. Borrowing costs capitalised are deducted in determining taxable profit in the reporting year in which they are incurred.

Notes to the consolidated financial statements (continued)

14. Investments in associates and joint venture

This note provides details of the Group's associate and joint venture companies, including the Group's share of the revenue, profit and net assets of these entities.

Details of the associates and joint venture of the Group are shown below. To ensure that the reported share of the results of these companies aligns with the Group's reporting year ended 27 March 2016 (2014-15 29 March 2015), information provided by each of the respective companies is analysed and an estimate of profit/loss accrued for the period for which actual results are not available in time for inclusion in these financial statements.

	Principal activities	Country of incorporation	Reporting year end date	% ownership 2016	% ownership 2015
Associate company					
Quadrant Catering Limited ('Quadrant')	Catering services	United Kingdom	30 September	**51.0**	51.0
Mallzee Limited	Personal shopping application ('app')	United Kingdom	30 April	**25.0**	-
Market Engine Global Pty Limited	Software development	Australia	30 June	**34.5**	-
Joint venture company					
ParcelLock GmbH	Parcel locker provision	Germany	31 December	**33.3**	-

The majority of board membership and voting power to direct relevant activities in Quadrant, is held by the other investor company. For this reason it is Management's view that the Group does not have control over Quadrant and so it is not considered to be a subsidiary in line with IFRS 10.

Movements in interests in associates

	2016 £m	2015 £m
Cost		
At 30 March 2015 and 31 March 2014	**5**	4
Additions	**3**	-
Share of profit after tax for the year from continuing operations[1]	**1**	1
Dividends received	**(1)**	-
At 27 March 2016 and 29 March 2015	**8**	5

Movements in interest in joint venture

	2016 £m	2015 £m
Cost		
At 30 March 2015 and 31 March 2014	**-**	-
Additions	**1**	-
At 27 March 2016 and 29 March 2015	**1**	-

There are no significant restrictions on the ability of associates or joint venture to transfer funds to the Group in the form of cash dividends, repayment of loans or advances.

[1] The Group's share of profit after tax is recorded against 'Other operating costs' in the income statement

Notes to the consolidated financial statements (continued)

15. Share-based payments

This note provides details about the Free Shares awarded to employees, including the associated accounting charge to the Group's income statement under IFRS 2, and the number of Shares held at the end of the reporting year. Details of shares awarded under the Long-Term Incentive Plan (LTIP) and Save As You Earn (SAYE) scheme are also included.

Employee Free Shares
Employee Free Shares are held on behalf of employees in a tax-advantaged Share Incentive Plan (SIP).

The shares are held in a Trust administered by Equiniti Share Plan Trustees Limited (Equiniti) and may only be distributed to, or for the benefit of, eligible employees. The Trust is funded by the Company and has been consolidated within these financial statements.

2013 and 2014 SIP

613 shares were awarded in October 2013 to each eligible full-time employee, with a further 116 shares allocated to eligible full-time employees in April 2014. Part-time eligible employees were allocated a pro-rata number of shares for both allocations. For both full-time and part-time eligible employees, the award of shares is subject to them remaining employees of Royal Mail Group Limited over the vesting period. The vesting period for each award is three years from the award date with all allocated shares to be equity-settled.

2015 SIP

On 5 October 2015 ordinary shares representing one per cent of the Company were awarded free of charge to eligible full-time employees by HM Government, in addition to a portion of the unallocated shares arising from earlier SIP schemes. Accordingly, each eligible full-time employee received 103 shares as their 2015 SIP allocation, with part-time eligible employees being allocated a pro-rata number of shares. All allocated shares will be equity-settled.

On 17 March 2016 HM Government transferred a further one per cent of ordinary shares to Equiniti through a Deed of Gift. These are to be allocated to eligible employees in due course.

The fair value of the 2015 award of Free Shares is £63 million (including £2 million National Insurance) which is being charged to the income statement on a straight-line basis, adjusted for 'good leavers'[1] and forfeitures, over the three year period of vesting from the award date. The fair value of the award was established based on prevailing market prices at the award date and did not incorporate expected dividends.

A charge to the income statement of £158 million (including £6 million National Insurance) has been made for the year ended 27 March 2016 for all three SIP allocations (see Note 5).

[1] 'Good leavers' refers to former employees whose shares vested under specific circumstances, in accordance with the rules of the scheme

Notes to the consolidated financial statements (continued)

15. Share-based payments (continued)

A reconciliation of the ordinary shares held in the SIP at 27 March 2016 is shown below.

	Number of shares
Total shares remaining in SIP at 29 March 2015	94,855,917
2015 SIP shares awarded in the reporting year	10,000,000
Shares transferred into SIP on 17 March 2016	10,000,000
Shares transferred out of SIP during the reporting year ('good leavers'[1])	(4,205,341)
Total shares remaining in SIP at 27 March 2016	**110,650,576**

Of the total shares remaining in the scheme, 99,967,360 have been allocated to current employees. The remaining 10,683,216 shares are unallocated. This includes 10,000,000 received from HM Government on 17 March 2016 that are to be allocated to eligible employees in due course. The remainder arose as a result of forfeitures.

Award of shares under the Long-Term Incentive Plan (LTIP)
LTIP awards were granted to senior management on 17 September 2013 (2013 LTIP), 31 March 2014 (2014 LTIP) and 28 March 2015 (2015 LTIP). These awards are equity-settled with the fair value of the shares awarded being set at the grant date market value of 529.1 pence, 450.4 pence and 511.0 pence, respectively. The maximum shares that have the potential to vest under each of the schemes are: 1.9 million under the 2013 LTIP, 3.3 million under the 2014 LTIP and 3.1 million under the 2015 LTIP.

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

	52 weeks 2016 £m	52 weeks 2015 £m
2013 LTIP	**6**	–
2014 LTIP	**2**	5
2015 LTIP	**4**	–
Total	**12**	5

The LTIP shares are not part of the SIP explained above. Further details of each LTIP plan, including performance conditions, can be found in the Directors' remuneration report on page 66.

Save As You Earn (SAYE) share option scheme
On 24 July 2014, a SAYE share option scheme was introduced for eligible employees. Under the terms of the scheme, the Board permits the grant of options in respect of ordinary shares in the Company to those employees who enter into an HMRC-approved SAYE savings contract.

These contracts are for a term of three years, with contributions from employees of an amount between £5 and £59 each month. The options purchased may be exercised during the six month period following the end of the contract, at an exercise price of not less than 80 per cent of the average of the mid-market quotations of an ordinary Share over the three dealing days immediately preceding the offer date.

A charge to the income statement of £3 million (2014-15 £1 million) has been made in relation to the SAYE scheme.

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

	Number of options
Balance at the beginning of the reporting year	**14,781,540**
Options exercised	**(43,893)**
Options forfeited	**(822,607)**
Balance at the end of the reporting year	**13,915,040**

For SAYE options exercised during the year (by 'good leavers'), the weighted average share price at the date of exercise was 468 pence. The weighted average exercise price for each of the above categories of share options is 360 pence.

As a result of the scheme rules in relation to 'good leavers', 85,860 (2014-15 43,850) share options were exercisable at 27 March 2016 at a weighted average exercise price of 360 pence.

The fair values of the options have been calculated using the Black-Scholes share option pricing model.

Notes to the consolidated financial statements (continued)

16. Assets and liabilities held for sale

This note provides details of the assets and liabilities classified as held for sale at the beginning and end of the reporting year. Assets and liabilities are classified in this way when their carrying value is to be recovered principally through a sale transaction and a sale is considered highly probable. Their value in the balance sheet is the lower of their carrying amount and fair value less costs to sell. At the reporting date of 27 March 2016, only certain surplus property assets are held for sale.

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

	At 27 March 2016 £m	At 29 March 2015 £m
Assets of disposal group (DPD SL) held for sale	**–**	17
Other non-current (property) assets held for sale	**39**	15
Total non-current assets held for sale	**39**	32
Total liabilities associated with non-current assets held for sale (DPD SL)	**–**	(10)

Disposal group (DPD SL) – discontinued operations
The Group's assets and liabilities held for sale reduced by £17 million assets and £10 million liabilities reported at 29 March 2015, as a result of the sale of DPD SL on 31 March 2015. A further £1 million of assets was subsequently identified and included as part of the sale. From the previous reporting year ended 29 March 2015 to the date of its sale on 31 March 2015, there were no material revenues, costs or cash flow in respect of DPD SL operations (reporting year ended 29 March 2015 £96 million revenue, £96 million costs, net £nil million cash flow).

A pre-tax profit on disposal of DPD SL of £31 million, including a £2 million loss released from equity in relation to foreign currency exchange translation differences, has been recognised as a specific item in the income statement. Basic and diluted earnings per share from discontinued operations were 2.6 pence per share in the current reporting year (2014-15 nil pence per share) reflecting the after tax profit on disposal.

The property used for administrative purposes by DPD SL employees is now surplus to operational requirements and has met the Group's criteria to enable its transfer in the reporting year from 'property, plant and equipment' to 'non-current assets held for sale' on the Group balance sheet.

Property assets held for sale
Other non-current assets held for sale of £39 million (2014-15 £15 million) relate to land and buildings which are being actively marketed with a view to a sale within 12 months, including the property occupied by DPD SL employees as explained above and the former South London Mail Centre site in Nine Elms, Vauxhall. An assessment of the fair value of these properties was made at the time of their reclassification to 'held for sale' and no adjustment to the carrying amount of these properties was necessary.

Notes to the consolidated financial statements (continued)

17. Current trade and other receivables

The following information relates to amounts owed to the Group by third parties and also the amount of bad and doubtful debts that the Group has provided for in the financial statements.

	At 27 March 2016 £m	At 29 March 2015 £m
Trade receivables	**897**	836
Prepayments and accrued income	**123**	108
Total	**1,020**	944

Movements in the provision for bad and doubtful debts are shown below.

	2016 £m	2015 £m
At 29 March 2015 and 30 March 2014	**(21)**	(27)
Receivables provided for during the year	**(12)**	(4)
Release of provision	**3**	4
Utilisation of provision	**5**	5
Exchange difference on foreign denominated provision	**(1)**	1
At 27 March 2016 and 29 March 2015	**(26)**	(21)

The amount of trade receivables that were past due but not impaired are shown below.

	At 27 March 2016 £m	At 29 March 2015 £m
Not yet overdue	**806**	766
Past due not more than one month	**68**	49
Past due more than one month and not more than two months	**14**	11
Past due more than two months	**9**	10
Total	**897**	836

Notes to the consolidated financial statements (continued)

18. Cash and cash equivalents

This note details the Group's cash balance and other short-term investments that can be readily converted into cash.

Cash and cash equivalents at 27 March 2016 and at 29 March 2015 are as follows:

	At 27 March 2016 £m	At 29 March 2015 £m
Cash at bank and in hand	**185**	127
Client cash	**13**	20
Cash equivalent investments: Short-term bank and local authority deposits and money market fund investments	**170**	140
Total cash and cash equivalents	**368**	287

Cash and cash equivalents comprise amounts held physically in cash, bank balances available on demand and deposits for three months or less, dependent on the immediate cash requirements of the Group. Where interest is earned, this is either at floating or short-term fixed rates based upon bank deposit rates.

Client cash is cash collected from consignees by GLS on behalf of its posting customers.

19. Current trade and other payables

The following details relate to amounts owed by the Group to third parties and deferred revenue for services still to be provided.

	At 27 March 2016 £m	At 29 March 2015 £m
Trade payables and accruals	**(1,226)**	(1,215)
Advance customer payments (mainly for stamps held, not yet used by customers)	**(306)**	(286)
Social security	**(81)**	(98)
Capital expenditure payables	**(70)**	(53)
Other	**(17)**	(16)
Total	**(1,700)**	(1,668)

The fair value of trade and other payables is not materially different from the carrying value.

