

# Corporate governance

## Chairman's introduction



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### Compliance with the UK Corporate Governance Code, September 2014 (the Code) and its statement of requirements

The following sections explain how the Company applies the main principles set out in the Code, issued by the Financial Reporting Council (FRC), as required by the Listing Rules of the Financial Conduct Authority (FCA) and how it meets other relevant requirements including provisions of the Disclosure and Transparency Rules of the FCA. Both Codes are publicly available at the website of the FRC ([www.frc.org.uk](http://www.frc.org.uk)).

The Board considers that the Company complied with the full provisions of the Code during the year.

### Dear Shareholder

I am pleased to present Royal Mail's corporate governance report for the year ended 27 March 2016. I joined the Company on 18 June 2015 as a Non-Executive Director and succeeded Donald Brydon as Chairman on 1 September 2015. I would like to extend my thanks and appreciation to Donald for all that he did for Royal Mail during his tenure.

The Board of the Company is committed to ensuring that it provides effective leadership and promotes uncompromising ethical standards. The Board believes that good corporate governance will contribute to better company performance as it helps a board discharge its duties in the best interests of shareholders. One of the ways in which the Board achieves this is by requiring that good governance principles and practices are adhered to throughout the Company. This report aims to provide shareholders with an understanding of the arrangements we undertake in order to maintain the highest standards of corporate governance across the business, which we consider to be essential for the long-term success of the Company.

It is the role of the Board to provide leadership to the Company. I lead the Board in reviewing long-term strategy, monitoring, supporting and, where required, challenging the executive team, whose job it is to manage the Company successfully day to day, driving performance of the business and creating value for our shareholders and other stakeholders. For the Board to be effective in discharging its responsibilities, it must maintain a level of independence and objectivity, the correct balance of experience and skills and have sufficient knowledge of the operations of the business.

The Board has continued to review its governance framework and has adjusted, where necessary, the roles, structure and accountabilities of its mechanisms of governance. During the year, the governance structure below the Board and primary committee level was again reviewed to ensure the correct and accurate flow of information and responsibility.

The following pages of this report explain, in greater detail, the structure and processes

in place to ensure good governance and set out the operations of the Board's primary committees. I am pleased to endorse this report, which I believe provides an insight into how, through its actions, the Board and its committees have fulfilled their governance responsibilities and worked to ensure that strong governance practices remain embedded across the Group.

**Peter Long**  
Chairman  
18 May 2016

# Board of Directors



## Peter Long N\*R

Chairman

### Appointed to the Board:

As Non-Executive Director and Chairman-designate on 18 June 2015. Peter became Chairman on 1 September 2015

### Key areas of prior experience:

Strategic, finance, transformation and consumer experience.

### Current external appointments:

- Member of TUI AG Supervisory Board.
- Non-Executive Director of Countrywide plc on 11 February 2016 and Chairman with effect from 27 April 2016.
- Non-Executive Chairman of Parques Reunidos Servicios Centrales S.A.U from 13 April 2016.

### Previous relevant experience:

Over 20 years' experience in FTSE 100 customer-focused companies.

- Senior Independent Director of Rentokil Initial plc.
- Senior Independent Director of RAC plc.
- Non-Executive Director of Debenhams plc.
- Group Chief Executive of First Choice Holidays PLC.
- Chief Executive of TUI Travel PLC.
- Chief Executive Officer of First Choice Holidays PLC.
- Chief Executive of Sunworld.
- Chief Executive of International Leisure Group Travel Division.



## Moya Greene C\*

Chief Executive Officer

### Appointed to the Board:

6 September 2013<sup>1</sup>

### Key areas of prior experience:

Postal sector, finance, retail, transport.

### Previous relevant experience:

- Non-Executive Director of Great-West Lifeco Inc.
- President and Chief Executive Officer of Canada Post Corporation.
- Assistant Deputy Minister for Transport Canada.
- Senior Vice President, and Chief Administration Officer, Retail Products, at Canadian Imperial Bank of Commerce.
- Vice Chairman of Purolator Courier Ltd, a Canadian express parcel company.
- Senior Vice President for operational effectiveness at Bombardier.
- Non-Executive Director of Tim Hortons Inc. in Canada. Member of the Audit Committee, Human Resources Committee and Remuneration and Compensation Committee.
- Managing Director, Infrastructure Finance, at TD Securities Inc.

<sup>1</sup> The Director was appointed on 6 September 2013 to the Board of Royal Mail Limited, which changed its name to Royal Mail plc on 19 September 2013



## Orna Ni-Chionna ANR\*

Senior Independent Non-Executive Director

### Appointed to the Board:

20 September 2013<sup>2</sup>

### Key areas of prior experience:

Consumer focus, retail, strategy.

### Current external appointments:

- Chair of Client Service at Eden McCallum LLP.
- Non-Executive Director of Saga plc.
- Deputy Chairman of the National Trust.

### Previous relevant experience:

- Partner at McKinsey & Company.
- Senior Independent Director of HMV plc, Northern Foods plc and BUPA.
- Non-Executive Director of Bank of Ireland.
- Non-Executive Director of UK Holdings plc and Bristol & West plc.

<sup>2</sup> Appointed Senior Independent Director of Royal Mail Holdings plc on 1 April 2011

## Key to membership of Board Committees

A – Audit and Risk Committee

N – Nomination Committee

P – Pensions Committee

R – Remuneration Committee

C – Chief Executive Committee

\* – Chair of the Committee



**Matthew Lester PC**

Chief Finance Officer

**Appointed to the Board:**

6 September 2013<sup>3</sup>

**Key areas of prior experience:**

Finance, accounting, consumer goods, financial services.

**Current external appointments:**

- Non-Executive Director of Man Group plc.
- Main committee member of the 100 Group of Finance Directors and Chairman of its Investor Relations and Markets Committee.

**Previous relevant experience:**

- Group Finance Director at ICAP plc.
- Group Financial Controller and Group Treasurer, Diageo plc.
- Held positions at Kleinwort Benson after qualifying as a chartered accountant with Arthur Andersen.

<sup>3</sup> The Director was appointed on 6 September 2013 to the Board of Royal Mail Limited, which changed its name to Royal Mail plc on 19 September 2013



**Nick Horler AN**

Non-Executive Director

**Appointed to the Board:**

20 September 2013

**Key areas of prior experience:**

Retail, energy, transport.

**Current external appointments:**

- Chairman of Alderney Renewable Energy Ltd.
- Chairman of Meter Provida Ltd.
- Chairman of Alder and Allan.
- Non-Executive Director of the Go-Ahead Group plc, Member of the Audit, Remuneration and Nomination Committees.
- Non-Executive Director of Thames Water Utilities Limited.

**Previous relevant experience:**

- Chief Executive Officer of Scottish Power.
- Managing Director Retail and Board member of E.ON UK plc.
- Managing Director of Powergen Energy Trading Limited.



**Cath Keers AN**

Non-Executive Director

**Appointed to the Board:**

20 September 2013

**Key areas of prior experience:**

Retail, consumer focus.

**Current external appointments:**

- Non-Executive Director of Home Retail Group plc and Chair of the Remuneration Committee since July 2012.
- Non-Executive Director of the Insurance Group Liverpool Victoria Friendly Society Limited (LV=).

**Previous relevant experience:**

- Customer Director and Marketing Director of O2 UK.
- Non-Executive Director of Telefonica Europe.
- Various marketing, strategy and business development roles at Next, BskyB, Avon and Thorn EMI.

**Directors' original appointment dates to the Board of a Royal Mail parent company**

This table shows the dates that the Directors were appointed to the Board of Royal Mail Holdings plc, the parent Company until 1 April 2012, and the Board of Royal Mail Group Limited, the parent Company until 12 September 2013.

Director	Royal Mail Holdings plc	Royal Mail Group Limited
Moya Greene	15 July 2010	1 April 2012
Orna Ni-Chionna	1 June 2010	1 April 2012
Matthew Lester	24 November 2010	1 April 2012
Nick Horler	1 April 2010	1 April 2012
Cath Keers	1 June 2010	1 April 2012
Paul Murray	1 August 2009	1 April 2012
Les Owen	27 January 2010	1 April 2012

**Paul Murray** A\* RP

Non-Executive Director

**Appointed to the Board:**

20 September 2013

**Key areas of prior experience:**

Finance, energy, technology.

**Current external appointments:**

- Non-Executive Director of Independent Oil and Gas plc.
- Non-Executive Director of Naked Energy Ltd.
- Non-Executive Director of Qinetiq Group plc.
- Non-Executive Director of Ventive Ltd.
- Audit Committee Chairman at Qinetiq Group plc.

**Previous relevant experience:**

- Senior Independent Director of Taylor Nelson Sofres plc.
- Non-Executive Director of Thomson SA and of Tangent Communications plc.
- Group Finance Director of Carlton Communications plc and LASMO plc.

**Les Owen** ARP\*

Non-Executive Director

**Appointed to the Board:**

20 September 2013

**Key areas of prior experience:**

Finance, pensions, insurance.

**Current external appointments:**

- Non-Executive Director of Computershare.
- Non-Executive Director of Discovery Holdings, a South African listed health and life insurer.

**Previous relevant experience:**

- Group Chief Executive Officer of AXA Asia Pacific Holdings Ltd., a member of the Global AXA Group Executive Board and responsible for AXA's Asian Life Insurance and Wealth Management operations.
- Chief Executive Officer of AXA Sun Life plc.
- Non-Executive Chairman of Jelf Group plc.
- Non-Executive Director of Post Office Limited.
- Non-Executive Director of Just Retirement Group plc.
- Non-Executive Director of CPP Group plc.

**Board attendance**

During the year, the Directors attended the following number of meetings of the Board.

	Eligible to attend	Attended
Total number of meetings	11	
<b>Chairman</b>		
Donald Brydon <sup>A</sup>	5	5
Peter Long <sup>B</sup>	9	9
<b>Executive Directors</b>		
Moya Greene	11	11
Matthew Lester	11	11
<b>Non-Executive Directors</b>		
John Allan <sup>C</sup>	0	0
Nick Horler <sup>D</sup>	11	10
Cath Keers <sup>E</sup>	11	10
Paul Murray	11	11
Orna Ni-Chionna <sup>F</sup>	11	10
Les Owen	11	11

<sup>A</sup> Donald Brydon resigned as a Director of the Board on 31 August 2015

<sup>B</sup> Peter Long was appointed to the Board as a Non-Executive Director on 18 June 2015 and became Chairman on 1 September 2015

<sup>C</sup> John Allan resigned as a Director of the Board on 30 April 2015

<sup>D</sup> Nick Horler was unable to attend the Board meeting on 2 June 2015 due to a prior engagement

<sup>E</sup> Cath Keers was unable to attend the Board meeting on 20 May 2015 due to a prior engagement

<sup>F</sup> Orna Ni-Chionna was unable to attend the Board meeting on 22 September 2015 due to a prior engagement

### Changes to the Board during the year

- Peter Long was appointed as a Non-Executive Director on 18 June 2015. He became Chairman on 1 September 2015.
- John Allan resigned from the Royal Mail plc Board of Directors on 30 April 2015.
- Donald Brydon resigned from the Royal Mail plc Board of Directors on 31 August 2015.

There have been no other changes to the Board during the year.

### Board diversity policy

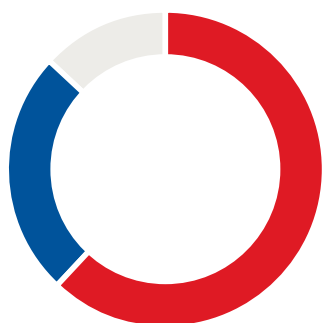
Diversity, including professional, international and ethnic diversity, is a key factor when assessing the Board's composition. It ensures there is the correct balance of skills, experience and expertise amongst Non-Executive Directors to lead decision-making and assess the performance and strategy of the Company.

The Board has adopted a Board Diversity Policy to ensure transparency and diversity in making appointments to the Board on the recommendation of the Nomination Committee. This policy expresses the commitment to principles of non-discrimination against protected characteristics<sup>4</sup> and to the promotion of fair participation and equality of opportunity for all. The Board assesses whether it is compliant with that policy through its Board effectiveness review. The Board has also adopted within this policy a process for

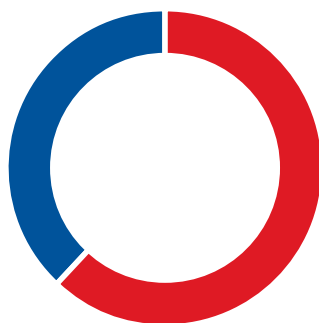
Board appointments (including procedures for appointing a new Chairman) where an appointment becomes necessary following a resignation or additional characteristics are identified as necessary during the Board effectiveness review.

The gender balance of the Board is also taken into consideration when recruiting a new Non-Executive Director. This is reflected by the current composition of the Board. We are one of the few companies in the FTSE 100 that has a female Chief Executive Officer and at 27 March 2016, two of the six (33 per cent) Non-Executive Directors, including the Senior Independent Director (SID), were also female. The Committee does not feel that it is appropriate to set a quota regarding the number of women on the Board but will look to maintain a strong representation of women on the Board.

The data depicted below is at 27 March 2016.



Board composition		
<span style="color: red;">●</span> Non-Executive Directors		62%
<span style="color: blue;">●</span> Executive Directors		25%
<span style="color: grey;">●</span> Chairman		13%



Gender balance		
<span style="color: red;">●</span> Male		62%
<span style="color: blue;">●</span> Female		38%



Experience		
<span style="color: red;">●</span> Retail and marketing		30%
<span style="color: blue;">●</span> Finance		25%
<span style="color: grey;">●</span> Public utilities		20%
<span style="color: grey;">●</span> Accounting		15%
<span style="color: grey;">●</span> Logistics		10%

<sup>4</sup> Race, Colour, ethnic origin, nationality, disability, marital or civil partner status, sexual orientation, pregnancy or maternity, age, religion or belief (including political opinion in Northern Ireland), sex and gender reassignment

## Chief Executive's Committee

In addition to the Royal Mail plc Board, the Chief Executive's Committee manages the key strategies of the Group with an overall framework of financial risk and business controls to meet the needs of stakeholders.



**Moya Greene**  
Chief Executive Officer

→ See 'Our Board of Directors' on pages 43-45.



**Matthew Lester**  
Chief Finance Officer

→ See 'Our Board of Directors' on pages 43-45.



**Stephen Agar**  
Managing Director, Consumer and Network Access

#### Current role

- Appointed Managing Director, Consumer and Network Access in October 2011.
- Responsible for the regulated letters business (both USO and Access).

#### Previous work history

- A barrister who started his career in the Government Legal Service before moving to Racal Electronics plc.
- Joined Royal Mail in 1991.



**Rico Back**  
Chief Executive Officer, GLS

#### Current role

- Appointed Chief Executive Officer of GLS in October 1999.

#### Previous work history

- Founding manager of German Parcel in 1989, which was acquired by the Group in 1999.



**Jack Bertram**  
Managing Director, Strategy, Pricing and Growth

#### Current role

- Appointed Managing Director, Strategy, Pricing and Growth in January 2016.

#### Previous work history

- Partner at McKinsey & Company focused on strategy, transformation and growth in travel, post and logistics sectors.



**Stephen Cameron**  
Deputy Chief Operations Officer

#### Current role

- Appointed DCOO in August 2015 alongside role as Operations Strategy Director.

#### Previous work history

- Joined Royal Mail in 1985 and has worked across all aspects of the operation notably as Operations, Process and Programme Director and Territory Director.
- Successfully led the initial phase of Royal Mail's comprehensive transformation programme across UK operations.
- Stephen is a Fellow of the Association of Project Managers.



**Maaik de Bie**  
General Counsel

#### Current role

- Appointed General Counsel in April 2016.

#### Previous work history

- Joined Royal Mail in January 2014 and appointed Acting General Counsel in September 2015.
- Previously General Counsel for the EMEA division of GE Capital Commercial Distribution France, a financial services unit of the General Electric Company.
- Has held other senior international legal roles at the European Bank for Reconstruction and Development, Ernst & Young LLP and White & Case LLP.



**Mick Jeavons**  
Chief of Staff

#### Current role

- Appointed Chief of Staff in June 2015.

#### Previous work history

- Mick is a chartered accountant and has performed a wide range of senior roles in Royal Mail, most recently as Corporate Finance Director responsible for Group Investment, Procurement and the UK Finance teams. Previous to this he was Group Financial Controller and Finance Director of Group Property.



**Jon Millidge**  
Group HR Director

**Current role**

- Appointed Group HR Director in February 2014.
- Pension Scheme Trustee of the Royal Mail Defined Contribution Plan.

**Previous work history**

- Joined Royal Mail in 1985 as a graduate and has worked across a number of the businesses within the Group.
- Previously Company Secretary from May 2010 to February 2014 and prior to that was the Acting Group HR Director.



**Mike Newnham**  
Chief Customer Officer

**Current role**

- Appointed Chief Customer Officer in March 2012.

**Previous work history**

- Led the Consumer division of Orange UK.
- Prior to that held a number of executive board positions at Orange.



**Shane O'Riordain**  
Managing Director,  
Communications & Regulation

**Current role**

- Appointed Managing Director, Communications in November 2010.
- Subsequently assumed responsibility for Strategy and in 2014, Regulation and Pricing.

**Previous work history**

- Director of Communications for Royal Mail Group.
- Held a number of Group Communications Director positions in the banking and financial sector at Lloyds Banking Group, HBOS, Halifax and Flemings.



**Stuart Simpson**  
Director, Group Finance

**Current role**

- Appointed Director of Group Finance in July 2015.
- Joined the Royal Mail Group in 2009 and was appointed as Deputy Chief Operations Officer in January 2014.
- Prior to this, he was running Operations for the West Region of the UK and was Finance Director of UK Operations.

**Previous work history**

- Worked in the automotive industry for 15 years with senior roles in Finance and Strategy, the last 10 of which were based outside the UK.



**Sue Whalley**  
Chief Operations Officer

**Current role**

- Joined Royal Mail in 2006 and was appointed Chief Operations Officer in January 2014.
- Responsible for leading the next phase of the transformation in Operations, with specific focus on further development of safety, quality, efficiency, culture and innovation.
- Previously, as Regulation and Government Affairs Director, led the programme for privatisation.

**Previous work history**

- Consultant at McKinsey & Company for 17 years, the last six of which were as a partner.

# Statement of corporate governance

## Board responsibilities

### Role of the Board

The Board is responsible for setting the objectives and strategy for the Group and for monitoring its performance and risk management. The Board has adopted terms of reference setting out its duties and obligations and has defined those matters that are reserved exclusively for its consideration. These include the approval of strategic plans, financial statements, acquisitions and disposals, major contracts, projects and capital expenditure.

### Board focus

Some of the key areas of focus during the year were as follows (a number of these areas are also considered by the Board Committees):

- The Group's Strategy;
- Compliance and regulation;
- Revenue growth in core and new areas;
- Productivity, efficiency and cost reduction;
- Technology;
- Review of Board composition;
- Channel strategies; and
- Health & Safety.

Expected focus for the next year:

- The Group's Strategy;
- Revenue growth in core and new areas;
- Technology;
- Composition of the Board;
- Succession planning; and
- Health & Safety.

### Shareholder relations

Communication with shareholders is given high priority. A full Annual Report and Financial Statements is sent to all shareholders who wish to receive one. Presentations are given following the announcements of the half year and full year results, which are available to watch live and on replay on our website. All information on our activities, published financial results and the Annual Report and Financial Statements can be found on our Company website, [www.royalmailgroup.com](http://www.royalmailgroup.com).

There is regular dialogue with our institutional shareholders. The Chairman and the SID are also available to consult with shareholders.

The Board regularly receives an update on interaction with investors and shareholders to ensure that the Board has an understanding of their views. In addition, the SID provides a point of contact for those shareholders who wish to raise issues with the Board, other than through the Chairman.

The AGM is used to communicate with all investors and the Board welcomes their participation.

### Board information

The Board receives business and financial performance reports at each Board meeting as well as standing reports on Health & Safety Regulation, Market Dynamics and from the Company Secretary. In addition, the Directors have access to a Board information archive containing background and supporting documents for reference in performance of their duties. The Directors receive regular updates and training on developments in matters such as corporate governance and compliance. These processes enable the Company to comply with the Provisions of the Code requiring the timely provision of information to Directors.

### Risk management and internal controls

The Board is responsible for maintaining a risk management and internal control system and for managing principal risks faced by the Group. This is described in more detail in the Audit and Risk Committee report on pages 52-56.

## Board roles

### Role of the Chairman

The Chairman's responsibilities include:

- Chairing meetings of the Board and general meetings of the Company;
- Setting the Board's agenda and ensuring that adequate time is available for

discussion of all agenda items, in particular strategic issues;

- Ensuring the Board determines the nature and extent of significant risks that the Company is willing to embrace in implementing its strategy;
- Ensuring the Board has effective decision-making processes and applies sufficient challenge to major proposals;
- Encouraging all Board members to engage in Board and Committee meetings by drawing on their skills, experience, knowledge, and where appropriate, independence;
- Developing productive working relationships with the Chief Executive Officer and Executive Directors and constructive relations between Executive Directors and Non-Executive Directors;
- Ensuring effective communication with shareholders and other shareholders and that Directors are made aware of their views; and
- Ensuring the performance of the Board, its Committees and individual Directors is evaluated at least once a year and to act on results of such evaluations.

### Role of the Non-Executive Directors

The Board considers that each of the Non-Executive Directors is independent. This means that in the view of the Board, they have no links to the Executive Directors and other managers and no business or other relationship with the Company that could interfere with their judgement. The Board, at least annually, reviews and authorises the schedule of Directors' interests, including any potential conflict.

Each Non-Executive Director plays an instrumental role in the decisions that are made by the Board and its Committees. They challenge Management regarding the performance of the Company with regard to



the Company's goals and objectives. They also monitor financial controls and the systems of risk management.

The Non-Executive Directors and the Chairman met on a number of occasions during this period without the Executive Directors being present. These meetings are an important way to develop the working relationships between the Non-Executive Directors and to assess the performance of Management.

In accordance with the requirements of the Code, the terms of appointment for the Non-Executive Directors are available for inspection at the Company's registered office during normal office hours and they will be made available at the AGM for a period of 15 minutes prior to the commencement of the meeting and also during the meeting.

### Role of the Senior Independent Director

As recommended by the Code, the Board appointed Orna Ni-Chionna, one of its independent Non-Executive Directors, to be the SID. The SID is available to meet with shareholders if they have concerns that the normal channels of Chairman, Chief Executive Officer or other Executive Directors have failed to resolve or for which such channels of communication are inappropriate.

The SID met with the Non-Executive Directors during the year to assess the performance of the Chairman.

### Role of the Company Secretary

Directors may take independent professional advice in the furtherance of their duties, at the Group's expense. All Directors have access to the advice and services of the Company Secretary, the appointment and removal of whom is a matter for the Board as a whole. The Company Secretary ensures Board procedures are followed and regularly reviewed and is a source of advice to the Chairman and the Board on implementation of the Code.

### Board composition

At the end of the year, the Board of Royal Mail plc comprised a Chairman, two Executive Directors and five Non-Executive Directors. Prior to their appointment as Directors of the Company, each of the Directors (with the exception of Peter Long) had been a Director of Royal Mail Group Limited. The biographies of each of the Directors, setting out their current roles, commitments and previous experience, are on pages 43-45.

## Board terms of appointment

### Time commitments

The terms of appointment for the Non-Executive Directors require them to devote a minimum of two days a month to working for the Company – although in practice they tend to devote more time than the minimum requirement.

The Non-Executive Directors were required to declare their other significant commitments prior to their appointment and the Board is informed of any subsequent changes. The Company announces to the London Stock Exchange any changes to their directorships on the boards of other publicly quoted companies.

The Board is confident that all its members have the knowledge, talent and experience to perform the functions required of a Director of the business. Executive Directors have rolling 12-month contracts and Non-Executive Directors are generally appointed for three-year terms. There is also a clear division of responsibilities between the Chairman and Chief Executive Officer.

### Outside appointments

The Board believes that there are significant benefits to both the Group and the individual from Executive Directors accepting

non-executive directorships of companies outside the Group. The Board's approach is normally to limit Executive Directors to one non-executive directorship, for which the Director may retain the fees.

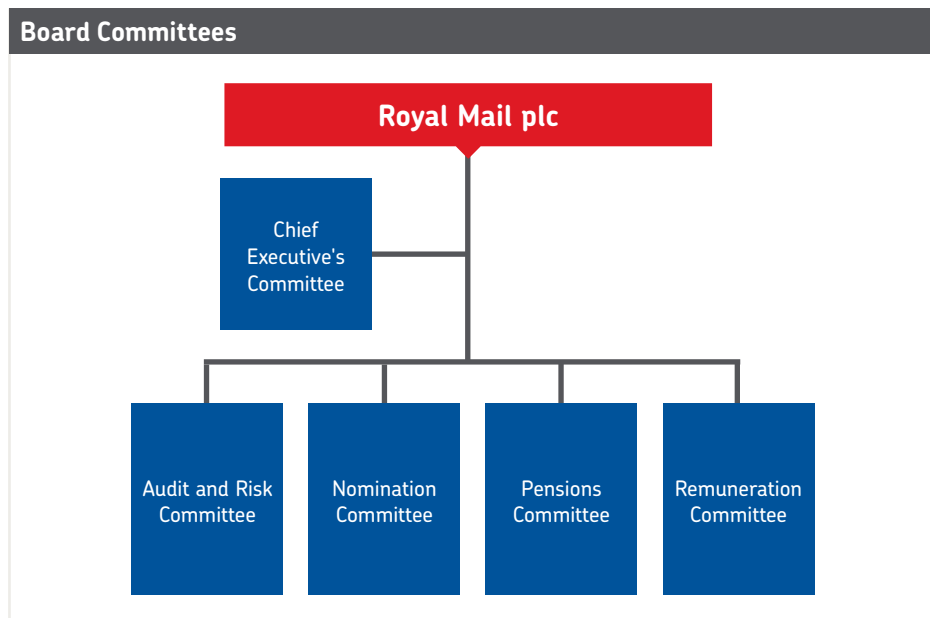
### Director induction and training

On appointment, all Directors take part in an induction programme, in which they receive information about the Group, the role of the Board and matters reserved for its decision, the role of the Principal Board Committees, the Group's Corporate Governance arrangements and the latest financial information about the Group. This is supplemented by visits to key business locations and meeting key personnel.

### Board Committees

The Board has delegated authority to the Committees to carry out certain tasks as defined in each Committee's respective terms of reference. The Committees established by the Board are shown in the diagram below.

The minutes of each Committee meeting are made available to all directors on a timely basis. In addition the Chair of each of the Board Committees reports to the Board on matters discussed at Committee meetings and highlights any significant issues requiring the Board's attention.



## Board effectiveness review

The effectiveness of the Board, its Committees, the Executive and Non-Executive Directors and the Chairman (Donald Brydon) was assessed in September 2014 by an external consultancy, Independent Board Evaluation (which had not previously had a business relationship with the Company and therefore was not subject to any conflicts of interest). As such the Company was not required to facilitate an external evaluation for this reporting period.

However, Peter Long, the new Chairman, believed that it would be prudent to engage Independent Board Evaluation to review the effectiveness of the Board and the Remuneration Committee.

This external consultancy observed Board and Remuneration Committee Meetings with supporting materials being provided by the Company. The external consultancy also conducted individual interviews with each Board member and other relevant stakeholders such as senior executives and managers. Participants were interviewed according to a set agenda, tailored for the Board. The review covered a range of topics including succession planning, operations, composition, skills and experience, diversity, how the Board works together, governance and compliance. The evaluation of the Audit and Risk Committee was undertaken by way of an online questionnaire facilitated by Thinking Board. Internal evaluations were also carried out for the Nomination and Pensions Committees as part of the normal annual evaluation process.

The evaluations concluded that the Board and its Committees are effective but have identified areas for potential improvement that will strengthen the performance of the Board overall. Potential improvement or actions will be discussed in May 2016.

## Audit and Risk Committee report

### Introduction from the Chair



#### Dear Shareholder,

The Audit and Risk Committee (ARC) has two fundamental responsibilities which inform the work we do as a committee of independent Directors. The first is to review and recommend to the Board all financial statements and associated disclosures. The second is to continually satisfy ourselves that internal controls and risk management processes put in place by the management team are working effectively. The Committee gets independent assurance from the Group's Internal Audit (IA) and Risk Management (RM) function and also receives regular reports from the Compliance function as well as the external auditor (KPMG) across a wide range of issues in support of their respective oversight responsibilities.

The Committee is further supported by the Risk Management Committee (RMC), a management committee of the Chief Executive's Committee with a reporting line to the ARC. The RMC's key responsibilities are to drive the monitoring, identification and management of key risks in the organisation.

Alongside myself, the members of the Committee are all independent Non-Executive Directors – Orna Ni-Chionna, Nick Horler, Cath Keers and Les Owen.

During the year, the Committee continued to challenge the assumptions and judgements made by Management in determining the half year and full year financial results of the Company and to assess for appropriateness their disclosure in the financial statements. To gain further insight into the basis for accounting judgements made in relation to advance customer payments from the public, we received in January a presentation from

the independent company that undertakes a UK-wide survey to estimate the stamp holding by households.

The Committee has received and considered several papers on the impact of the Code, both with respect to the introduction of a longer-term viability statement and the increased focus on risk management and internal controls, and Management's plans to support the Board in meeting the new requirements. We reviewed the Group Risk Profile at each of our meetings, with particular focus on risks where likelihood or impact had changed or increased, along with their supporting action plans to manage those risks. We paid particular attention to cyber security risks and data protection, the efficiency of resourcing of Royal Mail operations and employment issues facing the business (see Principal Risks page 32). We considered in detail the findings of three internal audit reviews which were rated as requiring urgent attention and discussed with Management how the concerns are being addressed.

On 15 December 2015, the Company received notification of the fine from the French Competition Authority in relation to antitrust law breaches by GLS France. The fine of €55 million (around £40 million), which was fully provided for in our financial results for the year ended 29 March 2015, was paid in April 2016. We have continued to focus on our compliance framework and its implementation across the Group, receiving quarterly updates from our Compliance function.

#### New external auditor

Following a competitive tender process in 2014, the proposal to appoint KPMG as external auditor received shareholder approval at the AGM on 23 July 2015. Richard Pinckard has been appointed the lead engagement partner from the same date.

Management and KPMG have worked collaboratively to ensure a thorough induction process has been undertaken. The induction has enabled KPMG to gain a deep understanding of the business, its systems and processes, and the significant estimates and management judgements required in producing our financial results. The induction process has included in-depth workshops with our Finance Shared Services, Payroll and IT functions, visits to operational sites and monthly meetings with Management and Executives.

### The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014

We have complied fully throughout the year with the Statutory Audit Services Order 2014 issued by the Competition and Markets Authority.

#### Paul Murray

Chair, Audit and Risk Committee  
18 May 2016

#### Committee membership and attendance

	Eligible to attend	Attended
Total number of meetings	5	
<b>Chair</b>		
Paul Murray	5	5
<b>Members</b>		
Nick Horler	5	5
Orna Ni-Chionna	5	4 <sup>1</sup>
Les Owen	5	5
Cath Keers	5	5

<sup>1</sup> Orna Ni-Chionna was unable to attend the Committee meeting on 14 May 2015 due to a prior engagement

Meetings of the Committee were also attended, where relevant, by the Chairman of the Board, the Chief Executive Officer, the Chief Finance Officer, the Director of IA and RM, other members of senior management and representatives from the external auditor, KPMG. The Board considers that a number of the members of the Committee have recent and relevant financial experience, in particular Paul Murray (the Chair) and Les Owen.

#### Audit and Risk Committee Terms of Reference

The full terms of reference for the Committee can be found on our website [www.royalmailgroup.com/about-us/management-committees/audit-and-risk-committee](http://www.royalmailgroup.com/about-us/management-committees/audit-and-risk-committee)

#### Key areas of focus during the year

Matters the Committee considered during the year include:

- Financial reporting, particularly in considering information presented by Management on significant accounting judgements and policies adopted in respect of the Company's half year and full year results and the assessment of whether the Annual Report and

Financial Statements were fair, balanced and understandable;

- Risk management and internal control, receiving regular updates from IA and RM on the results of their reviews and the introduction of a strengthened risk and control self-assessment process;
- Compliance with the Code, with particular focus on the requirement to provide a longer-term viability statement;
- Compliance framework, including receiving quarterly updates from the Group Compliance team on areas within their oversight remit; and
- Technology, including progress of the ongoing major transformation programme, the cyber risks facing the business and the risks associated with data protection.

#### Additional areas of focus for next year

- Evolving practice in external reporting;
- Assurance mapping across the Group; and
- Prioritised risk reviews.

#### Meeting cycle and agenda items

The Committee uses a meeting tracker, approved once a year, which provides a framework for each meeting agenda.