£20 million in respect of the estimated exposures for vehicle-related legal claims has been reclassified from accruals to provisions (see Note 22) during the year.

Notes to the consolidated financial statements (continued)

20. Loans and borrowings

Details of loans and borrowings, including interest rates, additional loan facilities available and any security provided against the loans, are provided below.

	At 27 March 2016						
	Loans and borrowings £m	**Further committed facility £m**	**Total facility £m**	**Average interest rate of loan drawn down %**	**Basis of interest rate chargeable at 27 March 2016**	**Average maturity date of loan drawn down Year**	**Average maturity date of loan facility Year**
Syndicated bank loan facilities	**–**	**1,050**	**1,050**	**n/a**	**LIBOR plus 0.55%**	**n/a**	**2021**
€500 million bond – 2.375% Senior Fixed Rate Notes	**392**	**–**	**392**	**2.5**	**Fixed at 2.5%**	**2024**	**2024**
Total	**392**	**1,050**	**1,442**	**2.5**		**2024**	**2022**

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

The €500 million bond, issued in July 2014, is shown net of issue discount and fees and at a closing spot rate of £0.789/€. The effective interest rate on the bond (2.5 per cent) consists of the interest coupon of 2.375 per cent plus the unwinding of the discount and fees on issuing the bond (0.08 per cent). The bond is designated as a hedge of the net investment in GLS, which has the Euro as its functional currency. During the year, a loss of £26 million (2014-15 gain of £27 million) on the retranslation of this borrowing was transferred to other comprehensive income, which offsets the gains on translation of the net investment in GLS. There was no hedge ineffectiveness in the current or comparative reporting years.

In March 2016, the Group extended £952 million of the syndicated bank loan facilities for a further year (to March 2021) with the remaining £98 million maturing in March 2020.

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

The covenants require the Group to maintain the (leverage) ratio of adjusted net debt to EBITDA below 3:1 and EBITDA to interest (excluding certain arrangement fees) above 3.5:1. Adjusted net debt consists of net debt plus Letters of Credit (contingent liabilities in respect of the UKPIL insurance programme, where the possibility of an outflow of economic benefits is considered remote) and is adjusted for exchange rate movements during the year. The Group's leverage ratio at 27 March 2016 is 0.4:1 (at 29 March 2015 0.4:1). The Group's ratio of EBITDA to interest (excluding certain arrangement fees) at 27 March 2016 is 63.0:1 (at 29 March 2015 40.4:1). Accordingly, the Group comfortably satisfies the covenants tests within its syndicated bank loan facilities agreement.

The interest rate chargeable on the syndicated bank loan facility would increase if more than one third of the facility was drawn and also if the Group's leverage ratio exceeded 1:1. Under the loan agreement, the maximum interest rate chargeable would be LIBOR plus 1.45 per cent. The €500 million bond becomes repayable immediately on the occurrence of an event of default under the bond agreement. These events of default include non-payment and insolvency. It is not anticipated that the Group is at risk of breaching any of these obligations.

The undrawn committed facilities, in respect of which all conditions precedent had been met at the balance sheet date, all expire in more than two years.

There is no security in place under the syndicated bank loan facilities or the bond.

Notes to the consolidated financial statements (continued)

21. Financial assets and liabilities and risk management

Section A – provides analysis of the carrying values and fair values of financial assets and liabilities held within the Group. This includes an analysis of gross contractual cash flows on financial liabilities.
Section B – includes details of how the various risks associated with the Group's assets and liabilities are managed, and also the Group's capital management policy.
Section C – provides information regarding the various hedging programmes in place to mitigate volatility in commodity prices and foreign currency exchange rates. If these hedges are 'in the money', i.e. hedged rates are better than the current market rate, then a derivative asset is recognised, and if they are 'out of the money' a derivative liability is recognised.

A. FINANCIAL ASSETS AND LIABILITIES – ANALYSIS

The Group's financial assets and liabilities are summarised below.

	At 27 March 2016			At 29 March 2015		
	Non-current £m	**Current £m**	**Total £m**	Non-current £m	Current £m	Total £m
RMSEPP pension escrow investments	**20**	**–**	**20**	20	–	20
Cash and cash equivalents	**–**	**368**	**368**	–	287	287
Other bank and local authority deposits	**–**	**–**	**–**	–	56	56
Derivative assets	**2**	**5**	**7**	2	5	7
Total financial assets	**22**	**373**	**395**	22	348	370
Syndicated bank loans	**–**	**–**	**–**	–	–	–
€500 million bond – 2.375% Senior Fixed Rate Notes due July 2024	**(392)**	**–**	**(392)**	(366)	–	(366)
Total loans and borrowings	**(392)**	**–**	**(392)**	(366)	–	(366)
Obligations under finance leases	**(136)**	**(84)**	**(220)**	(179)	(93)	(272)
Derivative liabilities	**(8)**	**(33)**	**(41)**	(14)	(34)	(48)
Total financial liabilities	**(536)**	**(117)**	**(653)**	(559)	(127)	(686)

Carrying amounts and fair values
Trade receivables, payables, prepayments and accruals have been omitted from this analysis on the basis that carrying value is a reasonable approximation of fair value. Pension plan assets and liabilities are also excluded. Fair values have been calculated using current market prices (bond price, interest rates, forward exchange rates and commodity prices) and discounted using appropriate discount rates. There are no material differences between the fair value (transaction price) of all financial instruments at initial recognition and the fair value calculated using these valuation techniques. The fair value of the €500 million bond (non-current) is £424 million (2014-15 £402 million), calculated as the closing market bond price converted to Sterling using the closing spot exchange rate. The fair value of total 'Obligations under finance leases' is £222 million (2014-15 £282 million). For all other financial instruments fair value is equal to the carrying amount. The tables below also set out the carrying amount and classification of the Group's financial instruments.

Notes to the consolidated financial statements (continued)

21. Financial assets and liabilities and risk management (continued)

The following table shows the classification of the Group's financial assets and liabilities.

	Level	Classification	**At 27 March 2016 £m**	At 29 March 2015 £m
Financial assets				
Cash			**198**	147
Cash equivalent investments			**170**	140
Money market funds		Loans and receivables	**120**	110
Short-term deposits – bank		Loans and receivables	**50**	30
Cash and cash equivalents			**368**	287
Financial assets – investments (current) – bank and local government deposits		Loans and receivables	**–**	56
Financial assets – pension escrow investments (non-current) – RMSEPP pension escrow – money market funds		Loans and receivables	**20**	20
Derivative assets – current	2		**5**	5
Derivative assets – non-current	2		**2**	2
Total financial assets			**395**	370
Financial liabilities				
Obligations under finance leases (current)		Amortised cost	**(84)**	(93)
€500 million bond – 2.375% Senior Fixed Rate Notes due July 2024		Amortised cost	**(392)**	(366)
Obligations under finance leases (non-current)		Amortised cost	**(136)**	(179)
Derivative liabilities – current	2		**(33)**	(34)
Derivative liabilities – non-current	2		**(8)**	(14)
Total financial liabilities			**(653)**	(686)
Net total financial liabilities			**(258)**	(316)

The 'Level' classification in the above table is explained in the 'Fair value measurement of financial instruments' section of 'Significant accounting policies'.

Derivative assets and liabilities are valued at fair value. Effective changes in the fair value of derivatives which are part of a designated cash flow hedge under IAS 39, are deferred into equity. All other changes in derivative fair value are taken straight to the income statement. Derivative assets and liabilities that are not part of an effective hedge designation are classified at fair value through profit and loss. There are no other financial assets or liabilities designated at fair value through profit and loss on initial recognition.

Gross contractual cash flows

The tables below set out the gross (undiscounted) contractual cash flows of the Group's financial liabilities. For overdrafts, loans and Sterling denominated finance lease contracts, these cash flows represent the undiscounted total amounts payable, including interest. The cash flows for the €500 million bond and Euro denominated finance leases represent the undiscounted total amounts payable (interest and nominal repayment) which have been converted to Sterling at 27 March 2016 market forward exchange rates.

For derivatives that are settled gross, these cash flows represent the undiscounted gross payment due and do not reflect the accompanying inflow. For derivatives that are settled net, these cash flows represent the undiscounted forecast outflow.

Notes to the consolidated financial statements (continued)

21. Financial assets and liabilities and risk management (continued)

	At 27 March 2016					
	Gross loans and borrowings commitments £m	**Gross finance lease instalments £m**	**Sub-total £m**	**Gross payments on derivatives settled gross £m**	**Gross payments on derivatives settled net £m**	**Total £m**
Amounts falling due in:						
One year or less or on demand (current)	**9**	**87**	**96**	**8**	**33**	**137**
More than one year (non-current)	**521**	**242**	**763**	**1**	**8**	**772**
More than one year but not more than two years	9	56	65	1	8	74
More than two years but not more than five years	29	78	107	–	–	107
More than five years	483	108	591	–	–	591
Total	**530**	**329**	**859**	**9**	**41**	**909**
Less interest	**(89)**	**(108)**	**(197)**	**n/a**	**n/a**	**n/a**
Less exchange rate adjustment	**(49)**	**(1)**	**(50)**	**n/a**	**n/a**	**n/a**
Net total	**392**	**220**	**612**	**n/a**	**n/a**	**n/a**

	At 29 March 2015					
	Gross loans and borrowings commitments £m	Gross finance lease instalments £m	Sub-total £m	Gross payments on derivatives settled gross £m	Gross payments on derivatives settled net £m	Total £m
Amounts falling due in:						
One year or less or on demand (current)	9	98	107	7	33	147
More than one year (non-current)	494	288	782	–	14	796
More than one year but not more than two years	9	78	87	–	13	100
More than two years but not more than five years	27	96	123	–	1	124
More than five years	458	114	572	–	–	572
Total	503	386	889	7	47	943
Less interest	(93)	(114)	(207)	n/a	n/a	n/a
Less exchange rate adjustment	(44)	–	(44)	n/a	n/a	n/a
Net total	366	272	638	n/a	n/a	n/a

B. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial assets and liabilities comprise short-term deposits, money market liquidity investments, cash loans (including bonds) and finance leases. The main purpose of these financial instruments is to raise finance and manage the liquidity needs of the business' operations. The Group has various other financial instruments such as trade receivables and trade payables, which arise directly from operations and are not disclosed further in this section.

The Group enters into derivative transactions, which create derivative assets and liabilities, principally commodity price swaps, interest rate swaps and forward currency contracts. Their purpose is to manage the commodity, interest rate and currency risks arising from the Group's operations and finances.

No speculative trading in financial instruments has been undertaken during the current or comparative reporting years, in line with Group policy.

The main risks arising from the Group's financial assets and liabilities are interest rate risk, foreign currency risk, commodity price risk, credit risk and liquidity risk. The Board reviews and agrees policies for managing these risks, each of which is summarised below.

Notes to the consolidated financial statements (continued)

21. Financial assets and liabilities and risk management (continued)

Interest rate risk

The Group's exposure to market risk for changes in interest rates arises from the Group's loans, leases and interest-bearing financial assets. Drawings under the syndicated bank loan facilities are at floating rate. There were no balances outstanding at 27 March 2016 and at 29 March 2015. The total interest-bearing financial assets of the Group (excluding the non-current investments) of £247 million (2014-15 £269 million), which consist of the fixed and floating rate cash and cash equivalent investments, plus current financial asset investments, are at short-dated fixed or variable interest rates with an average maturity of 6 days (2014-15 an average maturity of 31 days). These short-dated financial instruments are maturity managed to obtain the best value out of the interest yield curve.

The Group's policy is to manage its net interest expense using an appropriate mix of fixed and floating rate financial instruments, combined with external hedging of interest rate risk, as appropriate, to keep a high percentage of its gross debt fixed.

Interest on financial instruments classified as floating rate is re-priced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument.

The tables below set out the carrying amount of the Group's financial instruments that are exposed to interest rate risk.

	At 27 March 2016			
	Fixed rate £m	Floating rate £m	Non-interest bearing £m	Total £m
Cash	**–**	**77**	**121**	**198**
Cash equivalent investments	**–**	**170**	**–**	**170**
RMSEPP pension escrow investments	**–**	**20**	**–**	**20**
Derivative assets	**–**	**–**	**7**	**7**
Derivative liabilities	**–**	**–**	**(41)**	**(41)**
€500 million bond	**(392)**	**–**	**–**	**(392)**
Obligations under finance leases	**(220)**	**–**	**–**	**(220)**
Net total financial (liabilities)/assets	**(612)**	**267**	**87**	**(258)**

	At 29 March 2015			
	Fixed rate £m	Floating rate £m	Non-interest bearing £m	Total £m
Cash	–	73	74	147
Cash equivalent investments	–	140	–	140
Financial asset investments (current)	31	25	–	56
RMSEPP pension escrow investments	–	20	–	20
Derivative assets	–	–	7	7
Derivative liabilities	–	–	(48)	(48)
Syndicated bank loans	(366)	–	–	(366)
Obligations under finance leases	(272)	–	–	(272)
Net total financial (liabilities)/assets	(607)	258	33	(316)

Foreign currency transaction risk

The Group is exposed to foreign currency risk due to; interest payments on the €500 million bond and certain obligations under Euro denominated finance leases; trading with overseas postal administrations for carrying UK mail abroad and delivering foreign origin mail in the UK; and various purchase contracts denominated in foreign currency (all of these exposures are in UKPIL). GLS' functional currency is the Euro and most of its revenues and profits are Euro denominated. There is some exposure to non-Euro currencies, principally in emerging European markets.

These risks are mitigated by hedging programmes managed by the Group Treasury function. Where possible, exposures are netted internally and any remaining exposure is hedged using a combination of external spot and forward contracts. Hedging will not normally be considered for exposures of less than £1 million and hedging is normally confined to 80 per cent of the forecast exposure, where forecast cash flows are highly probable.

Notes to the consolidated financial statements (continued)

21. Financial assets and liabilities and risk management (continued)

Foreign currency translational risk

The Group's functional currency is Sterling and GLS' functional currency is the Euro. GLS Euro profits are converted at the average exchange rate for the year, which can result in reported growth or decline that does not relate to underlying performance. GLS' balance sheet is converted at year end exchange rates, and movements related to foreign currency translation are taken to equity.

UKPIL's obligation to settle with overseas postal administrations is denominated in Special Drawing Rights (SDRs) – a basket of currencies which comprise US Dollar, Japanese Yen, Sterling and Euro. Group Treasury operates a rolling 18-month hedge programme, which is subsequently reviewed on a quarterly basis.

UKPIL has four active hedge programmes (commenced during the current and previous reporting years) covering obligations to settle Euro and US Dollar invoices on automation projects.

The €500 million bond issued in July 2014 acts as a hedge of part of the translation exposure created by the net assets of GLS. The Group entered into €37 million of Euro denominated finance leases during the year (2014-15 €nil million) which similarly act as a hedge of the net assets of GLS. The bond and lease payables are revalued at year end exchange rates and the movement taken to equity to offset the movement taken to equity from the revaluation of GLS' balance sheet. The remaining net assets of GLS in excess of the bond and lease payables are not hedged. The Group uses the translational exposure arising from GLS Euro profits to offset against other transactional exposures.

The net total financial liabilities are held in various different currencies as summarised in the table below. The majority of the non-Sterling financial assets and liabilities (other than the €500 million bond and certain finance leases) are held within cash or derivatives.

	Sterling £m	US$ £m	Euro £m	Other £m	Total £m
Net total financial assets/(liabilities) at 27 March 2016	**13**	**(10)**	**(290)**	**29**	**(258)**
Net total financial (liabilities)/assets at 29 March 2015	(34)	(33)	(271)	22	(316)

Commodity price risk

UKPIL is exposed to fuel price risk arising from operating one of the largest vehicle fleets in Europe - which consumes over 130 million litres of fuel per year - and a jet fuel price risk arising from the purchasing of air freight services. The Group's fuel risk management strategy aims to reduce uncertainty created by the movements in the oil and foreign currency markets. The strategy uses over-the-counter derivative products (in both US Dollar commodity price and US Dollar/Sterling exchange rate) to manage these exposures.

In addition, the Group is exposed to the commodity price risk of purchasing electricity and gas. The Group's risk management strategy aims to reduce uncertainty created by the movements in the electricity and gas markets. These exposures are managed by locking into fixed price contracts with suppliers and using over-the-counter derivative products.

As the GLS business relies on the use of subcontractors, responsible for purchasing their own fuel, GLS has no direct exposure to diesel costs. The only other significant commodity exposure within GLS is electricity, which is fragmented across its European bases. In view of the other highly hedged positions, the Group takes the view that the unhedged exposure arising from the commodities in GLS does not add significant risk to the Group.

Credit risk

UKPIL considers that a fair and equitable credit policy is in operation for all its account customers. The level of credit granted is based on a customer's risk profile, assessed by an independent credit referencing agent. The credit policy is applied rigidly within the regulated products area to ensure that UKPIL is not in breach of compliance legislation. Assessment of credit for non-regulated products is based on commercial factors, which are commensurate with the Group's appetite for risk.

UKPIL has a dedicated credit management team, which sets and monitors credit limits and takes corrective action as and when appropriate. The level of bad debt written off in the year for the whole Group is 0.1 per cent (2014-15 0.1 per cent) of revenue. An analysis of aged debt is included within Note 17.

With regard to credit risk arising from other financial assets of the Group, which comprise cash, cash equivalent investments, loans and receivables and certain derivative instruments, the Group invests/trades only with high-quality financial institutions. The Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Notes to the consolidated financial statements (continued)

21. Financial assets and liabilities and risk management (continued)

The table below analyses the Group's financial assets, cash equivalent investments and derivatives by credit rating.

	At 27 March 2016						
	AAAm/ AAAf £m	**AAA £m**	**AA+ to AA– £m**	**A+ to A– £m**	**BBB+ and below £m**	**No rating £m**	**Total £m**
Cash equivalent investments	**120**	**–**	**50**	**–**	**–**	**–**	**170**
RMSEPP pension escrow investments	**20**	**–**	**–**	**–**	**–**	**–**	**20**
Derivative assets	**–**	**–**	**2**	**4**	**1**	**–**	**7**
Total	**140**	**–**	**52**	**4**	**1**	**–**	**197**

	At 29 March 2015						
	AAAm/ AAAf £m	AAA £m	AA+ to AA– £m	A+ to A– £m	BBB+ and below £m	No rating £m	Total £m
Cash equivalent investments	110	–	–	30	–	–	140
Other bank and local authority deposits	–	–	–	55	–	1[1]	56
RMSEPP pension escrow investments	20	–	–	–	–	–	20
Derivative assets	–	–	2	5	–	–	7
Total	130	–	2	90	–	1	223

GLS operates a decentralised credit management model whereby each country is responsible for managing the credit risk associated with its customers. Where appropriate, external credit checks are performed for new and existing customers, taking into account the customer profile, expected volume of business and consequent risk to the companies.

None of the financial assets is either past due or considered to be impaired.

[1] This deposit, which matured in 2015, was placed with a local authority

Notes to the consolidated financial statements (continued)

21. Financial assets and liabilities and risk management (continued)

Liquidity risk

The Group's primary objective is to ensure that the Group has sufficient funds available to meet its financial obligations as they fall due. This is achieved by aligning short-term investments and borrowing facilities with forecast cash flows. Typical short-term investments include money market funds and term deposits with approved counterparties. Borrowing facilities are regularly reviewed to ensure continuity of funding. The unused facilities for the Group of £1,050 million expire in 2020-2021 (2014-15 £1,050 million expiring in 2020).

Below is a summary of when all the financial assets and liabilities fall due. The pension escrow investment represents a money market fund investment established to provide security to the Royal Mail Senior Executives Pension Plan (RMSEPP), in support of a deficit recovery plan agreed with the Trustee in June 2013. The next scheduled review point in the agreement is 30 September 2018 and the investment is therefore disclosed as maturing in two to five years.

	At 27 March 2016					
	Average effective interest rate %	Within 1 year £m	1-2 years £m	2-5 years £m	More than 5 years £m	Total £m
Fixed rate						
Financial liabilities						
€500 million bond	2.5	–	–	–	(392)	(392)
Obligations under finance leases	3.3	(84)	(52)	(71)	(13)	(220)
Total		(84)	(52)	(71)	(405)	(612)
Floating rate						
Cash at bank	0.3	77	–	–	–	77
Cash equivalent investments – money market funds	0.6	120	–	–	–	120
Cash equivalent investments – bank deposits	0.6	50	–	–	–	50
Financial assets – pension escrow investments (non-current)						
RMSEPP pension escrow – money market funds	0.5	–	–	20	–	20
Total		247	–	20	–	267
Non-interest bearing						
Cash at bank or in hand		121	–	–	–	121
Derivative assets		5	2	–	–	7
Derivative liabilities		(33)	(8)	–	–	(41)
Total		93	(6)	–	–	87
Total financial assets		373	2	20	–	395
Total financial liabilities		(117)	(60)	(71)	(405)	(653)
Net total financial assets/(liabilities)		256	(58)	(51)	(405)	(258)

Notes to the consolidated financial statements (continued)

21. Financial assets and liabilities and risk management (continued)

	At 29 March 2015					
	Average effective interest rate %	Within 1 year £m	1-2 years £m	2-5 years £m	More than 5 years £m	Total £m
Fixed rate:						
Financial assets – investments (current) – bank/local government deposits	0.8	31	–	–	–	31
Financial liabilities:						
€500 million bond	2.5	–	–	–	(366)	(366)
Obligations under finance leases	3.5	(93)	(74)	(90)	(15)	(272)
Total		(62)	(74)	(90)	(381)	(607)
Floating rate:						
Cash at bank	0.4	73	–	–	–	73
Cash equivalent investments – money market funds	0.6	110	–	–	–	110
Cash equivalent investments – bank deposits	0.6	30	-	-	-	30
Financial assets – investments (current) - bank deposits	0.7	25	-	-	-	25
Financial assets – pension escrow investments (non-current):						
RMSEPP pension escrow – money market funds	0.4	–	–	20	–	20
Total		238	–	20	–	258
Non-interest bearing						
Cash at bank or in hand		74	–	–	–	74
Derivative assets		5	2	-	–	7
Derivative liabilities		(34)	(13)	(1)	–	(48)
Total		45	(11)	(1)	–	33
Total financial assets		348	2	20	-	370
Total financial liabilities		(127)	(87)	(91)	(381)	(686)
Net total financial assets/(liabilities)		221	(85)	(71)	(381)	(316)

Obligations under finance leases are either unsecured or secured on the leased assets. The average interest rate is 3.3 per cent (2014-15 3.5 per cent). The average maturity date is more than five years (2014-15 between four and five years).

Capital management

The Group's principal objectives are to manage the mix of debt and equity in order to (i) meet all obligations as they fall due; (ii) support a progressive dividend policy; and (iii) reduce the cost of capital of the Group.

The Group aims to do this by:

- generating sufficient in-year trading cash flows to support the ordinary dividend;
- maintaining sufficient cash reserves and committed facilities;
- targeting investment grade[2] standard metrics;
- managing and maintaining positive adjusted net assets and distributable reserves; and
- retaining sufficient flexibility to invest in the future of the business.