During 2015-16 the Committee met five times.

- Two meetings mainly focused on the half year and full year results; and
- Three meetings mainly focused on internal audit and risk management.

One of the meetings was held in Germany, with specific focus on GLS-related items.

All regular meetings contain elements of both financial reporting and internal audit and risk management, with reports from the Director of Group Finance and the Director of IA and RM being standing items on all agendas.

#### Reliance on external and in-house experts

The Group's actuary, Willis Towers Watson Limited, provides expert opinion and long-term assumption advice with respect to pension accounting. Following a competitive tender process, Aon Limited has been engaged during the year to provide similar expertise in relation to other long-term

liabilities. The Committee has concluded that these companies have the necessary expertise and resources.

The Committee also relies on:

- Advice and information provided by the General Counsel with respect to specific provisions and other contingent liabilities; and
- An independent survey of households to statistically calculate a distribution using a 95 per cent confidence limit, which is used to estimate the number/value of stamps that have been bought by the public but not used.

The Committee is satisfied that the General Counsel has, or has access to, the relevant necessary expertise and resources and that the company conducting the statistical surveys also has the relevant necessary expertise and resources.

The external auditor had full access to these experts and, using their own actuarial and statistical experts, was able to provide further assurance to the Committee on these matters.

### Key activity in relation to the financial statements

The main areas of focus for the Committee during the year in relation to the financial statements were:

#### One-off matters considered due to their materiality or nature

##### Matter considered

##### Ofcom investigation

##### (Contingent liability, see note 25 on page 133)

On 28 July 2015, Royal Mail received a Statement of Objections setting out Ofcom's provisional, preliminary findings in relation to its investigation into the terms on which Royal Mail 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.

##### French Competition Authority investigation

##### (€55 million, see note 22 on page 131 and note 27 on page 135)

In October 2014, Royal Mail entered into a settlement agreement with the French Competition Authority in respect of the alleged breaches of antitrust laws by one of its subsidiaries, GLS France, during the period before the end of 2010.

On 15 December 2015, Royal Mail received notification of the fine from the French Competition Authority. The fine of €55 million (around £40 million) was fully provided for in our financial results for the year ended 29 March 2015.

##### What the Committee did

Following the receipt of the Statement of Objections, the Committee sought detailed background information from General Counsel and an assessment of accounting treatment from Management.

We reviewed and challenged Management's assessment of the issue with reference to the accounting standards.

We concluded that it is appropriate to treat this issue as a contingent liability. The Committee have reviewed and approved the wording of its disclosure.

The Committee received regular updates from Management on the progress of the French Competition Authority's investigation and sought confirmation of the continuing appropriateness of the level of provision recognised, based on external legal advice.

On receipt of the notification of the fine, we sought confirmation from Management that this amount was fully provided for in the prior year's results. In accordance with the payment demand from the French Treasury, the fine was paid on 15 April 2016.

We will continue to seek updates from Management on the status of the appeal of the amount of the fine.

#### Ongoing matters considered due to their materiality and/or the application of judgement

##### Advance customer payments (£306 million, see note 19 on page 118)

Included within Advance customer payments is an estimate of the amounts of stamps and meter credits that have been sold but not used prior to the reporting date. At March 2016, this estimate totalled £252 million (March 2015 £259 million).

Although the relevant survey and extrapolation is conducted by an independent company, the level at which a stamp holding is considered to be abnormal, and therefore excluded from the estimate, is a judgement made by Management. This judgement impacts revenue, profit and net assets.

The Committee received a presentation from TNS (the independent company that undertakes the UK-wide survey of households to establish the level of stamp holding for personal use) to gain further insight into how the survey is compiled and the various statistical methods of excluding non-representative stamp holdings.

We continued to review and challenge the outcome from the statistical survey at the half year and full year, along with the judgement made by Management as to the level at which a stamp holding is considered abnormal. We compared the level of deferred income recognised by Management at each reporting date to ensure a consistent application.

Separately, the auditor used their own experts to review the statistical processes and assess the judgemental assumption. We concluded that the level of deferred revenue remained appropriate.

Matter considered	What the Committee did
<p><b>Royal Mail Defined Benefit Pension Surplus (£3,430 million, see balance sheet and note 10 on page 105)</b> The valuation of the pension liabilities relies on the estimation of long-term assumptions such as RPI/CPI and mortality. Small movements in these assumptions can lead to material impacts on the balance sheet.</p> <p>In view of the complexity of accounting for pension schemes, significant focus is required on the associated disclosure to ensure that it is fair, balanced and understandable.</p>	<p>Key long-term assumptions were prepared by the Group's actuary, Willis Towers Watson Limited, and benchmarked to prevailing economic indicators and other large pension schemes. The assumptions were reviewed and approved by the Pensions Committee (see Report on page 58). All of these assumptions are disclosed in note 10 to the financial statements. Changes in the assumptions were summarised for the Committee and explanations provided for the returns on scheme assets, particularly as a result of the liability hedging strategy.</p> <p>The auditor used their own independent actuarial experts to confirm that the assumptions used were reasonable and appropriate.</p>
<p><b>Industrial diseases claims provision (£78 million, see note 22 on page 131)</b> The Group is liable for claims brought by employees (past and current) and by individuals who were employed in the General Post Office Telecommunications division and whose employment ceased prior to October 1981. The provision covers the estimate of claims that could be received over the next 25-40 years. Changes to the provision will impact the income statement and net assets.</p>	<p>To determine whether the level of provisioning in the balance sheet was reasonable, the Committee examined reports from Management and estimates of the gross provision (including the number of claims incurred but not received and the associated expected cash outflow, undiscounted) calculated by Aon Limited. The discount factor used by Aon, as advised by Management, to calculate the present value of the provision was validated against applicable bond rates.</p> <p>We received KPMG's comments on the assumptions and the calculation used to reach the discounted provision and concluded that the approach taken to setting the provision continued to be appropriate.</p>
<p><b>Impact of changing employment legislation (see Principal risks on page 32)</b> The Group has a large workforce and changes to laws and regulations relating to employment can have a significant effect on the Group's results.</p>	<p>Throughout the year, the Committee received regular updates on relevant employment law cases from the General Counsel along with impact assessments of judgements on the Group.</p> <p>In light of the legal updates, we examined reports prepared by Management to determine whether their interpretation of the potential liabilities for the Group was appropriate. We concluded that these potential liabilities were accounted for appropriately based on the legal assessments provided by the General Counsel.</p>

**Audit Committee effectiveness**

This year's evaluation of the Committee's effectiveness was performed through the use of a third party online questionnaire, focusing on the financial reporting environment, risk management oversight, the assurance provided by our internal and external auditors and the quality and content of the meetings. The questionnaire identified areas of potential improvement in the provision of training in financial reporting and corporate governance and even greater focus on risk governance. The questionnaire also identified areas of focus for next year. Feedback from the questionnaire was reviewed at the Committee's year end meeting. The conclusion of the evaluation was that the Committee continues to be effective.

**Effectiveness of the external audit process**

In view of their recent appointment as external auditor, KPMG and Management have worked closely throughout the year to ensure a smooth transition. Meetings between the senior audit team and Finance have been held at least monthly, giving the opportunity for any concerns to be raised and addressed on a timely basis. KPMG's 2015 Audit Quality Inspection Report has also been discussed. There has been significant collaboration between the IT department and audit team to facilitate the greater emphasis on data and analytics that had been agreed as part of the audit tender.

The Committee received a report on the areas of audit risk identified by KPMG and

approved their proposed audit approach. The Committee also reviewed and approved the respective engagement letters for the statutory and regulatory audits.

At the end of the half year review and year end statutory audit, the Committee received reports from KPMG covering significant issues identified and discussed during the audit visits. In addition KPMG presented updates on their data and analytics approach, and their control findings. These reports were compared with the matters that Management had identified, to ensure consistency. The Committee also held regular private meetings with the external auditor.

The formal evaluation of the external audit process is being addressed in two stages. A third party online questionnaire was used to assess the transition, the audit approach and the half year review. It was completed after our half year results announcement and responses were sought from individuals who had been closely involved in the audit (predominantly IT, Finance and HR) as well as Executive and Non-Executive Directors, audit partners and team members. Improvement areas were identified in relation to requests for information and communication of findings. These issues were addressed during the planning of the full year audit.

The second stage of the evaluation will be undertaken using a mixture of an online questionnaire and meetings with key stakeholders following the conclusion of the first full cycle of KPMG's engagement and will

focus on the execution of the full year audit; the preparedness of the business; sufficiency of resources; communication and interaction; and overall satisfaction.

While the outcome of the second stage of the formal evaluation will not be available until after the signing of the financial statements, the informal feedback received and the review of reports presented by Management and KPMG to their May 2016 meeting have enabled the Committee to conclude that there has been appropriate focus on the primary areas of audit risk and KPMG have applied robust challenge and scepticism throughout.

**Safeguarding the independence and objectivity of the external auditor**

The Committee has a policy in respect of non-audit work which requires Management to seek pre-approval prior to the engagement of the external auditor for the provision of any non-audit services. This is to ensure that the level of fees earned from non-audit services and the type of services provided do not impair the external auditor's independence and objectivity. In general, the external auditor is not approached to perform non-audit work. However, the auditor may be engaged to perform non-audit services if they are uniquely placed to undertake them, or if the performance of the non-audit services will support a future statutory audit (including the provision of buyer assist due diligence). The engagement may follow a competitive tender process. The Committee currently permits the external auditor to provide non-audit services in respect of audit-related

services, tax services and other services insofar as permitted by auditor independence rules. The Committee has delegated authority to the Chief Finance Officer to pre-approve assignments up to £25,000, with an annual limit of £500,000.

Prior to their appointment as the external auditor, KPMG had been engaged to provide certain non-audit services. These include the provision of investor relations advice and share register analysis (through KPMG Makinson Cowell) and tax advice, reviews and filings. The majority of these engagements concluded during the year. Since their appointment as external auditor, KPMG have been engaged to perform the iXBRL tagging of the Group's subsidiary financial statements and to provide financial due diligence. Total fees earned for non-audit services during 2015-16 were £313,000 which represented around 19 per cent of the external audit fee. In addition to the fees earned from the Company, KPMG has been engaged by the respective Pension Trustee as external auditor of the Royal Mail Pension Plan and the Royal Mail Defined Contribution Plan, the fees for which were £116,000 in 2015-16.

The Committee also has a policy that restricts the recruitment or secondment of individuals employed by the external auditor into positions that provide financial reporting oversight where they could exercise influence over the financial or regulatory statements of the Group or the level of audit and non-audit fees.

### Reappointment of the external auditor

The Committee has recommended the reappointment of KPMG as the Group's external auditor to the Board for approval by shareholders at the Annual General Meeting in July 2016.

### Risk management and internal control overview

The Board collectively, including the Committee members, believes that effective risk management and a sound control environment are fundamental to the Group. The Code requires the Board to maintain sound risk management and internal control systems, to review their effectiveness at least annually and to report on this review to shareholders. A sound system of internal control depends on a thorough and regular evaluation of the nature and extent to which the Group is exposed to risk.

The Group's risk management and internal control system is designed to manage, rather than eliminate, risk as taking on manageable risk is an inherent part of undertaking the commercial activities of the Group.

The system can only provide reasonable, not absolute, assurance against material misstatement or loss.

There is an ongoing process for identifying, evaluating and managing the principal risks faced by the Group in accordance with the guidance detailed by the Code, including financial, operational and compliance risks, and risks to reputation. The process has been in place throughout the year and up to the date of approval of these financial statements.

### Internal control framework

The Group has in place an internal control framework in relation to the Group's financial reporting process and the Group's process for preparing consolidated accounts. This framework includes an established organisation structure with clear lines of responsibilities, approval levels and delegated authorities; policies and procedures to ensure that adequate accounting records are maintained and transactions are recorded accurately; robust quarterly business unit performance reviews by the Chief Executive Officer and Chief Finance Officer; and a rigorous preparation process for the consolidated financial results including technical and disclosure reviews.

### Risk management framework

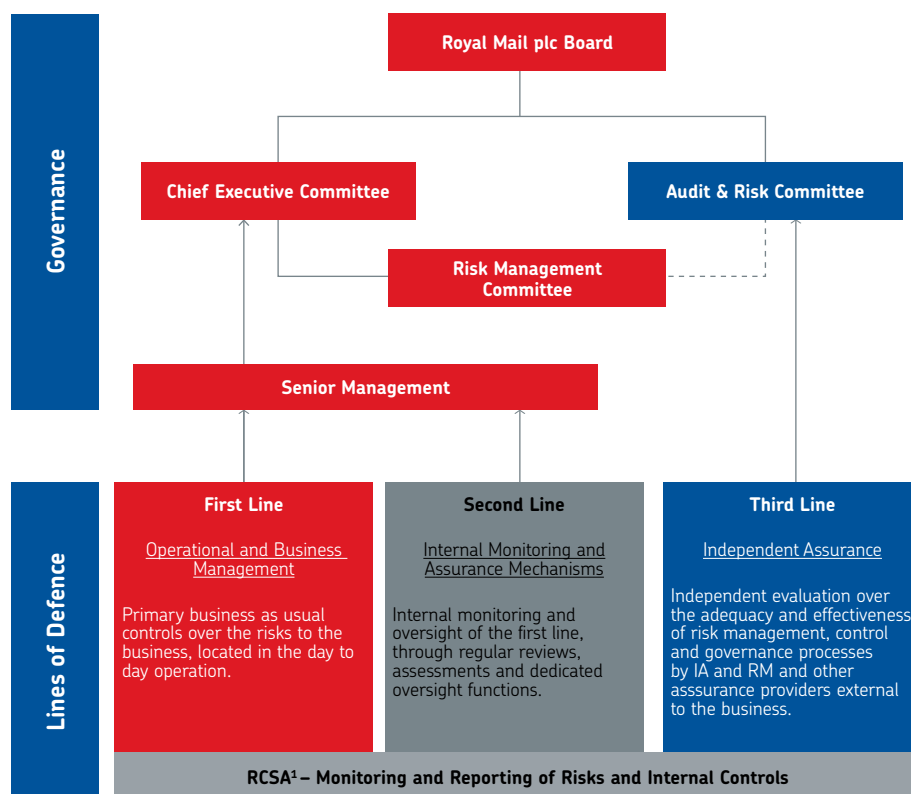
The Group-wide risk management framework includes risk governance, risk identification, measurement and management, and risk reporting and sets out the 'top-down' and 'bottom-up' approach to risk identification for the Group.

During the year the business has:

- Assessed its approach to risk management in line with the revised Code requirements, reviewed its Risk Management Policy, and further developed the management and monitoring of risk within the Group including strengthening the Risk & Control Self-Assessment (RCSA) process; and
- Continued its emerging risk identification process through regular structured dialogue with subject-matter experts across the business.

The Group's approach to risk management is based on the underlying principle of line management accountability for effective implementation of internal controls to manage risk as illustrated below.

### Royal Mail Governance and Three Lines of Defence



## Role of the Committee in assessing the principal risks

Review of principal risk areas	The Committee routinely assessed the risks that might impact the achievement of the Business Plan, including consideration of whether these should be categorised as a principal risk to the business (see Principal Risks on pages 32–35). Committee discussions on risk also covered new and emerging risks and the interrelationships between the significant risks to the business.
Deep dive discussions	<p>The Committee held ‘deep dive’ discussions of principal risk areas with risk owners. During the year, these discussions included:</p> <ul style="list-style-type: none"> <li>• Industrial and employee relations</li> <li>• Pensions</li> <li>• Cyber risks</li> <li>• Delivery of efficiency benefits versus maintenance of Quality of Service levels</li> </ul>

### Speak Up Line

Arrangements are in place to enable employees to raise concerns about potential wrongdoings in confidence and to ensure independent investigation of such matters. During the year, IA and RM reported to the Committee on the number of notifications and the time taken to process them through the Employee Disclosure Committee (EDC).

### Assessing the effectiveness of the system of risk management and internal control

In addition to the specific constitution, meetings, reliance on experts, and focus areas highlighted above, the Committee uses a number of mechanisms to help it to arrive at its conclusion on the effectiveness of the system of risk management and internal control in the business. These include:

#### 1. Risk governance

The Board has delegated responsibility for specific review of risk and control processes to the Committee and the Committee in turn is supported by the RMC, to help discharge its duties. The RMC meets to promote and support the establishment, communication and embedding of risk management throughout the Group and to ensure that risks that are significant at Group level are being effectively managed.