In the reporting year the Group generated £254 million (2014-15 £315 million) of in-year trading cash flow[3].

As set out in the viability statement, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due. At 27 March 2016, the Group had cash and cash equivalents of £368 million (at 29 March 2015 £287 million) and undrawn committed loan facilities of £1,050 million maturing on average in five years (at 29 March 2015 £1,050 million maturing in five years).

At 27 March 2016 the Group met the loan covenants and other obligations for its revolving credit facility and €500 million bond, (see Note 20).

At 27 March 2016, the Group had net debt[4] of £224 million (at 29 March 2015 £275 million). During the year the Group maintained a credit rating of BBB with a stable outlook from Standard & Poor's.

The capital managed by the Group, consists of net assets (made up of investment, working capital, provisions and net debt), less the pension asset recognised at 27 March 2016 adjusted for any deferred tax liability on the pension asset. The Group's defined benefit plans are separately managed by RMPP and RMSEPP Trustees and funded from Group contributions (see Note 10). The Group's adjusted capital is shown in the table below.

[2] No worse than BBB- under Standard & Poor's methodology

[3] A non-GAAP performance measure (see Financial review on page 27)

[4] Net debt consists of loans, borrowings and lease payables, offset by cash and financial asset investments excluding derivatives

Notes to the consolidated financial statements (continued)

21. Financial assets and liabilities and risk management (continued)

	At 27 March 2016 £m	At 29 March 2015 £m
Net assets	**4,467**	3,996
Deduct pension asset	**(3,430)**	(3,367)
Add back deferred tax liability on pension asset	**565**	667
Adjusted capital	**1,602**	1,296

The Board has recommended a final dividend of 15.1 pence per share. Including the interim dividend of 7.0 pence per share, this represents a total dividend of 22.1 pence per share for 2015-16. This is a five per cent increase on the previous year's dividend of 21.0 pence per share and equivalent to £151 million of cash.

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.

Sensitivity analysis
As a result of the mix of fixed and variable rate financial instruments and the currency and commodity hedge programmes in place, the Group has no material exposure to profit risk from interest rate risk, exchange rate risk or commodity price risk (2014-15 £nil million risk). The Group has an exposure to the exchange rate risk on translating the GLS net assets into Sterling on consolidation and an offsetting exposure on translating the €500 million bond and Euro denominated finance leases into Sterling at each balance sheet date. The impact of a five per cent strengthening of Sterling during the reporting year would have been to reduce the Group net assets by £5 million (2014-15 £8 million).

C. HEDGING PROGRAMMES

The purpose of the Group's hedging programmes is to mitigate volatility in commodity prices, interest rates and foreign exchange rates, thereby providing certainty for planning. There are no significant concentrations of credit risk. Accounting rules require the Company to choose whether to designate cash flow hedge programmes or not (subject to various tests). The impact of not designating a cash flow hedge programme is that all gains or losses on the derivatives in the programme have to be taken immediately to the income statement and cannot be deferred into equity.

The Group had the following designated cash flow hedge programmes during the current and previous reporting years.

Hedging activities
i) The diesel fuel hedge programme uses forward commodity price swaps in US Dollar or Sterling and forward currency purchase contracts to hedge the exposure arising from commodity price and US Dollar/Sterling exchange rates for forecast diesel fuel purchases.

ii) The jet fuel hedge programme uses forward commodity price swaps in US Dollar or Sterling and forward currency purchase contracts to hedge the exposure arising from commodity price and US Dollar/Sterling exchange rates for forecast jet fuel usage.

iii) The air conveyance hedge programme used US Dollar forward currency purchase contracts to hedge the exposure arising from US Dollar/Sterling exchange rates for forecast air conveyance purchases. The programme finished in April 2015.

iv) Four capital programmes (two of which commenced in 2015-16) use Euro and US Dollar forward currency purchase contracts to hedge the exposure arising from Sterling/Euro and Sterling/US Dollar exchange rates for contracted capital expenditure on automation projects.

v) The electricity hedge programme uses forward commodity price swaps to hedge the exposure arising from electricity prices[5].

vi) The gas hedge programme uses forward commodity price swaps to hedge the exposure arising from gas prices.

vii) The interest rate hedge programme used interest rate swap contracts to hedge the exposure arising from interest rates on borrowings under the syndicated bank loan facilities. The hedge programme finished when the interest rate swap contracts were sold, following the repayment on 9 March 2015 of the floating rate term loans.

viii) UKPIL trades in SDRs with overseas postal administrations, for delivering UK origin mail abroad and delivering foreign origin mail in the UK. The UKPIL overseas postal administrations hedge programme uses US Dollar and Japanese Yen forward currency purchase contracts to hedge the forecast future net purchases of delivery services. The 2014-15 hedge programme covered the exposure up until the purchases were incurred and recognised on the balance sheet. No hedge was put in place for 2015-16 due to a reduction in the net imbalance position.

The Group has an undesignated cash flow hedge programme for the exposure of UKPIL to overseas postal administrations' liabilities for the year after the purchases have been incurred and recognised on the balance sheet until the time when they are settled. The derivative balances of these programmes are not material.

[5] In addition to this hedge programme, the Group uses fixed price contracts with suppliers to set future prices

Notes to the consolidated financial statements (continued)

21. Financial assets and liabilities and risk management (continued)

The Group uses the €500 million bond and the Euro denominated finance lease payables as hedges against movements in the Sterling/Euro exchange rate and therefore the net investment in GLS. Foreign currency exchange differences arising from the translation of the net assets of GLS, the €500 million bond and the Euro denominated finance lease payables, at closing Sterling/Euro exchange rates, are deferred into equity. These exchange differences would be released from equity to the income statement as part of the gain or loss if GLS was sold. During the year foreign currency exchange losses on the bond of £26 million (2014-15 gains of £27 million) and foreign exchange losses on the lease payables of £2 million (2014-15 £nil million) were deferred into equity. There was no hedge ineffectiveness in the current or prior reporting years.

Commodity price hedging

The Group's normal operating activities result in the consumption of fuel (both diesel and jet), electricity and gas. The prices of these commodities can be volatile so the Group enters into price swap contracts to lock future purchases (at an agreed volume) into a known price. For diesel fuel and jet fuel, these price swaps are sometimes entered into on the US Dollar price for the commodity (based upon available market prices), in which case the Group uses forward foreign currency contracts to lock into a combined Sterling price for the commodity. For electricity, the Group also uses fixed price contracts with suppliers to set future prices.

The following table shows the commodity, risk and the percentage of the expected consumption hedged or fixed. The Group hedges the cost of the underlying commodity and any irrecoverable VAT that is incurred on this cost. The exposures shown in the following table therefore exclude the costs of fuel duty and are based upon the hedges in place, combined with market prices at the balance sheet date for the unhedged amounts. Fuel duty (and the associated VAT) adds an additional cost of around £94 million to diesel costs each reporting year. Total diesel and jet fuel costs for 2016-17 are estimated to be £156 million.

		Exposure (excluding fuel duty) and expected consumption hedged/fixed 2016					
		52 weeks 2017		**52 weeks 2018**		**52 weeks 2019**	
Commodity	**Risk**	**Exposure £m**	**% hedged**	**Exposure £m**	**% hedged**	**Exposure £m**	**% hedged**
Diesel fuel	US$ price and $/£ exchange rate movements	**54**	**90**	**42**	**72**	**39**	**22**
Jet fuel	US$ price and $/£ exchange rate movements	**8**	**77**	**5**	**64**	**6**	**22**
Electricity	£ price movement	**13**	**76**	**13**	**61**	**13**	**61**
Gas	£ price movement	**9**	**79**	**7**	**64**	**6**	**5**

		Exposure (excluding fuel duty) and expected consumption hedged 2015					
		52 weeks 2016		52 weeks 2017		52 weeks 2018	
Commodity	Risk	Exposure £m	% hedged	Exposure £m	% hedged	Exposure £m	% hedged
Diesel fuel	US$ price and $/£ exchange rate movements	67	86	52	69	44	24
Jet fuel	US$ price and $/£ exchange rate movements	10	100	8	63	7	–
Electricity	£ price movement	16	95	14	60	14	60
Gas	£ price movement	12	98	10	53	9	–

Foreign currency hedging for non-commodity items

The Group, where possible, nets exposure to foreign currency internally. The remaining net exposure is hedged with external forward foreign currency contracts. For existing currency liabilities, the underlying exposures (e.g. the overseas postal administration related liabilities) and the derivatives are both revalued to current market prices at the balance sheet date, meaning that no net gains or losses arise in the income statement. For forecast future currency exposures, the derivatives are revalued at the balance sheet date and effective movements in value are deferred into equity until the hedged transaction occurs.

The following table shows for each hedge programme, the risk and the percentage hedged of the next 12 months' exposure:

		Percentage of next 12 months' exposure that has been hedged	
Hedge programme	**Risk**	**At 27 March 2016**	At 29 March 2015
Air conveyance	US$/£ exchange rate movements	**n/a**	96%
Capital programmes	€/£ exchange rate movements	**100%**	100%
Overseas postal administrations	SDR/£ exchange rate movements	**69%**	56%

The next 12 months' exposure is calculated as the combination of the cost of settling liabilities during the next 12 months and the cost of revaluing unsettled liabilities at the end of 12 months.

The Group hedges part of the translational exposure created by the net assets of its overseas subsidiaries, mainly GLS, by designating the €500 million bond and the Euro denominated lease payables as hedges of the net investment in GLS.

Notes to the consolidated financial statements (continued)

21. Financial assets and liabilities and risk management (continued)

Derivative values

At any point in time, the derivatives in the cash flow hedge programmes are either 'in the money' meaning that hedged rates are better than current market rates, or 'out of the money' which means the hedged rates are worse than current market rates. The gains ('in the money') and losses ('out of the money'), as at the balance sheet date are deferred into equity (where the hedge is effective) and an associated financial asset or financial liability is created in the balance sheet. The financial asset/liability is released when the derivative matures. The amounts deferred into equity relating to the effective portion of the hedges are released when the hedged transaction occurs. The following tables show the derivative contracts entered into at 27 March 2016 and 29 March 2015 and the associated derivative assets and liabilities.

	Commodity/ currency	**Nominal amount**	**Maturity date**	**Average Contracted Commodity price/ exchange rate**	**Derivative asset non-current fair value £m**	**Derivative asset current fair value £m**	**Derivative liability non-current fair value £m**	**Derivative liability current fair value £m**
At 27 March 2016								
Diesel fuel	Diesel fuel	183m litres	Apr 16 – Jan 19	US$ 0.52/litre	**1**	**–**	**(5)**	**(17)**
Diesel fuel	US$	$87m	Apr 16 – Jan 19	US$1.55/£	**1**	**4**	**–**	**–**
Diesel fuel	Diesel fuel	98m litres	May 16 – Oct 18	£0.33/litre	**–**	**–**	**(2)**	**(6)**
Jet fuel	Jet fuel	6m litres	Apr 17 – Dec 18	US$ 0.37/litre	**–**	**–**	**–**	**–**
Jet fuel	US$	$1m	Apr 18 – Dec 18	US$1.46/£	**–**	**–**	**–**	**–**
Jet fuel	Jet fuel	28m litres	Apr 16 – Sep 18	£0.35/litre	**–**	**–**	**–**	**(3)**
Air conveyance	Euro	€6m	Apr 16 – Oct 17	£0.72/€	**–**	**1**	**–**	**–**
Capital programmes	US$	$7m	Apr 16 – Oct 17	US$1.54/£	**–**	**–**	**–**	**–**
Electricity	Electricity	178k MWh	Apr 16 – Apr 17	£50/MWh	**–**	**–**	**–**	**(3)**
Gas	Gas	29m therms	Apr 16 – Oct 18	£0.50/therm	**–**	**–**	**(1)**	**(4)**
Total cash flow hedges					**2**	**5**	**(8)**	**(33)**
Other derivatives					**–**	**–**	**–**	**–**
Total derivative assets/(liabilities)					**2**	**5**	**(8)**	**(33)**

	Commodity/ currency	Nominal amount	Maturity date	Average contracted commodity price/ exchange rate	Derivative asset non-current fair value £m	Derivative asset current fair value £m	Derivative Liability non-current fair value £m	Derivative liability current fair value £m
At 29 March 2015								
Diesel fuel	Diesel fuel	216m litres	Apr 15 – Jan 18	US$ 0.69/litre	–	–	(8)	(21)
Diesel fuel	US$	$149m	Apr 15 – Jan 18	US$1.58/£	–	–	(3)	(3)
Diesel fuel	Diesel fuel	43m litres	Apr 15 – Apr 17	£0.46/litre	2	3	–	–
Jet fuel	Jet fuel	21m litres	Apr 15 – Mar 16	US$ 0.75/litre	–	–	–	(3)
Jet fuel	US$	$16m	Apr 15 – Jan 18	US$1.57/£	–	1	–	–
Jet fuel	Jet fuel	13m litres	Apr 15 – Apr 17	£0.45/litre	–	–	(1)	–
Air conveyance	US$	$82k	Apr 15	US$1.63/£	–	–	–	–
Capital programmes	Euro	€9m	Apr 15 – Apr 16	£0.8/€	–	–	–	(1)
Electricity	Electricity	411k MWh	Apr 15 – Apr 17	£55/MWh	–	–	(1)	(3)
Gas	Gas	29m therms	Apr 15 – Apr 17	£0.65/therm	–	–	(1)	(3)
Total cash flow hedges					2	4	(14)	(34)
Other derivatives					–	1	–	–
Total derivative assets/(liabilities)					2	5	(14)	(34)

Other derivatives represent hedges by the Group of other foreign exchange exposures, which are not designated under IAS 39 (including the hedge of the trading balance with overseas postal administrations).

There are timing differences between the maturity of the derivatives and the maturity of the underlying hedged transaction. For example, diesel derivatives that hedge the exposure to purchasing fuel in March 2016 mature in April 2016. At 27 March 2016 therefore, the balance sheet includes the market value of these derivatives but the cumulative gains and losses on these derivatives have been released from the hedging reserve in equity to the income statement to match the exposure to purchasing fuel in March 2016. There are differences therefore between derivative balances (shown above) and the balance on the hedging reserve.

Notes to the consolidated financial statements (continued)

22. Provisions

This note provides an analysis of the Group's constructive or legal obligations, resulting from a past event, that have been provided for in the financial statements.

	Transformation costs £m	Specific items £m	Other £m	Total £m
At 30 March 2015	**(56)**	**(154)**	**(43)**	**(253)**
Arising during the year:				
Charged in transformation costs and operating specific items	**(117)**	**(7)**	**-**	**(124)**
Charged in other operating costs	**-**	**-**	**(47)**	**(47)**
Reclassification	**-**	**-**	**(20)**	**(20)**
Unused amounts released	**-**	**8**	**3**	**11**
Utilised in the year	**161**	**5**	**26**	**192**
Foreign exchange rate adjustment	**-**	**(4)**	**-**	**(4)**
Discount rate adjustment	**-**	**(2)**	**-**	**(2)**
At 27 March 2016	**(12)**	**(154)**	**(81)**	**(247)**
Disclosed as:				
Current at 27 March 2016	**(12)**	**(67)**	**(72)**	**(151)**
Non-current at 27 March 2016	**-**	**(87)**	**(9)**	**(96)**
	(12)	**(154)**	**(81)**	**(247)**
Disclosed as:				
Current at 29 March 2015	(53)	(58)	(38)	(149)
Non-current at 29 March 2015	(3)	(96)	(5)	(104)
	(56)	(154)	(43)	(253)

Transformation costs
Transformation costs provisions comprise £12 million (2014-15 £56 million) in respect of redundancy schemes.

Specific items
The specific items provisions of £154 million (2014-15 £154 million) include £78 million (2014-15 £81 million) for potential industrial diseases claims relating to both current and former employees of the Group. This liability in respect of former employees arose in 2010 as a result of a Court of Appeal judgement that held the Group liable for diseases claims brought by individuals who were employed in the General Post Office telecommunications division and whose employment ceased prior to October 1981. Consequently, a provision was first recognised in 2010-11. The Group has derived its current provision by using estimates and ranges calculated by its actuarial adviser, which are based on current experience of claims, and an assessment of potential future claims, the majority of which are expected to be received over the next 25 to 30 years. The Group has a rigorous process of ensuring that only valid claims are accepted. £2 million of this provision is expected to be utilised in 2016-17.

The remaining £76 million (2014-15 £73 million) includes French Competition Authority investigation costs (including fine), of which £43 million was utilised in 2016-17 (see Note 27) and IT systems costs associated with Post Office Limited (POL) separation, of which £2 million is expected to be utilised in 2016-17. A release of the POL separation provision was recognised directly in equity, consistent with the accounting treatment of the provision on its initial recognition in 2012-13 (resulting from a transaction with the owner, in their capacity as owner). A further £29 million is in respect of: German property tax liability of £5 million, expected to be utilised in 2016-17; employer's National Insurance associated with the award of Employee Free Shares of £15 million, of which £13 million is expected to be utilised in 2016-17 and £2 million within two to five years; and legacy property costs of £9 million, of which £1 million is expected to be utilised within two to five years and £8 million over a period greater than five years.

Other provisions (charged in operating costs)
Other provisions of £81 million (2014-15 £43 million) mainly comprise: onerous property lease and decommissioning obligations of £21 million, of which £14 million is expected to be utilised in 2016-17 and £7 million within two to three years; onerous contracts of £20 million, expected to be utilised in 2016-17; and exposures resulting from legal claims incurred in the normal course of business of £38 million, expected to be utilised in 2016-17. The remaining £2 million is in relation to employer's National Insurance associated with the Long-Term Incentive Plan, which is expected to be utilised within two to five years.

£20 million was reclassified as a provision during the year (presented within accruals previously) in respect of the estimated exposures for vehicle-related legal claims. This reclassification was made as a result of increased uncertainty over the timing and amount of future expenditure required in settlement of the legal claims.

Notes to the consolidated financial statements (continued)

23. Share capital and reserves

This note details the number of shares Royal Mail plc has issued, and any special features of the issued shares. A description of certain reserves that form part of total equity is also included.

Issued and fully paid share capital	At 27 March 2016 £m	At 29 March 2015 £m
1,000,000,000 ordinary shares of £0.01 each	**10**	10
Total	**10**	10

Of the issued ordinary shares, a total of 27,042 (2014-15 40,935) are held by an Employee Benefit Trust (EBT) administered by Sanne Fiduciary Services Limited. These shares are treated as treasury shares for accounting purposes in accordance with IAS 32 'Financial Instruments: Presentation'. The Company, however, does not hold any shares in treasury. The EBT is funded by the Company and has been consolidated within these financial statements.

Reserves included in the consolidated statement of changes in equity

Foreign currency translation reserve
The Foreign currency translation reserve is used to record the gains and losses arising since 29 March 2004 on translation of assets and liabilities of subsidiaries denominated in currencies other than the reporting currency.

Hedging reserve
The Hedging reserve is used to record gains and losses arising from cash flow hedges since 28 March 2005.

24. Commitments

The information below includes details of committed future rental payments for the use of assets which the Group does not legally own, and are either not recognised on the Group's balance sheet (operating leases) or are recognised on the Group's balance sheet (finance leases) on the basis that the risks and rewards incidental to ownership of the leased assets have passed to the Group.

Operating lease commitments

The Group is committed to the following future minimum lease payments under non-cancellable operating leases:

	Land and buildings		Vehicles and equipment		IT equipment		Total	
	At 27 March 2016 £m	At 29 March 2015 £m	At 27 March 2016 £m	At 29 March 2015 £m	At 27 March 2016 £m	At 29 March 2015 £m	At 27 March 2016 £m	At 29 March 2015 £m
Within one year	**(120)**	(117)	**(13)**	(10)	**(9)**	(3)	**(142)**	(130)
Between one and five years	**(358)**	(365)	**(25)**	(12)	**(22)**	(1)	**(405)**	(378)
Beyond five years	**(427)**	(441)	**(7)**	(2)	**-**	–	**(434)**	(443)
Total	**(905)**	(923)	**(45)**	(24)	**(31)**	(4)	**(981)**	(951)

Existing leases for UK land and buildings have an average term of 16 years and lease renewals are agreed with the lessor as appropriate. Existing land and buildings leased overseas by the GLS subsidiary have an average lease term of ten years. Vehicle leases generally have a term of between one and seven years, depending on the asset class, with the average term being three years. The existing leases have an average term remaining of three years. The majority of the IT commitments relate to four contracts, with an average term remaining of three years.

Notes to the consolidated financial statements (continued)

24. Commitments (continued)

Finance lease commitments

	At 27 March 2016		At 29 March 2015	
	Minimum lease payments £m	Present value of minimum lease payments £m	Minimum lease payments £m	Present value of minimum lease payments £m
Within one year	**(87)**	**(84)**	(98)	(93)
Between one and five years	**(134)**	**(123)**	(174)	(164)
Beyond five years	**(108)**	**(13)**	(114)	(15)
Total minimum lease payments	**(329)**	**(220)**	(386)	(272)
Less future finance charges	**108**	**-**	114	-
Less exchange rate impact	**1**	**-**	-	-
Total finance lease obligations	**(220)**	**(220)**	(272)	(272)

The Group has finance lease contracts for vehicles, land and buildings and plant and equipment. The leases have no terms of renewal, purchase options, escalation clauses or restrictions concerning dividends, borrowings or additional leases. Vehicle leases have a term of between one and seven years, depending on the class of vehicle, with the average term being two years. Property leases have a term of between 10 and 110 years with the average term being 48 years. The terms of the plant and equipment leases range from five to eight years with the average being five years.

Capital commitments

The Group has commitments of £34 million (2014-15 £37 million) for property, plant and equipment, £3 million (2014-15 £nil) for vehicles and £12 million (2014-15 £26 million) for intangible assets, which are contracted for but not provided for in the financial statements.

25. Contingent liabilities

Contingent liabilities are possible obligations depending on the outcome of uncertain future events, or present obligations where outflows of resources are not certain or cannot be measured reliably. This disclosure has been included on the basis that the Group may be subject to a financial penalty, dependent on a future Ofcom decision.

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

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

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

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

Notes to the consolidated financial statements (continued)

26. Related party information

This note provides details of amounts owed to and from related parties, which include the Royal Mail Pension Plan (RMPP), the Group's associate companies, and payments to key management personnel. Details of the Group's principal subsidiaries and associates are also provided.

Related party transactions
During the reporting year the Group entered into transactions with related parties as follows:

	52 weeks 2016 £m	52 weeks 2015 £m
Sales/recharges to:		
RMPP (administration and investment service recharge)	**5**	5
Purchases/recharges from:		
Associate undertaking (Quadrant Catering Limited)	**(11)**	(14)
Amounts owed to:		
Associate undertaking (Quadrant Catering Limited)	**(1)**	(1)

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

Key management compensation

	52 weeks 2016 £000	52 weeks 2015 £000
Short-term employee benefits	**(9,981)**	(10,202)
Post-employment benefits	**-**	-
Other long-term benefits	**(1,879)**	(2,846)
Total compensation earned by key management	**(11,860)**	(13,048)

Key management are considered to be the Executive and Non-Executive Directors of Royal Mail plc, all other members of the Chief Executive's Committee (see page 47) and the remainder of the Persons Discharging Managerial Responsibilities.