#### 2. Assurance from Internal Audit

IA and RM provide independent assurance to executive Management and the Board on the effectiveness of the internal control system and elements of the risk management process, including compliance with the Risk Management Mandatory Standards, and validation of mitigation plans for Group level risks. IA and RM establish and agree with the Committee an annual plan of assignments and activities covering the whole Group, including GLS, based on discussions with the Board and Management, and also taking into account known issues in the business, areas of known importance to the delivery of the business plan, areas subject to strong or emerging regulation or legislation and

known issues in the industry. During the year the Committee evaluated the performance of IA and RM and concluded that the function continued to be effective.

The IA work programme during 2015-16 included more than 40 risk-based reviews in the UK and over 180 reviews in GLS covering both depots and head office. The programme was focused towards the key business priorities and included:

- Business Transformation reviews including Parcels and IT Service Transformation;
- Major business process reviews including National Returns Centre, Mobile Devices, Operational Resourcing and Overtime Payments, Traffic Measurement, and Billing Processes (Data Services and large Parcelforce Customers);
- Continued rolling programme of review of the basic business controls and independent validations related to the management of Group level risks; and
- Conformance of key units/functions to defined Risk Management Mandatory Standards.

#### 3. External audit activity

External audits and reviews take place during the year to provide Management, the Board and the Regulator with assurance on specific matters. Activity includes:

- The external auditor performs a statutory year end audit;
- The external auditor performs an audit of the regulatory accounts as part of Universal Service Provider accounting requirements;
- The externally measured end-to-end Quality of Service is audited by an independent accounting firm (appointed by Ofcom) as part of Royal Mail's Designated Universal Service Provider condition requirements; and

- The Universal Service Obligation daily collections and deliveries performance reporting and methodology is assured by an independent accounting firm (appointed by Royal Mail) as part of Royal Mail's designated Universal Service.

In the carrying out of these activities, the Board considers it has fulfilled its obligations under the Code in respect of risk management and internal controls. Further details of the principal risks and how they are managed and mitigated can be found on pages 32-35.

## Nomination Committee report

### Introduction from the Chair



#### Dear Shareholder,

The role of the Nomination Committee is to review the composition of the Board and plan for its refreshment as applicable with regard to composition, balance and structure.

As well as succession planning and the continued evaluation of the balance of skills, knowledge and experience of the Board, the Committee continues to focus on diversity, reviewing leadership attributes, approving changes to senior management and various appointments within the Company.

In 2016, an internal evaluation of the Committee was undertaken by way of a questionnaire. The evaluation concluded that the Committee continued to be effective.

The following report outlines the Committee's membership and attendance, its role, its focus during the year, Directors' re-election and diversity.

**Peter Long**  
Chairman  
18 May 2016

#### Committee membership and attendance

	Eligible to attend	Attended
Total number of meetings	1	
<b>Chair</b>		
Peter Long	1	1
<b>Members</b>		
Nick Horler	1	1
Cath Keers	1	1
Orna Ni-Chionna	1	1

Meetings of the Committee were also attended, where relevant, by the Company Secretary, the Deputy Company Secretary and the Group HR Director. The Chief Executive Officer and other Non-Executive Directors may also be requested to attend when required.

#### Nomination Committee Terms of Reference

The full Terms of Reference for the Committee can be found on our website <http://www.royalmailgroup.com/about-us/management-and-committees/nomination-committee>.

#### Role of the Committee

A summary of the responsibilities of the Committee in connection with appointments to the Board and senior management is shown below:

- To regularly review the structure, size and composition of the Board and to evaluate the balance of skills, knowledge, experience and diversity of the Board to inform the capabilities required for a particular appointment;
- To give full consideration to succession planning for Chairman, Directors, Chief Executive Officer and senior management in the course of its work, taking into account the challenges and opportunities facing the Company, and the skills and expertise needed on the Board in the future;
- Keep up to date and fully informed about strategic issues and commercial changes affecting the Company and the market in which it operates;
- To identify, and nominate for approval by the Board, candidates to fill Board vacancies as and when they arise;
- In identifying suitable Board Candidates the Committee shall:
  - Use open advertising or the services of external advisers to facilitate the search;
  - Consider candidates from a wide range of backgrounds; and
  - Consider candidates on merit and against objective criteria and with due regard for the benefits of diversity on the Board, including gender, taking care that appointees have enough time available to devote to the position.
- To ensure that on appointment to the Board, Non-Executive Directors receive a formal letter of appointment setting out clearly what is expected of them in terms

of time commitment, committee service and involvement outside meetings;

- For the appointment of a Chairman, to prepare a job description including the time commitment expected. A proposed Chairman's other significant commitments should be disclosed to the Board before appointment and any changes to the Chairman's commitments should be reported to the Board as they arise;
- To review annually the time required from Non-Executive Directors to fulfil their duties; and
- To make recommendations to the Board concerning:
  - Formulating plans for succession for both Executive and Non-Executive Directors and in particular for the key roles of Chairman and Chief Executive Officer;
  - Nominations for the role of SID;
  - Membership of the Board Committees in consultation with the Chairs of those committees;
  - The re-appointment of any Non-Executive Director at the conclusion of their specified term of office having given due regard to their performance and ability to continue to contribute to the Board;
  - The re-election of Directors by shareholders under the re-election provisions of the Code or the retirement by rotation provisions in the Company's Articles of Association (the Articles), having due regard to their performance and ability to continue to contribute to the Board in the light of the knowledge, skills and experience required and the need for progressive refreshing of the Board;
  - Any matters relating to the continuation in office of any Director at any time, including the suspension or termination of service of an Executive Director as an employee of the Company subject to the law and their service contract;
  - Nominations for the appointment of Director positions on the Boards of subsidiary/joint venture Boards/main Business Unit Executive Committee; and
  - Nominations for the appointment of trustees of the Company's pension schemes and trustees of the Postal Heritage Trust.



### Key areas of focus during the year

Matters the Committee considered during the year include:

- Assessing the composition of the Board and its Committees following the appointment of Peter Long and the departures of Donald Brydon and John Allan from the Board;
- Succession planning and executive talent management;
- Appointment of Directors and Secretary to subsidiaries and Joint Ventures;
- The annual evaluation of the Terms of Reference of the Committee; and
- The annual evaluation of the Committee paying particular attention to the frequency of the Committee meetings.

### Key areas of focus for the next year

- Succession planning and executive talent management;
- A review of the Board structure, size and composition;
- A review of the balance of skills, knowledge, experience, independence and diversity of the Board; and
- Appointment of Directors and Secretary to subsidiaries and Joint Ventures.

### Directors' re-election

The Committee considers the performance of each individual Director, whether he or she continues to be effective and can demonstrate commitment to the role and whether they should be proposed for election at the AGM. Biographical details of each of the Directors, together with details of their skills and experience may be found on pages 43-45. Following a performance evaluation of each Director and the Board as a whole, all Directors are considered by the Board to be fully effective.

## Pensions Committee report

### Introduction from the Chair



#### Dear Shareholder,

The responsibilities delegated to the Committee by the Board include the review and approval of objectives in relation to the Royal Mail pension schemes, monitoring performance of these schemes, considering recommendations and reports from Management in relation to policy and strategy concerning pensions and investment matters that are significant to the Group, and, where appropriate, making recommendations to the Audit and Risk Committee and the Board.

The Committee reports and makes recommendations to the Board (and to Royal Mail Group Limited as principal employer of the Group's pension's schemes) on:

- Pension matters which it reasonably considers are of strategic importance to the Group;
- Pension matters involving a financial impact of over £100 million;
- Material changes to benefits that require rule changes or changes to the pension scheme Trust Deeds; and
- Material matters in relation to the accounting for the Group's pensions obligations.

The Committee is supported by the Pensions Policy Committee, whose members are the Chief Finance Officer, the Company Secretary, the Group HR Director and representatives from the CWU and Unite/CMA.

In 2016, an internal evaluation of the Committee was undertaken by way of questionnaire. The evaluation concluded that the Committee continued to be effective.

### Committee membership and attendance

	Eligible to attend	Attended
Total number of meetings	3	
<b>Chair</b>		
Les Owen	3	3
<b>Members</b>		
Matthew Lester	3	3
Paul Murray	3	3

Further details of the Committee's role, its membership and the key areas of focus during the year are set out below.

#### Les Owen

Chair of the Pensions Committee  
18 May 2016

The meetings of the Committee have also been attended by the Director of Group HR, the Chief of Staff, the Company Secretary, the Director of Corporate Finance, the Head of Pensions Strategy, representatives of the Trustee Executive, including their external advisers, and representatives from the Company's pensions advisers, Willis Towers Watson.

#### Pensions Committee Terms of Reference

The full terms of reference for the Committee can be found on our website [www.royalmailgroup.com/about-us/management-and-committees/pensions-committee](http://www.royalmailgroup.com/about-us/management-and-committees/pensions-committee).

#### Role of the Committee

Further to the responsibilities outlined in the Committee Chair's statement, the role of the Committee also includes:

- Reviewing and recommending to the Audit and Risk Committee the actuarial assumptions to be used in calculating the accounting charge and pension disclosures in the Company's Financial Results;
- Reviewing reports from the Trustee Executive on the Royal Mail pension schemes' financial position, investment performance, administration levels and other activities;
- Reviewing recommendations from the Pensions Policy Committee in relation to Royal Mail pensions policy and strategy (where significant to Royal Mail Group) and make decisions or report to the Board accordingly;
- Agreeing the assumptions to be used by the Trustees relating to funding

valuations, and providing the Group's opinion and feedback on the Trustees' Statement of Investment Principles;

- Approving, in accordance with the pension schemes' Rules, the appointment, re-appointment, removal, period of appointment and remuneration of the Chair of Trustees. This approval will be given on behalf of the Board following consultation with the Chair and on the recommendation of Management; and
- Reviewing major policy, regulatory, legislative, accounting reporting, industrial relations and Governmental issues impacting the pension schemes as from time to time is necessary, at the request of the Board, Management or any member of the Pensions Committee, and making decisions, recommendations or reporting to the Board accordingly.

#### Key areas of focus during the year

Matters the Committee considered during the year include:

- The likely outcome of the April 2015 Valuation Scheme funding and the implications for future benefit design;
- Investment strategy and risk management;
- Investment performance and fees and costs;
- The impact of pension legislation changes;
- Pensions accounting and treatment of scheme surplus;
- The annual evaluation of the Terms of Reference of the Committee;
- The annual evaluation of the Committee's effectiveness; and
- Pension scheme administration.

#### Key areas of focus for next year

Matters the Committee expect to be considering during the year ahead include:

- The pension schemes' funding valuations, future affordability and management proposals for future benefit design;
- Investment strategy and risk management;
- Pensions accounting;
- Pension scheme administration; and
- The impact of the 2015 pensions freedoms on the schemes.

## Other Committees

### Disclosure Committee

The role of the Disclosure Committee is to assist the Executive Directors in fulfilling their responsibility for oversight of the accuracy and timeliness of the disclosures made by the Company in relation to its financial and other reporting. The Committee meets on a regular basis during the reporting process and is chaired by the Chief Executive Officer.

### Risk Management Committee

The Risk Management Committee supports the Audit and Risk Committee and meets to promote and support the establishment, communication and embedding of risk management throughout the business. The Committee meets quarterly and is chaired by the Chief Executive Officer.

# Directors' remuneration report



Dear Shareholder

I am pleased to report that, during 2015-16, the Company continued to make progress in several important areas. We delivered an increase in adjusted operating profit (before transformation costs), while continuing to manage our ongoing and complex transformation in a rapidly changing industry.

This year the Committee is proposing changes to the Company's Directors' Remuneration Policy, to reflect our fast-changing marketplace. I will make some brief comments on both of these themes here – the report on the following pages gives more detail on each.

## Performance and remuneration in 2015-16

The year was one of continued steady progress, despite intensifying competition in a rapidly changing market. Highlights included:

- Adjusted operating profit, before transformation costs, of £738 million at the budgeted foreign exchange rate;
- A one per cent reduction in UKPIL underlying operating costs;
- A productivity improvement in collections, processing and delivery of 2.4 per cent, within our 2.0 – 3.0 per cent target range; and
- Rolling out new products and services at pace.

The performance achieved resulted in payouts to our executive team on both our annual bonus and our Long Term Incentive Plan (LTIP), in accordance with our Remuneration Policy. Their total compensation remained broadly flat year on year.

### Annual bonus

Our performance in 2015-16 resulted in the achievement of a good score against many of the financial, people, efficiency and customer targets in our Corporate Balanced Scorecard. This scorecard, along with a series of Strategic Objectives, made up 80 per cent of the potential annual bonus for Executive Directors. Performance against personal objectives, which were set by the Committee

and represented 20 per cent each of the potential bonus, was also good.

This resulted in a bonus of almost 82 per cent of salary for our Chief Executive Officer (CEO), Moya Greene; and 81 per cent of salary for our Chief Finance Officer (CFO), Matthew Lester. More detail about the annual bonus targets and performance against specific KPIs is given on page 75.

### Long Term Incentive Plan

During 2015-16, the Company partly met the stretching performance targets that were set in 2013 for Operating Profit and Return on Total Assets (ROTA). The gateway for ROTA was achieved, Operating Profit performance was between threshold and a very challenging target. As a result, 83 per cent of the 2013 LTIP target award vested for both Executive Directors. This award had originally been made in cash and was converted to shares two weeks after flotation, in October 2013, at a share price of £5.29. The Committee had no reason to use its discretion to reduce the award. More details of the LTIP payout can be found on pages 76-77.

### Annual salary review

The Committee also considered the Executive Directors' salaries. The CFO's salary was last increased in April 2014. The Committee approved an increase of 4.6 per cent, taking his salary to £475,000 per annum, with effect from 1 April 2016. As we said in last year's Report, no change was made to the CEO's salary in 2015-16.

## Designing a policy to match our market context

Last year, I mentioned to shareholders in this letter that we were considering making changes to our Remuneration Policy because of the fast-changing market environment in which Royal Mail operates. Since then we have studied our options carefully. We have consulted with many of our largest shareholders in the course of designing these changes. We have taken their comments and suggestions into account in finalising the proposed policy. We are now recommending these changes for shareholder approval. If approved, the new policy would apply from 2016-17.

The factors which have shaped our proposals include the following:

- The market in which Royal Mail operates is intensely competitive and very dynamic. To thrive and grow in this market requires our Management to maintain an intensity of pace in improving productivity and efficiency month by month and year by year. This is an increasingly challenging task. This hard won, short-term success is essential to support our long-term performance. Accordingly, increasing our relative focus on short-term performance is appropriate, provided it supports enduring performance.
- We want to create a reward structure that appropriately balances the importance of short-term delivery with the creation of long-term sustainable value.

- We are keen to ensure that our reward is more closely aligned with the interests of long-term shareholders, i.e. more of the potential reward should be in shares, and shares should be held by our executives for longer periods.
- Our aim and intention is to deliver sustainable shareholder value. The amount of change that is occurring both in the parcels market, and in Royal Mail's cost base, makes specific targets, such as EPS, complex to measure. We are keen to avoid complexity.

Our proposed new policy seeks to address these issues and contains **three** proposed, substantive changes:

1. Increase the maximum incentive opportunity available based on annual performance through the **introduction of a deferred share element**, which would vest three years after award, subject to continued employment and malus provisions. This maximum deferred element would be equal to the current maximum cash bonus opportunity (100 per cent of salary), creating a combined maximum annual incentive opportunity of 200 per cent of salary. This change coincides with a careful review of the performance metrics, increasing the quantitative operational and financial targets significantly. We believe that this will focus attention on delivery of key objectives consistently and at pace, while aiding retention and recruitment. It will also increase the speed at which executives are likely to accumulate shares. Therefore, we are proposing to increase the **shareholding guideline** for our Executive Directors to 200 per cent of salary.
2. Introduce a **two year holding period** on shares vesting under the LTIP for the CEC and Executive Directors, to achieve greater alignment between the interests of Management and shareholders. We propose to increase the maximum LTIP opportunity by two per cent to 100 per cent. This remains relatively low for a company of our size and complexity but we do not believe it is appropriate to introduce further leverage into our executive incentive plans at this stage.
3. Use **relative Total Shareholder Return (TSR) as the only performance measure for the LTIP**, as this is a measure of the success in delivering our strategy. In a competitive environment that is changing as rapidly as ours, this measure, which is focused on shareholder alignment, will still be as relevant at the end of the period as it is at the start of the

performance period. It is also aligned with our commitment to a progressive dividend policy, which is an important element of TSR. We are proposing to keep the level of vesting threshold at 50% of the award, as is the case for the current LTIP. This is a high percentage of *maximum LTIP award* compared to companies of similar size and complexity, but as our maximum LTIP award is half that of our peers, and our salaries are also lower, it is a similar percentage of salary vesting for threshold performance; and a lower overall value than that of most comparable companies.