The ultimate parent and principal subsidiaries
Royal Mail plc is the ultimate parent Company of the Group. The consolidated financial statements include the financial results of Royal Mail Group Limited and the other principal subsidiaries listed below. The reporting year end for these entities is 27 March 2016 unless otherwise indicated.

Company	**Principal activities**	**Country of incorporation**	**% equity interest 2016**	% equity interest 2015
General Logistics Systems B.V.[1]	Parcel services holding company	Netherlands	**100**	100
Royal Mail Estates Limited	Property holdings	United Kingdom	**100**	100
Royal Mail Investments Limited	Holding company	United Kingdom	**100**	100
Romec Limited[2]	Facilities management	United Kingdom	**51**	51

The Company has complied with section 410 of the Companies Act 2006 by including in these financial statements a schedule of interests in all undertakings (see Note 28).

[1] GLS' reporting year end date is 31 March each year. No adjustment is made in the financial statements in this regard on the basis that, irrespective of the Group's reporting year end date (last Sunday in March) a full year of GLS results is consolidated into the Group

[2] Romec Limited's reporting year end date is 31 March each year and adjustments are made in the Romec Limited financial statements to align with the Group's reporting year end date of the last Sunday in March. See Note 27 for details of the transaction to acquire the 49 per cent minority shareholding of Romec Limited

Notes to the consolidated financial statements (continued)

27. Events after the reporting year

This note confirms whether or not there have been any material events occurring between the end of the financial reporting year on 27 March 2016 and the publication date of the Annual Report and Financial Statements.

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

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

Notes to the consolidated financial statements (continued)

28. Related undertakings of Royal Mail plc

This requirement to disclose as a Note to the financial statements, a list of all related undertakings of the Company, is new to annual financial statements approved by directors on or after 1 July 2015. Previously, this information was filed as part of the Company's Annual Return, in line with an exemption (which is no longer available) under section 410 of the Companies Act 2006.

In accordance with Section 409 of the Companies Act 2006 a full list of related undertakings, the country of incorporation and the effective percentage of equity owned, as at 27 March 2016 is disclosed below. Unless otherwise stated, the share capital disclosed comprises ordinary or common shares which are held by subsidiaries of Royal Mail plc Group.

Subsidiary undertakings included in the consolidation

Name of undertaking	Country of incorporation	Share class	% of class directly held	Group interest held %
Agone S.R.L	Italy	€10,000.00 Ordinary shares	-	100.000
Angard Staffing Solutions Limited	United Kingdom	£1.00 Ordinary shares	-	100.000
Community Couriers Ltd	United Kingdom	£1.00 Ordinary shares	-	100.000
Consignia (Customer Management) Limited	United Kingdom	£1.00 Ordinary shares	-	100.000
Consignia Limited	United Kingdom	£1.00 Ordinary shares	-	100.000
Der Kurier Beteiligungsgesellschaft GmbH	Germany	€25,000.00 Ordinary shares	-	100.000
Der Kurier GmbH & Co. KG	Germany	€2,561,572.32 Cash Contribution	-	100.000
DGMH Clayton Limited	United Kingdom	£1.00 Ordinary shares	-	100.000
EBP Consultancy (Beijing) Co. Ltd[1]	China	-	-	100.000
Envision Licensing Limited	United Kingdom	£1.00 Ordinary-A shares	-	100.000
		£1.00 Ordinary-B shares	-	100.000
		£1.00 Ordinary-C shares	-	100.000
General Logistics Systems Austria GmbH	Austria	€1,090,092.51 Ordinary shares	-	100.000
General Logistics Systems B.V.	Netherlands	€100.00 Ordinary shares	-	100.000
General Logistics Systems Belgium N.V.	Belgium	€100.00 Ordinary shares	-	100.000
General Logistics Systems Croatia D.O.O	Croatia	HRK760,000.00 Ordinary shares	-	100.000
General Logistics Systems Czech Republic S.R.O	Czech Republic	CZK2,970,000.00 Ordinary shares	-	100.000
		CZK30,000.00 Ordinary shares	-	100.000
General Logistics Systems D.O.O.	Slovenia	€751,127.00 Ordinary shares	-	100.000
General Logistics Systems Denmark A/S	Denmark	DKK100.00 Ordinary shares	-	100.000
General Logistics Systems Enterprise S.R.L	Italy	€1,011,000.00 Ordinary shares	-	100.000
General Logistics Systems Express A/S	Denmark	DKK1,000.00 Ordinary shares	-	100.000
General Logistics Systems Finland Oy	Finland	€50.00 Ordinary shares	-	100.000
General Logistics Systems France S.A.S	France	€50.00 Ordinary shares	-	100.000
General Logistics Systems Germany GmbH & Co. OHG	Germany	€178,249,643.37 Cash Contribution	-	100.000
General Logistics Systems Ireland Limited	Ireland	€1.2697 Ordinary shares	-	100.000
General Logistics Systems Italy S.P.A.	Italy	€0.52 Ordinary shares	-	100.000
General Logistics Systems Netherlands B.V.	Netherlands	€50.00 Ordinary shares	-	100.000
General Logistics Systems Poland Spolka Z.O.O.	Poland	PLN1.721 Ordinary shares	-	100.000
General Logistics Systems Portugal Lda	Portugal	€199,900.00 Ordinary shares	-	100.000
		€100.00 00 Ordinary shares	-	100.000
General Logistics Systems Spain S.L.	Spain	€20.00 Ordinary shares	-	100.000
GLS Belgium Distribution S.A/N.V.	Belgium	€4.27 Ordinary shares	-	100.000
GLS Beteiligungs Gmbh	Germany	€7,720,507.41 Ordinary shares	-	100.000
GLS General Logistics Systems Hungary Kft.	Hungary	HUF30,000,000.00 Ordinary shares	-	100.000
GLS General Logistics Systems Romania Srl	Romania	RON4,000.00 Ordinary shares	-	100.000
GLS General Logistics Systems Slovakia S.R.O.	Slovakia	€98,604.00 Ordinary shares	-	100.000
		€996.00 Ordinary shares	-	100.000
GLS Invest France S.A.S.	France	€21.00 Ordinary shares	-	100.000
GLS IT Services Gmbh	Germany	€127,822.97 Ordinary shares	-	100.000
GLS Netherlands Holding B.V.	Netherlands	€0.50 Ordinary shares	-	100.000
GLS Netherlands Services B.V.	Netherlands	€50.00 Ordinary shares	-	100.000
GLS Verwaltungs-Und Service GmbH	Germany	€153,387.56 Ordinary shares	-	100.000
Gruppo Executive Societa Consortile S.R.L	Italy	€255.00 Ordinary shares	-	81.667
Intersoft Systems & Programming Limited	United Kingdom	£1.00 Ordinary shares	-	100.000
IRED Partnership Limited	United Kingdom	£1.00 Ordinary shares	-	100.000
NDC 2000 Limited	United Kingdom	£1.00 Ordinary-A shares	-	51.000
NDC 2001 Limited	United Kingdom	£1.00 Ordinary shares	-	100.000

Notes to the consolidated financial statements (continued)

Name of undertaking	Country of incorporation	Share class	% of class directly held	Group interest held %
NetDespatch Ltd	United Kingdom	£0.001 Ordinary-A shares	-	56.808
		£0.001 Ordinary-B shares	-	14.377
Overnight Services GmbH Vermittlung Ueberregionaler Kurierdienste	Germany	€25,564.59 Ordinary shares	-	100.000
Parcelforce Limited	United Kingdom	£1.00 Ordinary shares	-	100.000
Phatware Limited	United Kingdom	£1.00 Ordinary shares	-	100.000
POSG Limited	United Kingdom	£1.00 Ordinary shares	-	100.000
Postcap (Guernsey) Limited	Guernsey	£1.00 Ordinary shares	-	100.000
RM (International) Limited	United Kingdom	£1.00 Ordinary shares	-	100.000
RM Financing Operations Limited	Ireland	€1.00 Ordinary	-	100.000
		€1.00 Redeemable Preference shares	-	100.000
ROMEC Enterprises Limited	United Kingdom	£1.00 Ordinary shares	-	100.000
ROMEC Limited	United Kingdom	£1.00 B Shares	-	0.980
		£1.00 C Shares	-	0.980
		£1.00 Ordinary shares	-	50.000
Royal Mail Courier Services Ltd	United Kingdom	£1.00 Ordinary shares	-	100.000
Royal Mail Enterprises Limited	United Kingdom	£1.00 Ordinary shares	-	100.000
Royal Mail Estates Limited	United Kingdom	£1.00 Ordinary shares	-	100.000
Royal Mail Finance (No2) Limited	United Kingdom	£1.00 Ordinary shares	-	100.000
Royal Mail Finance Limited	United Kingdom	£1.00 Ordinary shares	-	100.000
Royal Mail Group Limited	United Kingdom	£1.00 Ordinary shares	100.000	-
Royal Mail Innovations Limited	United Kingdom	£1.00 Ordinary shares	-	100.000
Royal Mail Investments Limited	United Kingdom	£1.00 Ordinary shares	-	100.000
Royal Mail Pensions Trustees Limited	United Kingdom	£1.00 Ordinary shares		100.000
Senditnow Limited	United Kingdom	£1.00 Ordinary shares	-	100.000
Storefeeder Ltd	United Kingdom	£1.00 Ordinary shares	-	100.000
Viacode Limited	United Kingdom	£1.00 Ordinary shares	-	100.000
Williames Cargo Systems Limited	Ireland	€1.2697 Ordinary shares	-	100.000

Joint venture and associated undertakings

Name of undertaking	Country of incorporation	Share class	% of class directly held	Group interest held %
Mallzee Ltd	United Kingdom	£0.01 Ordinary shares	-	25.005
Market Engine Global Pty Limited	Australia	AUD1.00 Preference shares	-	34.474
ParcelLock GmbH	Germany	€50,000.00 Ordinary shares	-	33.333
Quadrant Catering Limited	United Kingdom	£1.00 Ordinary-A shares	-	51.000

[1] 100% of the equity contribution. No shares are issued by EBP

Significant accounting policies

Basis of consolidation
The consolidated financial statements comprise the financial statements of the Company and its subsidiary undertakings. The financial statements of the major subsidiaries are prepared for the same reporting year as the Company, using consistent accounting policies.

All intra-Group balances and transactions, including unrealised profits arising from intra-Group transactions, have been eliminated in full. Transfer prices between business segments are set on a basis of charges reached through negotiation with the respective businesses.

Subsidiaries are consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is no longer held by the Group. Where the Group ceases to hold control of a subsidiary, the consolidated financial statements include the results for the part of the reporting year during which the Group held control.

Non-controlling interests represents the portion of profit/loss, gains/losses and net assets relating to subsidiaries that are not attributable to members of the Company. The non-controlling interests balance is presented within equity in the consolidated balance sheet, separately from parent shareholders' equity.

Changes in accounting policy and disclosures
The accounting policies applied in the preparation of these financial statements are consistent with those in the Annual Report and Financial Statements for the year ended 29 March 2015, except for a change in policy in respect of pensions administration costs as detailed in Note 1 on page 94, and the adoption of new and amended accounting standards with effect from 30 March 2015 as detailed below:

New accounting standard amendments adopted in 2015-16
Annual improvements 2010 – 2012

Annual improvements 2011-2013

IAS 19 (Amended) 'Defined benefit plans: Employee contributions'

The adoption of these amendments to the standards has not had a material impact on the financial performance or position of the Group.

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

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

Deferred revenue
The Group recognises advance customer payments on its balance sheet, predominantly relating to stamps and meter credits purchased by customers but not yet used at the balance sheet date (see Note 19). The valuation of this deferred revenue is based on a number of different estimation and sampling methods using external specialist resource as appropriate.