These proposed changes are more fully explained in the following pages. Taken in the round, we believe that they will provide a coherent framework that will reward delivery at pace on the objectives required to achieve sustainable success, while maintaining appropriate flexibility in target setting from year to year:

- More aligned with our fast-changing market place and with what our senior managers need to focus on year by year;
- Incentivises sustained year on year improvements with the aim of delivering long-term value for shareholders;
- Increased proportion of remuneration which is delivered in the form of deferred equity, from around 25 per cent to 40 per cent of the total; and
- Reduces complexity and is more transparent to shareholders.

We believe that this new policy will continue to help us attract and retain the right people, who are incentivised to drive the creation of sustainable, long-term shareholder value. However, the total package for our CEO remains below the lower quartile level of our FTSE 100 peers, and we continue to retain our commitment to avoid any pay for failure.

I hope that you agree with our proposed changes and that you will support our proposed Remuneration Policy and Annual Report on Remuneration this year.

**Orna Ni-Chionna**  
Chair, Remuneration Committee  
18 May 2016

## Our current and proposed Remuneration Policy

### What is our proposed Remuneration Policy for Executive Directors?

The following tables outline our current and proposed Remuneration Policy. We intend to apply the new policy to our Executive Directors, subject to shareholder approval, from 21 July 2016 (the date of the AGM), for a period of three years.

Over the past year, the Remuneration Committee has carried out an extensive review of the current Remuneration Policy. We believe there are opportunities to improve the current remuneration structure, adhering to the remuneration principles agreed by the Committee:

	Remuneration Principles	Implications for Remuneration Policy
<b>Overall package</b>	The overall remuneration package should take account of the dynamics of the market in which we operate. Our incentive arrangements are evolving to ensure that we can reward performance appropriately	There is scope to better align Remuneration Policy with Group strategy, ensuring that Management is appropriately incentivised and rewarded to deliver sustainable shareholder value
<b>Incentive levels &amp; structure</b>	Incentive payouts should be based primarily on the achievement of relevant operational, financial and strategic goals, as well as the creation of long-term shareholder value	Design incentives to take into account the challenges that exist in relation to setting long-term financial, operational and strategic goals whilst the Company continues to go through significant transformation
<b>Alignment with shareholders</b>	Management interests should be aligned to the interests of shareholders, including through building a significant Royal Mail shareholding	Increase the equity based components of the total package in order to create a stronger alignment with shareholder interests

We are proposing a number of key changes to the structure of our remuneration:

- 1. Introduce a deferred share component to the existing annual bonus opportunity:** as outlined above, a deferred share award of up to 100 per cent of salary, based on annual performance in the previous financial year, would be introduced subject to a three-year vesting period, continued employment and malus provisions. In parallel, the Committee is proposing some simplification of our KPIs to ensure the annual bonus rewards delivery against the most critical financial, operational and strategic goals.

This change will give the Committee flexibility to incentivise and reward financial and operational success during our ongoing transformation, while making the remuneration package more competitive in the market to attract and retain key talent. In addition, it provides a route for the Executive Directors to increase their shareholding more quickly. Accordingly, we are proposing to increase the **shareholding guideline** to 200 per cent of salary (from 100 per cent of salary).

#### 2. Restructure the current LTIP:

##### a) Introduce a holding period following the end of the performance period

We are proposing the addition of a two-year holding period on LTIP shares, following vesting, to increase alignment between the interests of executives and long-term shareholders and further balance the shorter-term focus of the annual bonus; and

##### b) Simplify the performance measures

We propose to focus the award on the Group's TSR performance relative to the FTSE 100 (excluding mining and financial companies) over three years.

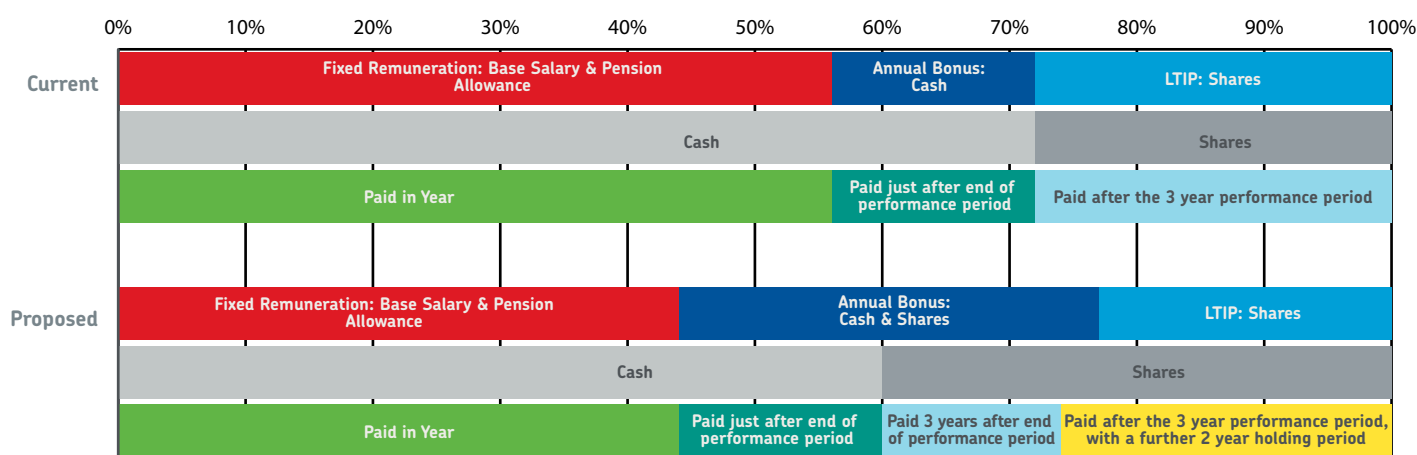
Taken together, we believe that these changes will create a simpler and more direct linkage to the mind-set that our executives need to have to achieve the changes that the Board is seeking and as such, are an important element in driving the continued success of the Company in its current competitive context. We believe that by executing our strategy and delivering against our annual KPIs, the Company will be able to pursue a progressive dividend policy and create long-term value for shareholders.

We are mindful of the need to ensure that having a single performance measure does not lead to an inappropriate vesting outcome. We are committed to completing a thorough review of underlying business performance at the end of each three year performance period to ensure that our TSR result is reflective of Company performance over that time. We are also aware of the need to create an appropriate balance between short-term and long-term incentives. For this reason:

- all of the increase in the maximum incentive opportunity based on annual performance is delivered in deferred shares, which only vest after three years;
- we have doubled our executive shareholding guideline to 200 per cent of salary; and
- we are proposing a new two year holding period for the LTIP following vesting.

The annual bonus and LTIP are also underpinned by malus and clawback provisions.

Under the proposed policy, a larger proportion of the overall package will be linked to performance, more will be delivered in shares and the payout will be over a longer timeline:



### Policy table

The following tables set out the key elements of our remuneration, its purpose and link to strategy and the maximum opportunity. In addition, where relevant, we have set out the changes proposed to the policy for each element of remuneration and the rationale behind these changes.

The Committee has discretion in several areas of the policy. The Committee may also exercise operational and administrative discretions under relevant incentive plan rules approved by shareholders as set out in those rules. In addition, the Committee has the discretion to amend policy with regard to minor or administrative matters where it would be, in the opinion of the Committee, disproportionate to seek or await shareholder approval.

In setting the Remuneration Policy for Directors, the pay and conditions of other employees of the Company are taken into account, including any base salary increases awarded.

It is the Committee’s intention that commitments made in line with its policies prior to the approval of the new policy will be honoured. This will be the case even if meeting such commitments is made after the approval of the new policy and may be inconsistent with the new policy.

The approach outlined here will be reviewed in three years’ time. Amongst other factors, the balance between short and long-term elements in the package will be reviewed and may change in favour of the long-term. In addition, the measure used to assess this performance may change, reflecting the pace of change and the challenges facing the Company at the time.

## Fixed remuneration

Operation	Maximum Opportunity	Performance Measures	Change from current policy and rationale
<b>Base salary</b>			
<b>Purpose &amp; Link To Strategy</b>			
Reflects the scope and responsibility of the role, while taking account of the skills and experience of the individual.			
Used to attract and retain talented executives to deliver the business strategy.			
Salary levels for the Executive Directors are normally reviewed annually.  The Committee takes into account factors such as the performance of the Company, the performance of the Executive Director, any changes in role and responsibility, assessment against relevant comparator groups, internal relativities and the level of increase being offered to our frontline employees.	Increases will normally be in line with the broader employee population.  Increases may be made above this level to take account of changing circumstances such as a change in responsibility, progression in the role, individual performance or a significant increase in the scale or size of the role.	Not applicable	No change
<b>Benefits</b>			
<b>Purpose &amp; Link To Strategy</b>			
To support the attraction and retention of talented executives by providing a competitive offering.			
Benefits currently include the provision of a company car and health insurance, or the cash equivalent of these benefits. Life assurance and health screening are also provided. Additional benefits may be offered such as relocation allowances on recruitment.  Moya Greene is entitled to financial advice, use of a driver for business-related travel and two return flights to Canada each year.  Executive Directors are entitled to participate in the SAYE scheme, with monthly deductions being taken for a period of three or five years. The savings can be used to purchase shares at a discounted price set at the start of each plan.  Executive Directors are eligible to receive Free Shares when released by the Government. They participate in any Free Share allocations on the same basis as all other eligible full-time employees.	The maximum value of the benefits is the cost to the Company.	Not applicable	No change
<b>Pension</b>			
<b>Purpose &amp; Link To Strategy</b>			
To provide a competitive post-retirement income.			
Company contribution to a defined contribution pension scheme and/or a cash supplement (in lieu of pension).	£200,000 per annum cash allowance for the CEO.  40% of salary paid as a cash allowance for the CFO.	Not applicable	The Committee maintains contractual historical pension supplements for existing Executive Directors; however it recognises that the pension provision is high. It would adopt a lower percentage for newly appointed Executive Directors, up to median FTSE100 levels.

## Variable remuneration

Operation	Maximum Opportunity	Performance Measures	Change from current policy and rationale
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### Annual bonus

#### Purpose & Link To Strategy

**Current policy:** Designed to reward achievement of key strategic, financial and operational priorities for the year, to deliver strong performance in service of longer term strategic goals and creation of long-term shareholder value.

**Proposed policy:** As the current policy, with the addition of the provision of part of the total annual incentive opportunity being a deferred share award encouraging a long-term view, providing alignment with shareholders' interests.

#### Current policy

The bonus is paid in cash.

Best practice clawback provisions are included in the annual bonus.

Maximum bonus opportunity of 100% of salary.

Aligned to the Corporate Balanced Scorecard for the Executive Directors each year.

The proposed changes increase the proportion of the package weighted on short-term performance, allowing the Company to set annual KPIs which more significantly incentivise the successful delivery of the Company's transformation agenda, alongside its operational, financial and strategic goals. This allows the Company some flexibility to respond to a rapidly evolving market and ensure that KPIs remain relevant and focused on the business stage of transformation.

#### Proposed policy

The total annual incentive opportunity is provided as follows:

- one half is payable in cash, paid at the end of the annual performance period
- one half is granted as a deferred share award, after the end of the performance period and subject to continued employment over the three year vesting period.

Deferred share awards will be granted to Executive Directors in the form of a conditional share award.

Malus provisions would apply to the deferred share award over the three year vesting period.

A clawback mechanism would apply to the cash bonus for a period of three years following the bonus determination.

Maximum total annual incentive opportunity of 200% of salary, with two thirds earned for target performance split equally between cash and deferred shares.

The Committee will normally award dividend equivalents on deferred shares to plan participants to the extent that they vest.

Annual performance measures and weightings will be selected at the start of each financial year to align with the key strategic, financial and operational priorities of the business.

The measures themselves may change on an annual basis as the key strategic, financial and operational priorities of the business change.

For 2016, 80% of the annual bonus will be based on the scorecard targets, and 20% will be based on the achievement against strategic objectives.

A minimum of 50% of the scorecard targets shall be financial, with the remainder robust operational, customer and people KPIs.

A minimum level of operating profit must be achieved before any bonus is payable to an Executive Director.

The increase to bonus quantum aims to improve the competitiveness of the Company's annual bonus versus the market. The proposed maximum total annual incentive opportunity of 200% of salary would go some way to addressing this.

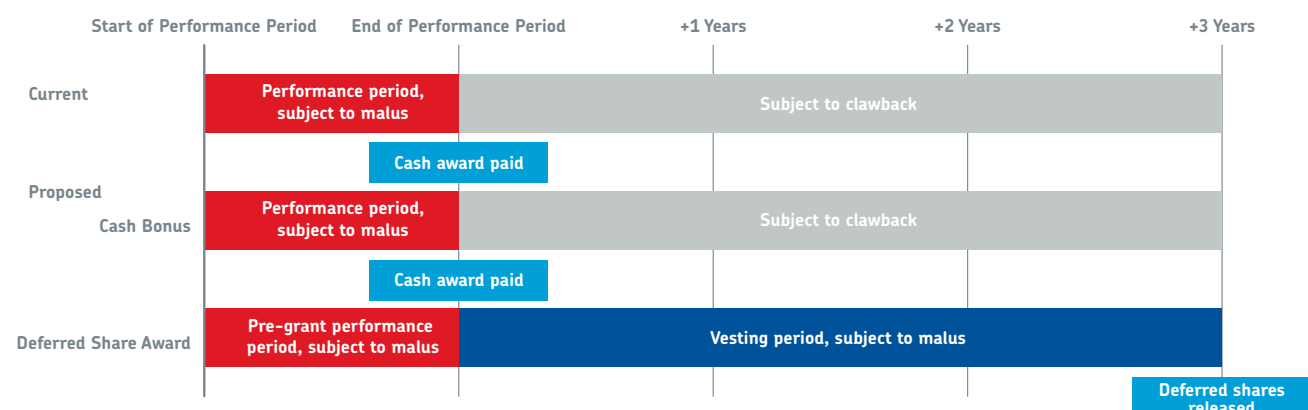
However, the increase in maximum bonus is delivered in the form of a deferred share award. Bonus deferral and the malus provisions act as a balance to the increase in quantum and ensure that Executive Directors continue to be exposed to the long-term share-based performance of the Company.

Combined with the LTIP of 100% of salary, the total package remains relatively low compared to other FTSE 100 companies.

The Committee may use its discretion to:

- change the performance measures and targets and the weighting attached to the performance measures and targets part-way through a performance year if there is a significant and material event which causes the Committee to believe the original measures, weightings and targets are no longer appropriate; and
- to make downward or upward movements to the amount of bonus earned resulting from the application of the performance measures, if the Committee believes that the bonus outcomes are not a fair and accurate reflection of business performance.

### Annual bonus: current policy vs proposed policy





## Long term incentive plan

Operation	Maximum Opportunity	Performance Measures	Change from current policy and rationale
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### Purpose & Link To Strategy

**Current policy:** Supports executive recruitment and retention, with an appropriate balance between short-term performance and the creation of long-term, sustainable shareholder value.

**Proposed policy:** As the current policy, with greater emphasis on the creation of shareholder value.

#### Current policy

Awards are granted annually to Executive Directors in the form of a conditional share award.

These will vest at the end of a three year period subject to:

- the Executive Director's continued employment at the date of vesting; and
- satisfaction of the performance conditions.

Malus and clawback provisions are included in the LTIP.

Maximum award level of 98% of salary.

The Committee may award dividend equivalents on those shares to the extent that they vest.

The performance conditions for the 2015 awards were measured over a three year performance period as follows:

- 50% of the award assessed against Earnings Per Share, with 12.5% of the award vesting at threshold and 50% vesting at maximum.
- 35% of the award dependent on Operating profit margin (before transformation costs), with 8.75% of the award vesting at threshold performance and 35% vesting at maximum.
- 15% of the award dependent on TSR against the FTSE 100 (excluding mining and financial companies). If the Group's TSR performance is ranked at median, 7.5% of the award will vest, increasing to full vesting (15% of the award) if performance is in the top quartile of the group.

Different performance measures and/or weightings may be used for each award.

For 2016, vesting will be based on a single measure, TSR. The rationale for this measure is set out in more detail on page 61.

The Committee decided to retain the existing vesting schedule that applies to the TSR measure within the current LTIP, with 50% of the TSR element of the award vesting for median TSR performance.

The Committee recognises that the threshold vesting level of 50% of the award may seem high compared to a threshold vesting level of 25% in a typical FTSE 100 company. However most of these organisations have an LTIP maximum award of 200% of salary or more, whereas ours remains at 100% of salary. Therefore the actual percentage of salary vesting for threshold performance of 50% is similar to typical practice. The Committee does not feel it is appropriate to operate a highly leveraged package at this stage in Royal Mail's development and therefore does not want to increase the LTIP opportunity in order to correspondingly reduce the level of vesting at threshold. Any future change in LTIP maximum award would of course be put to shareholders for approval.

#### Proposed policy

Awards are granted annually to Executive Directors in the form of a conditional share award.

These will vest at the end of a three year period subject to:

- the Executive Director's continued employment at the date of vesting; and
- satisfaction of the performance conditions.

Following the vesting, there is a holding period of two years when Executive Directors hold vested shares net of tax.

Malus provisions apply over the performance period.

Clawback will apply over the holding period.

Maximum award level of 100% of salary.

The Committee will normally award dividend equivalents on those shares to the extent that they vest.

Performance measures and/or weightings reflect the business strategy at the time, and are measured over three years.

The Committee may change the balance of the measures, or use different measures for subsequent awards, as appropriate.

For the 2016 award, 100% of the award will be dependent on TSR against the FTSE 100 (excluding mining and financial companies). If the Group's relative TSR performance is ranked at median, 50% of the award will vest, increasing to full vesting if performance is in the top quartile of the group.

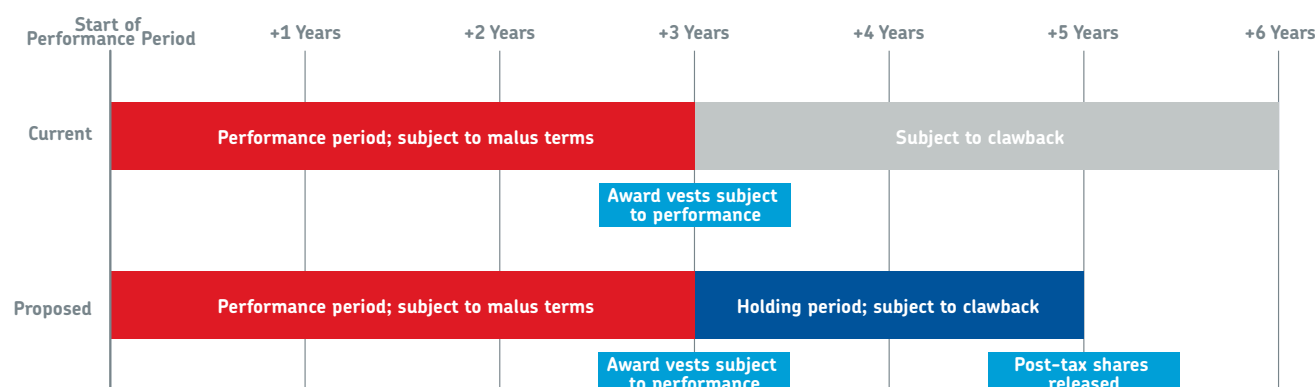
The addition of a two year holding period to the terms of the LTIP award further aligns the interests of Management with those of long-term shareholders.

The Committee will retain the discretion to make adjustments to the vesting of the LTIP resulting from the application of the performance measures if the Committee believes that the outcomes are not a fair and accurate reflection of underlying business performance. The Committee will consider its discretion very carefully taking account of underlying business performance during the three year vesting period and explain in full in the relevant Remuneration Committee Report the basis of its determination.

In exceptional circumstances the Committee retains the discretion to:

- vary or waive the performance conditions applying to LTIP awards if the Board considers it appropriate and that the new performance conditions are deemed reasonable and are not materially more or less difficult to satisfy than the original conditions;

### LTIP: current policy vs proposed policy:



## Shareholding guideline

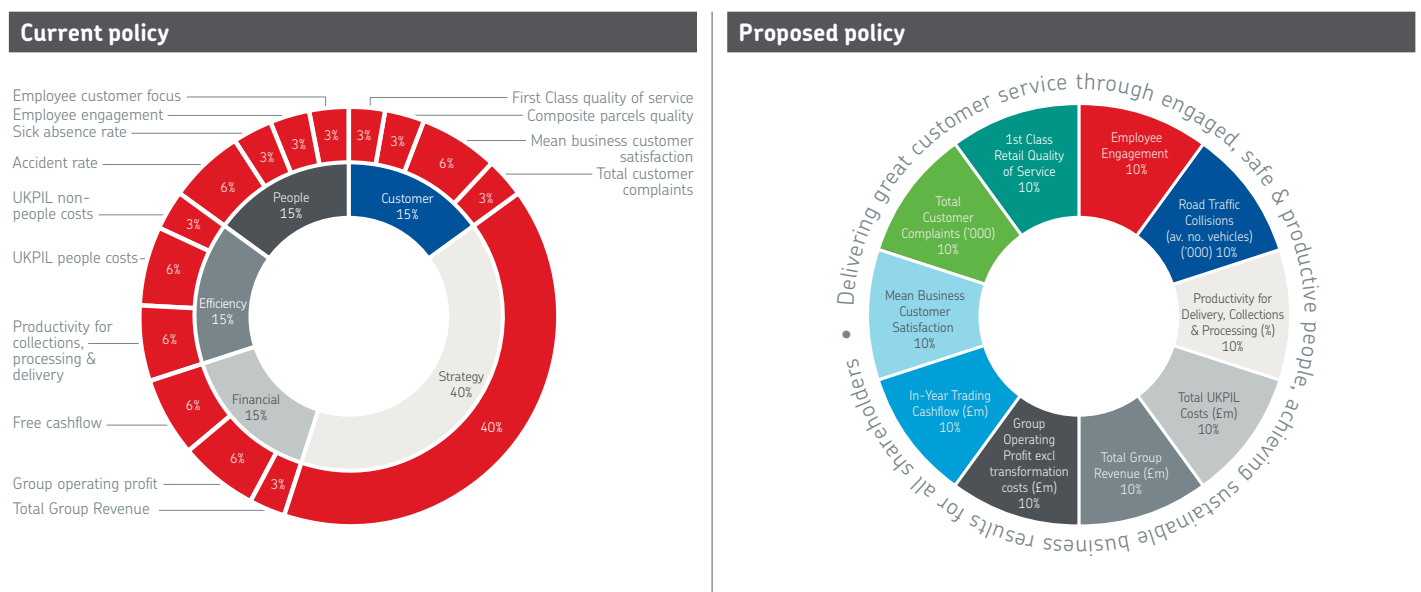
Operation	Maximum Opportunity	Performance Measures	Change from current policy and rationale
<b>Purpose &amp; Link To Strategy</b> To ensure alignment between remuneration and long-term shareholder value creation.			
<b>Current policy</b> Directors are expected to keep any shares they already own and 50% of any shares released under the LTIP (after selling sufficient shares to meet any associated tax obligation) until this is achieved.	Shareholding guideline of 100% of salary	Not applicable	Shareholders have recently raised their expectations of the level of minimum shareholdings held by Executive Directors of listed companies.  Part of the rationale behind the new policy proposed by the Committee is to provide a larger element of the potential remuneration for the Company's Executive Directors in equity.
<b>Proposed policy</b> Directors are expected to keep any shares they already own and any shares released under the LTIP and the Deferred Share Bonus Plan (except for those sold to cover any tax and social security obligations) until this is achieved.	Shareholding requirement of 200% of salary	Not applicable	The Committee has therefore determined to increase the minimum shareholding requirement to 200% for the Executive Directors.  Due to the restrictions on share purchase at the IPO, and the fact that LTIPs have not previously vested in shares, the shareholding requirements for the Executive Directors will take a while to fulfil.  Now that Executive Directors can increase their shareholding requirement through both the LTIP and the deferred share award, it is intended that they will not sell any shares (other than to cover tax and social security) until they build up the required shareholding guideline.

## How do the KPIs for our annual bonus and LTIP link to the Group strategy?

### Annual bonus

A significant proportion of the performance in the annual bonus is measured through the Corporate Balanced Scorecard. This scorecard tracks a range of short-term measures that are critical to the creation of long-term, sustainable shareholder value and the delivery of our strategy. The Committee is proposing to simplify the number of metrics that comprise the scorecard to sharpen Management focus on the most important targets. Specific quadrants are removed under this new approach. However, the metrics continue to focus on our people, customer, efficiency and financial performance. All Executive Directors and CEC members participating in this plan are also set strategic and/or personal objectives that reflect the priorities of their respective roles.

The current scorecard is shown below, with the proposed policy shown on the right hand side:



The Executive Directors will be assessed against a series of strategic objectives, in line with the Group Strategy described in pages 16-17 earlier in the Report. In summary, they are:

- Articulate the ambition for the Company for the next five years and define the route to achieving that vision.
- Defend the Letters business by managing the cost base of the core network effectively, continuing to transform the business to become more efficient, and stemming letters decline through initiatives.
- Continuing to evolve the Parcels business both in the UK and internationally to win more profitable business in a dynamic and highly competitive market place.
- Growing in new areas through acquisitions as well as leveraging our existing assets.
- Continue to refresh our approach to technology, defining a digital strategy which identifies and embraces technology relevant for our business' future.

### LTIP

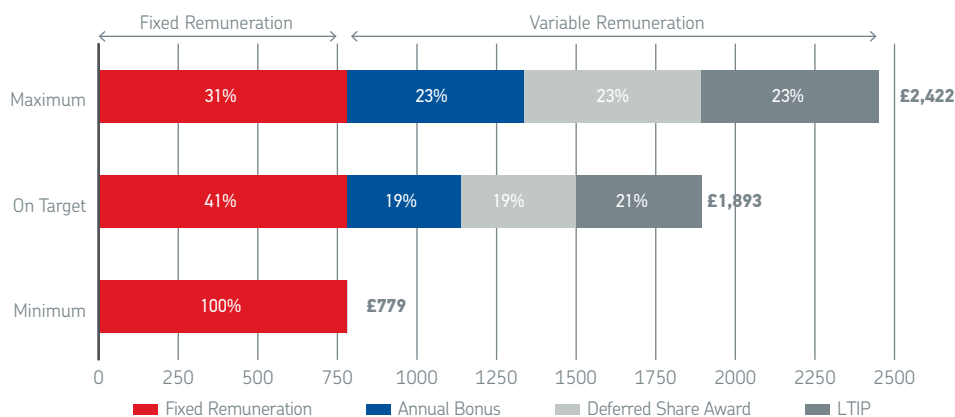
Under the proposed policy we are simplifying our LTIP by having a single metric directly reflecting shareholder value achieved, including dividends, relative to other large quoted companies.

The Committee believes relative TSR is an appropriate measure of strategy implementation over the next three years. It rewards the creation of value for shareholders through the successful execution of our strategy. TSR also reflects the importance of dividend yield to the Group's shareholders and the Company's commitment to a progressive dividend policy. In the event that the underlying financial performance of the Group is not reflected in the TSR performance, the Committee would retain discretion to adjust the award.

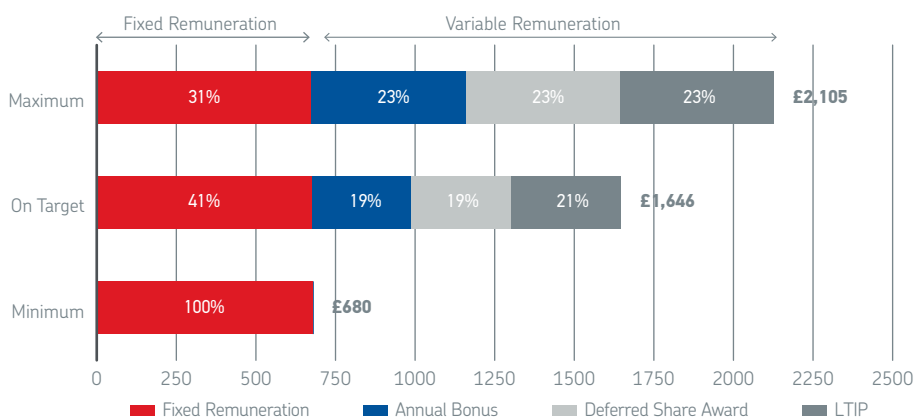
### What is the remuneration opportunity under the proposed policy?

The following charts set out the remuneration scenarios under the proposed policy for the Executive Directors.

#### CEO (£000s)



#### CFO (£000s)



#### Assumptions

**Minimum/fixed remuneration:** This includes salary (2016-17 salaries – CEO: £547,800, CFO: £475,000), pension (CEO: £200,000, CFO: 40% of salary) and benefits (CEO: £31,000, CFO: £15,000).

**On-target:**

Bonus: For the proposed bonus, on-target is taken as two-thirds of maximum (and the same value is used for the deferred share award)

LTIP: The expected value is taken as 70% of maximum.

**Maximum:**

Bonus: For the cash bonus and deferred share award this is 100% of salary

LTIP: For the proposed LTIP this is 100% of salary.

No assumptions have been made in relation to future share price movements or dividend reinvestments.

Element	Implementation of policy in 2016-17
<b>Base salary</b>	<p>Increase in base salary for the CFO from £454,065 to £475,000 with effect from 1 April 2016. This is the first increase the CFO has received since April 2014.</p> <p>As the Committee said in last year's Report, there is no change to the salary of the CEO.</p>
<b>Benefits</b>	No change to benefit provision for 2016-17
<b>Pension</b>	No change to pension provision for 2016-17
<b>Annual bonus</b>	<p>The maximum total annual incentive opportunity for the Executive Directors will be 200% of salary, per proposed policy, half delivered in cash and half in deferred shares.</p> <p>For the 2016-17 annual bonus, 80% of the award will be based on the achievement against the scorecard, of which at least 50% of the measures will be financial, with the remainder focused on operational, customer and people-related targets. 20% of the award will be based on achievement against strategic objectives.</p> <p>The Committee is of the opinion that given the commercial sensitivity arising in relation to the detailed financial targets used for the annual bonus, disclosing precise targets for the annual bonus in advance would not be in shareholder interests. Actual targets, performance achieved and awards made will be published at the end of the performance periods so shareholders can fully assess the basis for any pay-outs under the Plan.</p>
<b>LTIP</b>	<p>The Executive Directors will be eligible for an award equivalent to 100% of salary, which is relatively low compared to the external market.</p> <p>100% of the award will be based on the Group's relative TSR performance against the FTSE 100 (excluding mining and financial companies).</p> <p>The vesting schedule will measure the Group's performance over three years as follows:</p> <ul style="list-style-type: none"> <li>• 50% of salary will vest if TSR performance is equal to the median TSR of the companies in the comparator group;</li> <li>• maximum vesting will occur if TSR is equal to, or greater than, the upper quartile TSR of the comparator group;</li> </ul> <p>The award is subject to straight line vesting between these two points.</p> <p>In the event that the underlying financial performance of the Group is not reflected in the TSR performance, the Committee would retain discretion to adjust the award.</p>
<b>Shareholding guidelines</b>	200% of salary for Executive Directors.

## Have shareholders been engaged in the design of this proposed policy?

The Chair of the Committee has engaged with many of our larger shareholders to explain the proposed changes to the Remuneration Policy, the reasons for those changes and the desired outcomes. Shareholders were generally positive in their comments and made constructive suggestions for improving the proposals. We have taken this feedback into account in arriving at our final proposal.

## What would the remuneration arrangements be for a new Executive Director?

Salaries for new Executive Directors appointed to the Board will be set in accordance with the terms of the approved Remuneration Policy in force at the time of appointment. In particular, they will take account of the appointee's skills and experience as well as the scope and market rate for the role.

Benefits consistent with those offered to other Executive Directors under the approved Remuneration Policy in force at the time of appointment will be offered, including the discretion to offer additional benefits such as relocation allowance on recruitment. Pensions for new Executive Directors appointed to the Board will be set in accordance with the terms of the approved Remuneration Policy in force at the time of appointment, and will typically be up to the median of the market and will be lower than the pension provision for our existing Executive Directors.

Incentive arrangements for new Executive Directors will be in accordance with the approved Remuneration Policy in force at the time of appointment. This means the maximum total annual incentive opportunity award in any year would be 200 per cent of salary and the maximum LTIP award would be 100 per cent of salary, (with the ability to offer up to 200 per cent of salary for the year of recruitment) if the proposed policy is approved.