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

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

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

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

Significant accounting policies (continued)

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

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

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

Onerous property provisions require an estimate of the period for which the property is likely to remain vacant and any expected decommissioning costs. The carrying values of all provisions are included within Note 22.

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

Revenue
Revenue recognised in the income statement is net of value added tax and comprises turnover which principally relates to the rendering of services as follows:

UK Parcels, International & Letters
Account revenue is derived from specific contracts and recognised when the delivery of an item is complete. Contracted services that have not yet been rendered at the balance sheet date are designated as deferred income.

Revenue from direct sales of products or services is recognised when services are rendered, goods are delivered and the amount of revenue that will flow to the Group can be measured reliably. Where payments are received for a service to be provided over a specified length of time, payments received are recognised as deferred revenue and released to the income statement over the period that the service is performed.

Revenue derived from Network Access agreements is recognised when the delivery of the related items is complete. Where products are sold through third party agents, the revenue receivable is recognised gross with any commission payments being charged to operating costs.

Revenue relating to public, retail and business stamp and meter sales is recognised when the sale is made, adjusted to reflect a value of stamp and meter credits held but not used by the customer. Further details on this 'deferred revenue' adjustment are provided in the 'Key sources of estimation uncertainty and critical accounting judgements' section above.

General Logistics Systems
Revenue is derived from specific contracts and is recognised when the delivery of an item is complete.

People costs
These are costs incurred in respect of the Group's employees and comprise wages and salaries, pensions and social security costs.

Distribution and conveyance costs
Distribution and conveyance costs relate to non-people costs incurred in transporting and delivering mail. These include conveyance by rail, road, sea and air, together with costs incurred by international mail carriers and Parcelforce Worldwide delivery operators and GLS. These costs are disclosed separately on the face of the income statement.

Infrastructure costs
These are costs primarily relating to the day-to-day operation of the delivery network and include depreciation/amortisation, IT and property facilities management costs.

Share-based payments
The Group operates a number of equity settled, share-based compensation schemes under which the Group receives services from employees as consideration for equity instruments (shares) of the Company. These include the tax-advantaged (Employee Free Shares) Share Incentive Plan (SIP) and the Save As You Earn (SAYE) scheme. Both schemes are based on non-market conditions and do not vest until the employee completes a specific period of service. Share-based payments awarded as part of Long-Term Incentive Plans (LTIP) vest based on a combination of non-market and market conditions. The fair value of the employee services received in exchange for the grant of the shares is recognised as an expense in the income statement, with a corresponding credit entry in equity, as per the requirements of IFRS 2 'Share-based Payment'. The total amount expensed is determined by reference to the fair value of the equity instruments at the date on which they are granted. The fair value of each award is measured using the Black-Scholes share option pricing model where appropriate.

Significant accounting policies (continued)

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. No expense is recognised for awards that do not ultimately vest. At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and Management's best estimate of the achievement or otherwise of service conditions and of the number of equity instruments that will ultimately vest. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity. The social security contributions payable in connection with the grant of Shares is considered an integral part of the grant itself, and the charge is treated as a cash-settled transaction.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Significant accounting policies (continued)

Net debt

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

Income tax and deferred tax

The charge for current tax is based on the results for the reporting year, adjusted for items that are non-assessable or disallowed. It is calculated using rates that have been substantively enacted at the balance sheet date.

Deferred income tax assets and liabilities are recognised for all taxable and deductible temporary differences and unused tax assets and losses except:

- Initial recognition of goodwill;
- The initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit and loss;
- Taxable temporary differences associated with investments in subsidiaries, associates and interest in joint ventures, where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future; and
- Deferred tax assets are recognised only to the extent that it is probable that taxable profit will be available against which they can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and increased or reduced to the extent that it is probable that sufficient taxable profit will be available to allow them to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the tax asset is realised or the liability is settled, based on tax rates (and tax laws) that have been substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

Current and deferred tax is charged or credited directly to equity if it relates to items that are credited or charged directly to equity, otherwise it is recognised in the income statement.

Earnings per share (EPS)

Basic EPS from continuing operations is calculated by dividing the profit from continuing operations (adjusted for non-controlling interests' share of profit) by the weighted average number of ordinary shares in issue. The Group EPS is calculated in the same way, except that it also includes profit or loss from discontinued operations.

Diluted EPS is calculated by adjusting the weighted average number of ordinary shares in issue on the assumption of conversion of all potentially dilutive ordinary shares arising from share-based payment schemes. These potential shares are treated as dilutive only when their conversion to ordinary shares would decrease EPS from continuing operations.

Segment information

The Group's operating segments are organised and managed separately according to the nature of the products and services provided, with each segment representing a business unit that offers different products and serves largely different markets. The Board (Chief Operating Decision Maker as defined by IFRS 8) monitors the operating results of its main business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on adjusted operating profit before transformation costs.

There is no aggregation of operating segments. The business units that make up the three operating segments are included in Note 2.

The operating segments comprise operations in both the UK and other parts of Europe, the latter being relevant to the GLS business unit.

The UK operations comprise the UKPIL business unit plus the Other operating segment.

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 a basis of charges reached through negotiation with the respective business units that form part of the segments.

There are no differences in the measurement of the respective segments' profit/loss and the consolidated financial statements prepared under IFRS.

Significant accounting policies (continued)

Property, plant and equipment
Property, plant and equipment is recognised at cost, including directly attributable costs in bringing the asset into working condition for its intended use. Depreciation of property, plant and equipment is provided on a straight-line basis by reference to cost, the useful economic lives of assets and their estimated residual values. The useful lives and residual values are reviewed annually and adjustments, where applicable, are made on a prospective basis. The lives assigned to major categories of property, plant and equipment are:

Land and buildings:	
Freehold land	Not depreciated
Freehold buildings	Up to 50 years
Leasehold buildings	The shorter of the period of the lease, 50 years or the estimated remaining useful life
Plant and machinery	3-15 years
Motor vehicles and trailers	2-12 years
Fixtures and equipment	2-15 years

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising at de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year that the asset is de-recognised. Gains or losses from the disposal of assets are recognised in the income statement when all significant risks and rewards of ownership are transferred to the customer.

All subsequent expenditure on property, plant and equipment is capitalised if it meets the recognition criteria, and the carrying amount of those parts replaced is de-recognised where appropriate. All other expenditure, including repairs and maintenance expenditure, is recognised in the income statement as incurred.

Goodwill
Business combinations on or after 29 March 2004 are accounted for under IFRS 3 'Business Combinations' using the purchase method. Any excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities at the date of acquisition is recognised in the balance sheet as goodwill and is not amortised.

After initial recognition, goodwill is stated at cost less any accumulated impairment losses. Goodwill arising from business combinations is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of such impairment reviews, goodwill is allocated to the relevant cash generating units.

An impairment loss is recognised in the income statement for the amount by which the carrying value of the goodwill (or cash generating unit) exceeds its recoverable amount, which is the higher of an asset's net realisable value and its value in use.

Goodwill arising on the acquisition of equity-accounted entities is included in the cost of those entities and therefore not reported in the balance sheet as goodwill.

Intangible assets
Intangible assets acquired as part of a business combination are capitalised separately from goodwill if the fair value can be measured reliably on initial recognition. Intangible assets acquired separately or development costs that meet the criteria to be capitalised are initially recognised at cost and are assessed to have either a finite or indefinite useful life. Those with a finite life are amortised over their useful life and those with an indefinite life are reviewed for impairment annually or more frequently if events, or changes in circumstances, indicate that the carrying value may be impaired. An impairment loss is recognised in the income statement for the amount by which the carrying value of the intangible asset exceeds its recoverable amount, which is the higher of an asset's net realisable value and its value in use.

Amortisation of intangible assets with finite lives is charged annually to the income statement on a straight-line basis as follows:

Customer listings	3 to 4 years
Master franchise licences	7 to 10 years
Software	3 to 10 years

Investment in associates
The Group's investment in its associate companies is accounted for under the equity method of accounting. Under this method, the investment is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of the net assets of the associates, less any impairment in value. The income statement reflects the Group's share of annual post-tax profits from the associates (netted off other operating costs as the values are not material enough for separate disclosure).

Any goodwill arising on acquisition of an associate, representing the excess of the cost of the investment compared to the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities acquired, is included in the carrying amount and not amortised.

Significant accounting policies (continued)

Non-current assets held for sale and discontinued operations
Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction, rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Following their classification as held for sale, the assets (including those in a disposal group) cease being depreciated.

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations, that has been disposed of, or that meets the criteria to be classified as held for sale. Discontinued operations are presented in the consolidated statement of comprehensive income as a single line which comprises the post-tax profit or loss of the discontinued operation up to the date of disposal, and the post-tax gain or loss recognised on any remeasurement of the disposal group to fair value less costs to sell, or on disposal of the assets or disposal groups constituting discontinued operations.

Impairment reviews
Unless otherwise disclosed in these accounting policies, assets and cash generating units are reviewed for impairment if events or changes in circumstances indicate that the carrying value may be impaired. The Group assesses at each reporting date whether such indications exist. Where appropriate, an impairment loss is recognised in the income statement for the amount by which the carrying value of the asset (or cash generating unit) exceeds its recoverable amount, which is the higher of an asset's net realisable value and its value in use.

Leases
Finance leases, where substantially all the risks and rewards incidental to ownership of the leased item have passed to the Group, are capitalised at the inception of the lease with a corresponding liability recognised for the fair value of the leased item or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and capital element of the lease liability to achieve a constant rate of interest on the remaining balance of the liability. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term.

Leases where substantially all the risks and rewards of ownership of the asset are retained by the lessor, are classified as operating leases and rentals are charged to the income statement over the lease term. The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

A leasehold land payment is an upfront payment to acquire a long-term leasehold interest in land. This payment is stated at cost and is amortised on a straight-line basis over the period of the lease.

In addition to lease contracts, other significant arrangements or contracts are assessed (by reference to IFRIC 4) to determine whether, in substance, they are, or contain, a lease. This assessment is based on the substance of the arrangement at inception date, including whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Trade receivables
Trade receivables are recognised and carried at the original invoice amount less an allowance for any non-collectable amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable with the amount of the loss recognised in the income statement within operating costs. When a bad debt is recognised, it is written off against the allowance for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating costs in the income statement.

Inventories
Inventories are valued on a weighted average cost basis and carried at the lower of cost and net realisable value. Cost includes all direct expenditure and other costs attributable in bringing inventories to their present location and condition. The principal stock balance consists of engineering spare parts.

Trade payables
Trade payables are recorded initially at fair value and subsequently measured at amortised cost. Generally this results in their recognition at their nominal value.

Financial instruments
Financial assets within the scope of IAS 39 'Financial Instruments: Recognition and Measurement' are classified as: financial assets at fair value through profit and loss (FVTPL) if they are not part of an effective hedge designation (held for trading); held to maturity investments; loans and receivables or available for sale financial assets as appropriate. Financial liabilities within the scope of IAS 39 are classified as either financial liabilities at FVTPL or financial liabilities measured at amortised cost.

The Group determines the classification of its financial instruments at initial recognition and re-evaluates this designation at each reporting date. When financial instruments are recognised initially, they are measured at fair value, being the transaction price plus, in the case of financial instruments not at FVTPL, any directly attributable transactional costs. The Group only has loans and receivables, financial liabilities measured at cost and derivative assets and liabilities measured at FVTPL if they are not part of an effective hedge designation.