For an externally appointed Executive Director, the Company may offer additional cash or share-based payments that it considers necessary to buy out current entitlements from the former employer that will be forfeited on recruitment. Any such arrangements would reflect the type of award e.g. cash or shares, time horizons and levels of conditionality of the remuneration lost. In order to facilitate buy-out arrangements, existing incentive schemes will be used to the extent possible, and the Committee will retain discretion on the application of holding periods, performance conditions and performance periods.

For an internally appointed Executive Director, any outstanding variable pay element, such as a long-term incentive plan awarded in respect of the prior role will continue on its original terms.

The fees for Non-Executive Directors appointed will be set in accordance with the terms of the approved Remuneration Policy in force at the time of appointment.

The Committee always seeks to ensure that any remuneration package is set such that the Company is able to attract the right calibre of individual required, whilst taking account of affordability, and therefore must be allowed to exercise its judgement.

### What are the Executive Directors' terms of employment?

The Executive Directors are employed under service contracts. The dates of these contracts are:

	Date of Contract	Unexpired Term (months)
Moya Greene	15 July 2010	12
Matthew Lester	24 November 2010	12

The contracts have an indefinite term that may be terminated by the Executive Directors with six months' written notice. The Company can terminate contracts with 12 months' notice. Copies of the Executive Directors' service contracts are available for inspection at the Company's AGM.

### What happens when an Executive Director leaves?

Moya Greene's contract dates from her appointment to the Company in 2010. As disclosed in the Prospectus, her contract may be terminated immediately by the Company. Unless the Company terminates the contract due to gross misconduct or a material breach of the obligations under the service contract, it would be required to make a payment equalling 12 months' base salary and an annual cash bonus referable to the 12 month period in which the termination occurs. The assessment of the annual bonus award would be made in line with normal practice for determining bonuses. The bonus provision is not replicated in any other contracts and would not be part of the terms of appointment of a new Executive Director.

Under Matthew Lester's service contract and the policy for future hires, the Company may terminate the contract by making a payment in lieu of any unexpired notice period. The payment in lieu of notice is limited to a maximum of 12 months' base salary.

Payment in lieu of accrued holiday, incidental expenses and outplacement services may be paid/provided for as appropriate. Any statutory entitlements or sums to settle or compromise claims in connection with a termination (including, at the discretion of the Committee, reimbursement for legal advice) would be paid as the Committee considers necessary.

The Company has an explicit policy on mitigation. Future service contracts for Executive Directors will include express provisions for the use of monthly phased payments, a requirement for the departing executive to seek to mitigate any loss and a reduction in amounts paid if the executive obtains alternative paid employment.

The following table sets out the position under the incentive plans on cessation of employment:

	Good Leaver Reason <sup>1</sup>	Other Reasons <sup>2</sup>	Committee Discretion
<b>Annual bonus: cash awards</b>	Performance conditions will be measured at the bonus measurement date. Bonus will normally be pro-rated.	No bonus payable for year of cessation.	<ul style="list-style-type: none"> <li>to determine that an executive is a good leaver; and</li> <li>to determine whether to pro-rate the bonus to time. The normal policy is that bonus will be pro-rated; provided that where any discretion is exercised, there is an appropriate business case which will be explained in full to shareholders.</li> </ul>
<b>Annual bonus: deferred share awards</b>	All subsisting deferred share awards will normally vest on the normal vesting date.	Lapse of any unvested deferred share awards.	<ul style="list-style-type: none"> <li>to determine that an executive is a good leaver;</li> <li>to vest deferred shares at the date of cessation of employment;</li> <li>to determine whether to pro-rate the award to time. The normal policy for existing awards is that they will not be pro-rated; provided that where any discretion is exercised, there is an appropriate business case which will be explained in full to shareholders; and</li> <li>In respect of the year of cessation, discretion may be exercised to provide a pro-rated deferred share award based on achievement of performance conditions as measured at the bonus measurement date.</li> </ul>
<b>LTIP</b>	Pro-rated to time and performance in respect of each LTIP award. Awards will vest on the normal vesting date and the holding period will apply, except in the case of death when awards will vest on date of cessation of employment (and no holding period will apply).	Lapse of any unvested LTIP awards.	<ul style="list-style-type: none"> <li>to determine that an executive is a good leaver;</li> <li>to measure performance over the original performance period or at the date of cessation of employment;</li> <li>to vest the shares on date of cessation of employment;</li> <li>to determine whether to pro-rate the award to time. The normal policy is that awards will be pro-rated; and</li> <li>to disapply the holding period; provided that where any discretion is exercised, there is an appropriate business case which will be explained in full to shareholders.</li> </ul>

<sup>1</sup> A good leaver reason is defined as cessation in the following circumstances: death; injury, ill-health or disability, as established to the satisfaction of the Committee, redundancy with the agreement of the Committee, retirement with the agreement of the Committee, the company employing the executive ceasing to be a member of the Group, the business or part of the business to which the executive's office or employment relates being transferred to a person who is not a member of the Group, or any other reason where the Committee in its discretion so permit

<sup>2</sup> Cessation of employment in circumstances other than those set out above is cessation for other reasons

## What happens in the case of a takeover?

The Committee's policy on the vesting of incentives on a change of control is summarised below:

Name of Incentive Plan	Takeover	Discretion
<b>Annual bonus: cash awards</b>	Pro-rated to time and performance to the date of the takeover.	The Committee's normal policy is that it will pro-rate the bonus for time. It is the Committee's intention to use its discretion to not pro-rate in circumstances only where there is an appropriate business case which will be explained in full to shareholders.
<b>Annual bonus: deferred share awards</b>	Subsisting deferred share awards may vest on a takeover.	The Committee has discretion regarding whether to pro-rate the award to time. The Committee's normal policy is that it will not pro-rate awards for time. The Committee will make this determination depending on the circumstances of the takeover.
<b>LTIP</b>	Subsisting LTIP awards may vest on a takeover, pro-rated to time and performance.	The Committee will determine the proportion of the LTIP Award which vests taking into account, among other factors, the period of time the LTIP Award has been held by the participant and the extent to which any applicable performance conditions have been satisfied at that time.

In the event of a demerger, the Committee has wide flexibility as to what should happen to awards, including whether all or part of an award should vest and on what terms, or whether an award should continue on amended terms.

## How do the remuneration arrangements for Executive Directors compare with arrangements for employees across the Company?

When making decisions on the levels of remuneration for Executive Directors, the Committee takes account of pay increases and incentive awards for all employees. The Company does not use remuneration comparison measurements, such as pay ratios, nor have employees been consulted directly on the policy.

A number of different incentive schemes operate across the Company; as far as possible the metrics used for the Executive Directors to assess performance for those schemes are cascaded through the Company.

## What is the Company's policy on Directors holding external positions?

It is the Company's policy to allow each Director to accept one Non-Executive Director position on the board of another company. The fees for such appointments are retained by the Executive Directors and are disclosed on page 78.

## What is the Remuneration Policy for the Chairman and Non-Executive Directors?

Operation	Opportunity	Performance metrics
<b>Chairman and Non-Executive Directors Policy</b>		
<b>Purpose &amp; Link To Strategy</b>		
Provides a level of fees to support recruitment and retention of Non-Executive Directors and a Chairman with the necessary experience to fulfil the leadership role required of them.		
The Board is responsible for setting the remuneration of the Non-Executive Directors. The Remuneration Committee is responsible for setting the Chairman's fees.	The fees for Non-Executive Directors and the Chairman are set at broadly the median of the comparator group.	None
Non-Executive Directors are paid an annual fee and additional fees for chairmanship of committees. The Chairman does not receive any additional fees for membership of committees.	In general, the level of fee increase for the Non-Executive Directors and the Chairman will be set taking account of any change in responsibility and will take into account the general rise in salaries across the UK workforce.	
Fees are reviewed annually based on equivalent roles in the comparator group used to review salaries paid to the Executive Directors. Fees are set at broadly the median of the comparator group.	The Company will pay reasonable expenses incurred by the Non-Executive Directors and Chairman and may settle any tax incurred in relation to these.	
Non-Executive Directors and the Chairman do not participate in any variable remuneration or benefits arrangements.		

## What are the terms of appointment for the Chairman and Non-Executive Directors?

The Non-Executive Directors (including the Chairman) are appointed by rolling letters of appointment. The Non-Executive Directors are appointed for up to three years, subject to annual review and re-election. One month's notice is required by either party (four months' notice in the case of the Chairman). The dates of the Chairman's and Non-Executive Directors' letters of appointment are set out in the following table.

	Date of Contract	Unexpired Term (months)
Peter Long	18 June 2015	26
Donald Brydon	20 September 2013	Resigned 31 August 2015
John Allan	20 September 2013	Resigned 30 April 2015
Nick Horler	20 September 2013	4
Cath Keers	20 September 2013	4
Paul Murray	20 September 2013	4
Orna Ni-Chionna	20 September 2013	4
Les Owen	20 September 2013	4

The Company follows the Code's recommendation that all directors of FTSE 350 companies be subject to annual re-appointment by shareholders.

## Which of the Board members sit on the Remuneration Committee, and how frequently do they meet?

	Number of meetings eligible to attend	Number of meetings attended
<b>Total number of meetings</b>	6	
<b>Chair</b>		
Orna Ni-Chionna	6	6
<b>Members</b>		
Donald Brydon	2	2
Peter Long	4	4
Paul Murray	6	6
Les Owen	6	5 <sup>1</sup>

<sup>1</sup> Les Owen was unable to attend the Committee meeting on 16 December 2015 due to a prior engagement

Meetings of the Committee were also attended, where relevant, by the Chief Executive Officer, Group HR Director, Company Secretary, the Group Reward and Recognition Director, and other members of senior management and representatives from the executive remuneration consultants PwC.

No individual was present when matters regarding their own remuneration were discussed.

### What is the role of the Remuneration Committee?

- To determine and recommend for the Board's approval the framework for the remuneration of the senior executives of the Group;
- To determine the individual remuneration arrangements for the Chairman, the Executive Directors and the Company Secretary; and
- To agree the targets for any performance-related incentive schemes applicable to senior executives.

The full Terms of Reference for the Committee can be found on our website:

<http://www.royalmailgroup.com/about-us/management-and-committees/remuneration-committee>.



## Annual report on Directors' remuneration

This part of the Directors' Remuneration Report sets out details of how the current Remuneration Policy has been applied for the Financial Year 2015-16. This detailed information, set out below and on the following pages, has been audited by the Company's independent auditors, KPMG LLP.

### Single figure for total remuneration

£'000	Salary/ Fees <sup>1</sup>		Benefits <sup>2</sup>		Annual Bonus Plan <sup>3</sup>		Long Term Incentive Plan <sup>4</sup>		Pension <sup>5</sup>		Other		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
<b>Chairman</b>														
Peter Long <sup>6</sup>	185	–	–	–	–	–	–	–	–	–	–	–	185	–
Donald Brydon <sup>7</sup>	96	210	–	–	–	–	–	–	–	–	–	–	96	210
<b>Executive Directors</b>														
Moya Greene	548	510	31	29	448	433	302	350	200	200	–	–	1,529	1,522
Mark Higson	–	135	–	5	–	80	115	226	–	54	–	316	115	816
Matthew Lester	454	454	15	15	367	359	259	301	182	182	–	–	1,277	1,311
<b>Non-Executive Directors</b>														
John Allan <sup>8</sup>	4	45	–	–	–	–	–	–	–	–	–	–	4	45
Jan Babiak <sup>9</sup>	–	3	–	–	–	–	–	–	–	–	–	–	–	3
Nick Horler	50	45	–	–	–	–	–	–	–	–	–	–	50	45
Cath Keers	50	45	–	–	–	–	–	–	–	–	–	–	50	45
Paul Murray	65	60	–	–	–	–	–	–	–	–	–	–	65	60
Orna Ni-Chionna	75	70	–	–	–	–	–	–	–	–	–	–	75	70
Les Owen	60	55	–	–	–	–	–	–	–	–	–	–	60	55
<b>TOTAL</b>	<b>1,587</b>	<b>1,632</b>	<b>46</b>	<b>49</b>	<b>815</b>	<b>872</b>	<b>676</b>	<b>877</b>	<b>382</b>	<b>436</b>	<b>–</b>	<b>316</b>	<b>3,506</b>	<b>4,182</b>

<sup>1</sup> Moya Greene's salary was increased on 1 January 2015 from £498,000 to £547,800. The 2014-15 salary above is 9/12ths of £498,000 (her previous salary) and 3/12ths of £547,800. Moya Greene has received no further increase in her base salary since 1 January 2015

<sup>2</sup> Benefits include medical insurance and car allowance. The figure for Moya Greene also includes return flights to Canada

<sup>3</sup> Bonuses are determined based on the salary as at 1 January 2016 in line with the Company's policy for all staff. All bonus payments are made in cash

<sup>4</sup> The current year figure relates to the 2013 LTIP award. The prior year figure relates to the 2012 LTIP award, which was based on performance to 29 March 2015

<sup>5</sup> For Moya Greene, £40,000 is paid into the Royal Mail Defined Contribution Plan and the remaining £160,000 is paid as an allowance. The full amount for Matthew Lester is paid as an allowance

<sup>6</sup> Peter Long was appointed to the Board as a Non- Executive Director on 18 June 2015 and became Chairman on 1 September 2015

<sup>7</sup> Donald Brydon resigned from the Board on 31 August 2015

<sup>8</sup> John Allan resigned from the Board on 30 April 2015

<sup>9</sup> Jan Babiak resigned from the Board on 29 April 2014

The following sections outline how the data in the table above was determined, with regard to base salary and incentives.

### Were base salaries reviewed in the year?

During the course of our Remuneration Policy review, the Committee considered the relative competitiveness of the current packages for our Executive Directors. Although no change was made during 2015-16, it was agreed that Matthew Lester's salary should be increased from 1 April 2016. The Committee agreed to apply an increase of £20,935 (4.6 per cent), taking his salary to £475,000. This is the first salary increase that Matthew Lester has been awarded since April 2014. Moya Greene's salary was left unchanged since January 2015.

This compares to salary increases for frontline staff over the last four years as shown below:

% increase in salary	2016-17	2015-16	2014-15	2013-14	2012-13
<b>Moya Greene</b>	0%	10%	0%	0%	0%
<b>Matthew Lester</b>	4.6%	0%	6%	0%	0%
<b>Average frontline employee</b>	Under negotiation	2.8%	3%	3%	3.5%

With this most recent change, Matthew Lester's total salary increases since joining Royal Mail in 2012 amount to 10.6 per cent. Our frontline employees have received an increase of 12.3 per cent up to 2015-16, with a further salary increase for the coming year still under negotiation.

## What was the outcome of the annual bonus?

The performance period for the annual bonus is the same as the financial year, with achievement being assessed against a range of financial and non-financial targets, as set out in the Corporate Balanced Scorecard, and against a set of personal objectives. The maximum bonus opportunity for the CEO and CFO was 100 per cent of salary.

The table below contains a summary of the performance metrics which are used to determine the annual bonus award for the CEO and CFO.

## Corporate Balanced Scorecard

	Weighting	Measure	Threshold	Target	Max	Actual	Outcome	Segment Outcome
Financial	3%	Total Group revenue (£m)	8,708	8,886	9,067	9,191	5.0%	25.0%
	6%	Group operating profit before transformation costs (£m)	482	567	667	738	10.0%	
	6%	Free cashflow (£m)	165	206	258	315	10.0%	
Efficiency	6%	Productivity for delivery, collections & processing (%)	1.7	2.1	2.5	2.4	9.0%	22.2%
	6%	UKPIL people costs (£m)	(4,928)	(4,829)	(4,733)	(4,764)	8.7%	
	3%	UKPIL non-people costs (£m)	(2,377)	(2,329)	(2,282)	(2,294)	4.5%	
Customer	3%	First Class Quality of Service (%)	92	93.0	93.5	92.6	2.4%	9.9%
	3%	Composite parcels Quality of Service (%)	94.4	95.4	95.9	94.4	1.5%	
	6%	Mean business customer satisfaction	75	76	77	76	6.0%	
	3%	Complaints ('000)	451	430	411	476	0.0%	
People	6%	Lost time accident rate frequency rate reduction (%)	0	7	12	30	10.0%	15.9%
	3%	Sick absence rate (%)	4.70	4.50	4.30	4.51	2.9%	
	3%	Employee engagement	55	57	58	57	3.0%	
	3%	Employee customer focus (%)	68	69	70	67	0.0%	
Strategic Objectives	40%	See below for key highlights (for more details on our progress against our strategic priorities. Please see pages 16-17)	50%	100%	167%	150%	60.0%	
% of the Scorecard	100%							133.0% of target
As a % of the bonus	80%							63.8% of salary

**Strategic objectives:** for the 2015-16 bonus, we placed a strong focus on incentivising delivery against our strategic priorities, accounting for 40 per cent of our corporate scorecard. Summarised below are some of the key achievements that demonstrate the progress made during the year:

**Winning in parcels:** in the UK we have maintained our pre-eminent position in parcels, with a three per cent increase in parcel volume and one per cent revenue growth. We also have revenue growth of nine per cent in GLS. Key points include:

- Opening our network for longer by pushing back our latest acceptance times;
- Winning major new retail accounts including John Lewis, M&S, Urban Group and Waterstones and growing our business with existing customers, such as ASOS;
- Extending our tracked products services: e.g. Royal Mail International Tracked & Signed is now available to 54 destinations; and
- Extending our strategic service with Alibaba, linking Chinese exporters with UK online shoppers, allowing them to supply goods for UK delivery much more quickly.