Significant accounting policies (continued)

The subsequent measurement of financial instruments depends on their classification as follows:

Loans and receivables
Non-derivative financial assets with fixed or determinable payments, that are not quoted on an active market, do not qualify as trading assets and have not been designated as either at FVTPL or available for sale, are carried at amortised cost using the effective interest rate method if the time value of money is significant. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Financial liabilities measured at amortised cost
All non-derivative financial liabilities are classified as financial liabilities measured at amortised cost. Non-derivative financial liabilities are initially recognised at the fair value of the consideration received, less directly attributable issue costs. After initial recognition, non-derivative financial liabilities are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the liabilities are derecognised or impaired, as well as through the amortisation process.

Cash and cash equivalents
Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits (cash equivalents) with an original maturity date of three months or less. In addition, the Group uses money market funds as a readily available source of cash, and these funds are also categorised as cash equivalents. For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of bank overdrafts. Cash equivalents are classified as loans and receivables financial instruments.

Financial assets – pension escrow investments
Financial assets – pension escrow investments comprise a money market fund investment established to provide security to the Royal Mail Senior Executive Pension Plan (RMSEPP) in support of a deficit recovery plan agreed with the Trustee in 2013.

Financial assets – other investments
Financial assets – other investments comprise short-term deposits (other investments) with local government or banks with an original maturity of three months or more. Short-term deposits are classified as loans and receivables financial instruments.

Financial liabilities – interest-bearing loans and borrowings
All loans and borrowings are classified as financial liabilities measured at amortised cost. The €500 million bond is measured at amortised cost in Euro and converted to Sterling at the closing spot Sterling/Euro exchange rate.

Financial liabilities – obligations under finance leases
All obligations under finance leases are classified as financial liabilities measured at amortised cost. The Euro denominated finance lease payables is measured at amortised cost in Euro and converted to Sterling at the closing Sterling/Euro exchange rate.

Derivative financial instruments and hedging programmes
The Group uses derivative instruments such as foreign currency contracts in order to manage the risk profile of any underlying risk exposure of the Group, in line with the Group's treasury management policies. Such derivative financial instruments are initially stated at fair value. For the purpose of hedge accounting, hedges are classified as cash flow hedges where they hedge exposure to variability in cash flows that is attributable either to a particular risk associated with a recognised asset or liability, or to a highly probable forecast transaction.

In relation to cash flow hedges to hedge the interest rate, foreign exchange or commodity price risk of firm commitments that meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to relate to an effective hedge is recognised directly in equity and the ineffective portion is recognised in the income statement.

When the hedged firm commitment results in the recognition of a non-financial asset or non-financial liability, then at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in equity are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability. For all other cash flow hedges, the gains or losses that are recognised in equity are transferred to the income statement in the same reporting year in which the hedged firm commitment affects the net profit/loss, for example when the hedged transaction actually occurs.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the income statement in the year.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point, any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement for the reporting year.

Significant accounting policies (continued)

Fair value measurement of financial instruments
All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value of quoted investments is determined by reference to bid prices at the close of business on the balance sheet date.

Where there is no active market, fair value is determined using valuation techniques. These include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; and discounted cash flow analysis and pricing models. Specifically, in the absence of quoted market prices, derivatives are valued by using quoted forward prices for the underlying commodity/currency and discounted using quoted interest rates (both as at the close of business on the balance sheet date). Hence derivative assets and liabilities are within Level 2 of the fair value hierarchy as defined within IFRS 13.

The Group determines whether any transfers have occurred between levels in the hierarchy by reassessing categorisation at the end of each reporting year. For the purposes of disclosing the fair value of investments held at amortised cost in the balance sheet, in the absence of quoted market prices, fair values are calculated by discounting the future cash flows of the financial instrument using quoted equivalent interest rates as at close of business on the balance sheet date. For the €500 million bond, the disclosed fair value is calculated as the closing market bond price converted to Sterling using the closing spot Sterling/Euro exchange rate.

Borrowing costs
Interest on borrowings related to the construction or development of qualifying assets is capitalised, until such time as the assets are substantially ready for their intended use.

Provisions
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at an appropriate pre-tax rate. Accounting estimates used in calculating the provisions are discussed further in the 'Key sources of estimation uncertainty and critical accounting judgements' part of this accounting policies section.

Contingent liabilities
Contingent liabilities are possible obligations whose existence depends on the outcome of uncertain future events or present obligations where the outflows of resources are uncertain or cannot be measured reliably. Contingent liabilities are not recognised in the financial statements but are disclosed unless an outflow of resources is considered to be remote.

Dividends
Distributions to owners of the Company are not recognised in the income statement under IFRS, but are disclosed as a component of the movement in shareholders' equity. A liability is recorded for a dividend when the dividend is approved by the Company's shareholders but not paid at the year end. Interim dividends are recognised as a distribution when paid.

Pensions and other post-retirement benefits
The pension assets for the defined benefit plans are measured at fair value. Liabilities are measured on an actuarial basis using the projected unit credit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term. The resulting defined benefit asset or liability is presented separately on the face of the balance sheet. The amount of any pension surplus that can be recognised is limited to the economic benefits unconditionally available in the form of refunds or reductions in future contributions. Where the economic benefit to be obtained is in the form of a refund, this is recognised net of taxation withheld in line with IFRIC 14.

Full actuarial valuations are carried out at intervals not normally exceeding three years as determined by the Trustees and, with appropriate updates and accounting adjustments at each balance sheet date, form the basis of the surplus disclosed. All active members of defined benefit plans are contracted out of the earnings-related part of the State Second pension scheme.

For defined benefit plans, the amounts charged to operating profit are the current service costs and any gains and losses arising from settlements, curtailments and past service costs. The amount resulting from applying the Plan's discount rate (for liabilities) to the pension surplus at the beginning of the reporting year is recognised as net pension interest in the income statement. Remeasurement gains and losses are recognised immediately in the statement of comprehensive income. Any deferred tax movement associated with the remeasurement gains and losses is also recognised immediately in the statement of comprehensive income.

For defined contribution plans, the Group's contributions are charged to operating profit within People costs in the year to which the contributions relate. Overseas subsidiaries make separate arrangements for the provision of pensions and other post-retirement benefits.

Significant accounting policies (continued)

Foreign currencies
The functional and presentational currency of Royal Mail plc is Sterling (£). The functional currency of the overseas subsidiaries in Europe is mainly the Euro (€).

The assets and liabilities of foreign operations are translated at the rate of exchange ruling at the balance sheet date. The trading results of foreign operations are translated at the average rates of exchange for the reporting year, being a reasonable approximation to the actual transaction rate. The exchange rate differences arising on the translation, since the date of transition to IFRS, are taken directly to the foreign currency translation reserve in equity.

Foreign currency exchange differences arising from translation of the €500 million bond and the Euro denominated finance leases (designated as hedges of the net investment in GLS) to closing Sterling/Euro exchange rates are deferred to the foreign currency translation reserve in equity. These exchange differences would be released from equity to the income statement as part of the gain or loss if GLS was sold.

Transactions in foreign currencies are initially recorded in the functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. Currently hedge accounting is not claimed for any monetary assets and liabilities. All differences are therefore taken to the income statement, except for differences on monetary assets and liabilities that form part of the Group's net investment in a foreign operation. These are taken directly to equity until the disposal of the net investment occurs, at which time they are recognised in profit or loss.

Non-monetary items that are measured in terms of their historic cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Accounting standards issued but not yet applied
The following new and amended/revised accounting standards are relevant to the Group and are in issue but were not effective (and in some instances have not yet been adopted by the EU) at the balance sheet date:

IAS 1 (Amended) Improving the Effectiveness of Disclosure in Financial Reporting

IAS 7 (Amended) Disclosure Initiative*

IAS 12 (Amended) Recognition of Deferred Tax Assets for Unrealised Losses*

IAS 16 (Amended) and IAS 38 (Amended) Acceptable Methods of Depreciation and Amortisation

IAS 27 (Amended) Equity Method in Separate Financial Statements

IFRS 9 Financial Instruments*

IFRS 10 (Amended) and IAS 28 (Amended) Sale of Assets between an Investor and its Associate or Joint Venture*

IFRS 11 (Amended) Accounting for Acquisitions of Interests in Joint Operations

IFRS 15 Revenue from Contracts with Customers*

IFRS 16 Leases*

Annual Improvements 2012-2014

* Not yet endorsed by the EU

Of the accounting standards listed above, the following are considered of particular relevance to the Group.

IFRS 9 'Financial Instruments'
This standard was issued in July 2014 and is a replacement of IAS 39 'Financial Instruments: Recognition and Measurement'. The standard is effective for accounting periods beginning on or after 1 January 2018 with early adoption permitted. The standard will affect the classification, measurement and derecognition of the Group's financial assets and liabilities and provides a new credit loss model for calculating impairment. IFRS 9 also introduces a new hedge accounting model. The changes to the measurement of financial instruments and the new hedge accounting rules are not currently considered likely to have a major impact on the Group's financial performance or position.

IFRS 15 'Revenue from Contracts with Customers'
This standard was issued in May 2014 and replaces IAS 18 'Revenue', IAS 11 'Construction Contracts' and related interpretations. The standard is effective for accounting periods beginning on or after 1 January 2018 with early adoption permitted. The standard introduces a single, five-step revenue recognition model that is based upon the principle that revenue is recognised at the point that control of goods or services is transferred to the customer. The standard also updates revenue disclosure requirements. Whilst an assessment of this new standard is ongoing, the Group does not expect its adoption to have a material impact on the Group's financial performance or position.

Significant accounting policies (continued)

IFRS 16 'Leases'
This standard was issued in January 2016 and replaces IAS 17 'Leases'. The standard is effective for accounting periods beginning on or after 1 January 2019 with early adoption permitted where IFRS 15 has also been adopted. The standard will bring the majority of leases previously classed as operating leases onto the balance sheet with a corresponding lease liability also recognised with some exemptions for small value or short leases. The Group is currently assessing the impact of IFRS 16 on the financial performance and position of the Group, however, it is expected that the adoption of the standard will result in a material increase in property, plant and equipment and corresponding lease liability balances; a decrease in operating costs; and an increase in finance costs. The classification of related cash flows will also change.

Currently, the Group does not expect to early adopt any of these standards.

The Directors do not expect that the adoption of the remaining standards listed above will have a material impact on the financial performance or position of the Group in future periods.

Royal Mail plc – parent Company financial statements

The Annual Report and Financial Statements primarily relates to the consolidated results of Royal Mail plc and its trading entities. The mandatory disclosures in this section relate solely to the financial statements of the ultimate parent company, Royal Mail plc (the Company).

Statement of changes in equity

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

	Share capital £m	Retained earnings £m	Total equity £m
At 30 March 2014	10	1,577	1,587
Profit for the year	–	207	207
Investment in subsidiary	–	168	168
Dividend paid	–	(200)	(200)
At 29 March 2015	**10**	**1,752**	**1,762**
Profit for the year	**–**	**221**	**221**
Investment in subsidiary	**–**	**170**	**170**
Dividend paid	**–**	**(213)**	**(213)**
At 27 March 2016	**10**	**1,930**	**1,940**

Balance sheet

At 27 March 2016 and 29 March 2015

Registered number: 08680755

	Notes	At 27 March 2016 £m	At 29 March 2015 £m
Non-current assets			
Investment in subsidiary	6	**1,929**	1,759
Total non-current assets		**1,929**	1,759
Current assets			
Trade and other receivables	7	**409**	375
Current liabilities			
Trade and other payables		**(6)**	(6)
Provisions	8	**–**	–
Net current assets		**403**	369
Interest-bearing loans and borrowings	9	**(392)**	(366)
Net assets		**1,940**	1,762
Equity			
Share capital	10	**10**	10
Retained earnings		**1,930**	1,752
Total equity		**1,940**	1,762

The balance sheet was approved and authorised for issue by the Board of Directors on 18 May 2016 and signed on its behalf by:

Matthew Lester
Chief Finance Officer