**Defending letters:** over the year, addressed letter volumes decreased by three per cent – better than our forecast range of a four to six per cent decline per annum due to:

- Promoting the value of marketing mail through MarketReach's MAILMEN campaign; and
- Implementing processes ensuring mail is handled efficiently e.g. improved large letter sorting machines and upgraded Optical Character Reading technology to sort more mail automatically.

**Growing in new areas:** this has seen us exploit our existing assets e.g. offering fleet maintenance services to third parties and make targeted acquisitions to explore opportunities for expansion in growing sectors of the market and/or to further develop organisational capability in digital/e-commerce space. Acquisitions include Intersoft, NetDespatch and a stake in Market Engine.

This commercial activity is enabled by:

**A strategic focus on costs:** we have scoped over 70 projects to target to avoid over £500 million of additional annualised costs by 2017-18 in UKPIL.

**Investing in technology to support our transformation:** we have commenced the roll out of new sorting machines for small parcels and 76,000 PDAs across our operation in addition to 3,000 finger scanners. These investments will help to transform management and customer information e.g. with better tracking.

**An engaged and motivated workforce:** continued to promote culture change through many initiatives including joint training for over 6,000 managers and union representatives in our Together for Growth programme promoting better dialogue and collaborative working. Through this and other initiatives, only 325 days were lost due to unballoted strikes in 2015-16, a reduction of 37 per cent compared to the previous year.

**Personal objectives (20% of the bonus):** both the CEO's and CFO's personal objectives are linked to their specific roles in the implementation of the strategy. For the CEO:

- Seeking ways to mitigate increasingly competitive market place (see above for evidence);
- Develop and implement workforce strategy including continue to deliver initiatives which support cultural change, enhancing managerial capability through a more effective talent pipeline and promoting diversity;
- Seeking new revenue sources: focusing on winning new customers in existing markets and looking to grow new revenue opportunities in new adjacent market; and
- Channel strategy: including expanding customer products and services including expanding our Local Collect network – the largest UK network of click and collect locations and working with Post Office Limited, to improve our customers' experience.

For the CFO:

- Increasing efficiency and a wholesale review of all costs (see above for evidence);
- Driving transformation initiatives including parcel automation (see above for evidence);
- Channel strategy in partnership with the CEO; and
- Develop new revenue sources in partnership with the CEO.

Performance against these personal objectives has been assessed by the Committee and the following level of satisfaction determined:

Personal objectives	Max % of salary	Actual % of salary		Max % of salary	Actual % of salary
CEO	20%	18%	CFO	20%	17%

When added to the outcome of the Corporate Balanced Scorecard, the total bonus value, and the percentage of salary, were as follows:

Moya Greene: £448,379, 81.9 per cent of salary

Matthew Lester: £367,116, 80.9 per cent of salary

## What was the outturn of the 2013 LTIP?

The 2013 LTIP was granted as a cash award as it was made just prior to the IPO. Following the IPO, the awards were converted into shares at a conversion rate of £5.29.

The award itself was based on achievement against two performance conditions to be achieved by 27 March 2016. The tables below show the performance conditions and the vesting of this plan:

### Performance conditions:

Performance conditions	Definition	Target measurement period	Target	Vesting (% of award straight line sliding scale)
<b>Operating profit before transformation costs</b>	Operating profit of the Group before interest and taxation and before exceptional items as reported in the Annual Report and Accounts of the Company, adjusted for such other items or events as the Committee considers appropriate	Financial year 2015-16	£573m – £654m	0 – 80
			£654m	80
			£654m – £818m	80 – 100
			£818m	100
			£818m – £982m	100 – 140
			£982m	140
<b>ROTA</b>	Return (Adjusted Operating Profit <sup>1</sup> ) on total net operating assets of the Group as reported in the Annual Report and Accounts of the Company expressed as a percentage as determined by the Committee	Financial year 2015-16 <sup>2</sup>	<17.55%	0
			17.55% – 21.06%	Restriction on vesting to 50%
			>21.06%	No restriction on vesting

<sup>1</sup> The operating profit for ROTA purposes is adjusted for the interest cost charges embedded in the Group's operating leases

<sup>2</sup> The average of 13 periods, being with the opening balance sheet plus 12 monthly periods

**Actual achievement:**

Measure	Threshold	Target	Outcome	2013-14 LTIP vesting (as % of Target)	Resulting Share Awards	
					Moya Greene	Matthew Lester
Operating profit before transformation costs	£573m	£818m	£680m*	83.1%	60,509	52,003
ROTA	17.55%	21.06%	22.17%			

\*Operating profit before transformation costs, adjusted to reflect the pension service rate and foreign exchange rate assumed in the 2013 business plan

The resulting share awards also include the dividends that were paid during the performance period, since IPO, and have been reinvested.

**What previous LTIP awards remain outstanding at the year end?**

The grant made for the 2014 LTIP remains outstanding. The performance conditions are:

Measure	Weighting	Threshold		Maximum	
		Performance	Vesting (% of award)	Performance	Vesting (% of award)
EPS	50%	9% CAGR	12.5%	21% CAGR	50%
Operating profit margin before transformation costs*	35%	–	8.75%	–	35%
TSR versus FTSE100 (excluding mining & financial companies)	15%	Median	7.5%	Top Quartile	15%

\*The precise figures are deemed to be commercially sensitive but will be disclosed on vesting of the award

The grant made for the 2015 LTIP remains outstanding. The performance conditions are:

Measure	Weighting	Threshold		Maximum	
		Performance	Vesting (% of award)	Performance	Vesting (% of award)
EPS	50%	40.8 pence achieved in respect of 2017-18 financial year	12.5%	44.7 pence achieved in respect of 2017-18 financial year	50%
Operating profit margin before transformation costs*	35%	–	8.75%	–	35%
TSR versus FTSE100 (excluding mining & financial companies)	15%	Median	7.5%	Top Quartile	15%

\*The precise figures are deemed to be commercially sensitive but will be disclosed on vesting of the award

The amount of the awards outstanding, for each of the Executive Directors, is shown in the following table, as at 27 March 2016:

Measure	Year	Type	Maximum value of award at grant (% salary)	Maximum value of award at grant (£'000)	% vesting at threshold performance (% of salary)	Final year of performance period	Number of shares
Moya Greene	2014	LTIP shares	98%	488	28%	2016-17	108,357
	2015	LTIP shares	98%	537	28%	2017-18	105,057
Matthew Lester	2014	LTIP shares	98%	445	28%	2016-17	98,797
	2015	LTIP shares	98%	445	28%	2017-18	87,080

## Following these LTIP awards, what are the current shareholding levels of the Board?

The table below sets out details of the shareholdings of the Executive and Non-Executive Directors at 27 March 2016. There has been no change in the Directors' interests in the ordinary share capital of the Company between 27 March 2016 and 27 May 2016, except as noted in (2) below.

	Shareholding guideline	Number of shares owned outright on 27/03/16	Number of shares owned outright on 29/03/15	Value of shares owned outright on 27/03/16 <sup>1</sup>	Number of options granted under SAYE plan	Conditional share awards subject to performance conditions (LTIP 2013, 2014, 2015) <sup>2</sup>
<b>Chairman</b>						
Donald Brydon <sup>3</sup>	–	15,530	15,530	–	–	–
Peter Long	–	50,000	–	–	–	–
<b>Executive Directors</b>						
Moya Greene	100%	3,862	3,759	£18,333	590	279,294
Matthew Lester	100%	3,862	3,759	£18,333	590	242,497
<b>Non-Executive Directors</b>						
John Allan <sup>4</sup>	–	3,257	3,257	–	–	–
Nick Horler	–	3,313	3,173	–	–	–
Cath Keers	–	3,030	3,030	–	–	–
Paul Murray	–	15,617	15,477	–	–	–
Orna Ni-Chionna	–	3,313	3,173	–	–	–
Les Owen	–	3,030	3,030	–	–	–

<sup>1</sup> Value based on closing share price on 27/03/16

<sup>2</sup> Shares include those which have subsequently vested following the end of the performance period

<sup>3</sup> Shareholding as at 31 August 2015

<sup>4</sup> Shareholding as at 30 April 2015

Data is reported prior to the sale of shares required to cover tax obligations.

The impact of LTIPs previously vesting in cash rather than shares means that it will take some time for the Executive Directors to achieve the minimum required level of shareholding guideline.

## Were any payments made for loss of office?

Donald Brydon resigned from his position as Non-Executive Director of the Board on 31 August 2015 and John Allan resigned from his position as a Non-Executive Director of the Board on 30 April 2015. No payments were made in respect of loss of office.

## Were any payments made to past Directors in the year?

Mark Higson left the Company on 24 July 2014; for the LTIPs that he participated in he was granted 'good leaver' status. The value of the 2013 award that he remained eligible for is based on the prior table outlining the vesting, and using a pro-rated calculation of 44 per cent, being the time served during the performance period.

His total vested award is 23,133 shares, including reinvested dividends. Using the closing share price on the day of vesting, this gives a value of £115,457.

## Did the Executive Directors receive fees from external appointments?

The Executive Directors are entitled to receive fees from external appointments. Moya Greene was a Director at Great-West Lifeco Inc. and received fees of £48,000 (sterling equivalent) for the last reported financial year. Moya Greene stepped down from her position on the Board of Great-West Lifeco in January 2016. Matthew Lester is a Non-Executive Director at Man Group plc and received fees of £95,000 for the last reported financial year.

## How does the change in the Chief Executive's pay compare to that for Royal Mail employees?

The table overleaf shows the percentage change in the Chief Executive's salary, benefits and annual bonus between 2014-15 and 2015-16, compared with the average for all employees across the Group.

	Chief Executive Officer Moya Greene			Average Of All Employees		
	2015-16	2014-15	% Change	2015-16	2014-15	% Change
Salary <sup>1</sup>	£547,800	£547,800	0.0%	£28,988	£28,690	1.0%
Benefits <sup>2</sup>	£31,000	£29,000	6.9%	£49	£48	0.9%
Annual bonus	£448,379	£432,762	3.6%	£920	£902	2.0%

<sup>1</sup> Full time equivalent salary including overtime and shift allowances

<sup>2</sup> All taxable benefits

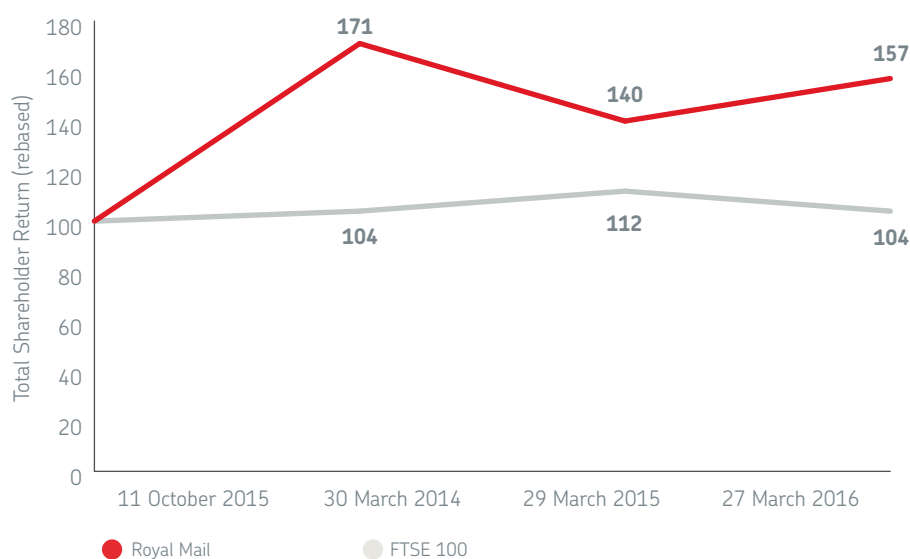
## What has the pay for the CEO been over the last seven years?

The total remuneration figure for the Chief Executive over the last seven years is shown in the table below. The annual bonus pay-out and LTIP vesting level as a percentage of the maximum opportunity is also shown.

	2009-10	2010-11	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
<b>Chief Executive Officer</b>	Adam Crozier	Adam Crozier	Moya Greene	Moya Greene	Moya Greene	Moya Greene	Moya Greene	Moya Greene
Total Remuneration (£'000)	858	2,428	778	1,107	1,962	1,360	1,522	1,529
Annual bonus award as % maximum	–	–	41%	74%	80%	77%	85%	82%
LTIP award as % maximum	–	100%	–	–	100%	100%	69%	59%

## How does TSR compare to that of other similar companies?

TSR is the measure of the returns that a company has generated for its shareholders, reflecting both movement in the share price and dividends, which are assumed to be reinvested, over a period of time. The following graph shows the TSR of the Company, since the date of the first day of trading, relative to the FTSE 100 Index. The FTSE 100 Index has been chosen for comparison as the Company has been a constituent of the Index for the majority of the period shown, and it provides a benchmark of the performance of other large UK listed companies.

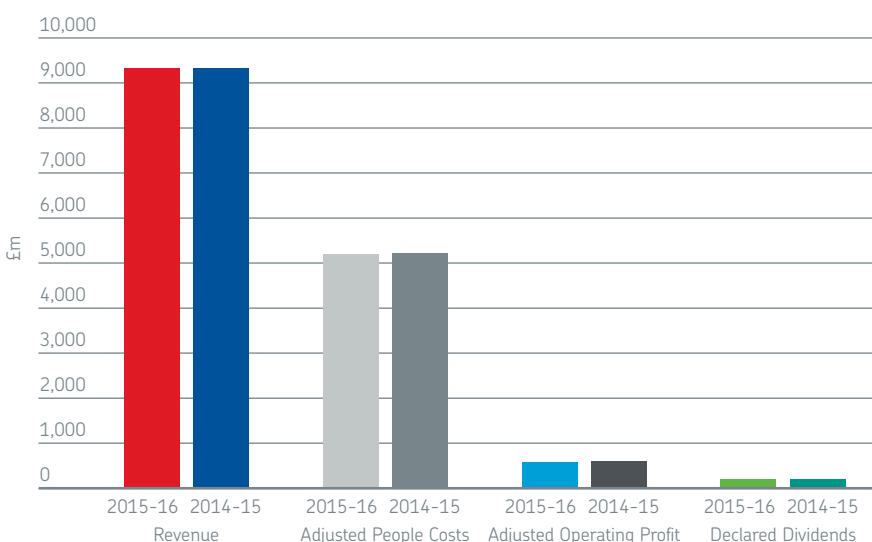


TSR over the Financial Year	2013-14*	2014-15	2015-16
Royal Mail plc	71%	-18%	12%
FTSE 100	4%	7%	-7%

\* The chart and table show performance since the first day of conditional trading following the IPO (11 October 2013); in accordance with the Code, they will show an increasing timeframe in the coming years

## How much does Royal Mail spend on pay?

The following chart shows the Company's actual spend on pay (for all employees) relative to dividends, revenue and operating profit. Revenue has been included because this measure represents the amount of money the Company received during the year and provides a clear illustration of the ratio of people costs to income.



## Does the Remuneration Committee seek advice from internal and external advisers?

The members of the Committee are Orna Ni-Chionna, Peter Long, Paul Murray and Les Owen.

The Committee takes information and advice from inside and outside the Company. Internal support was provided by Jon Millidge, the Group HR Director (supported by other members of the HR department as appropriate) and Kulbinder Dosanjh, the Company Secretary. No individual was present when matters relating to his or her own remuneration were discussed.

Note: the data used for Revenue and Adjusted Operating Profit in the chart is not adjusted for foreign exchange movement, which is included in the outturn for the Scorecard

The Committee seeks advice from independent external advisers as appropriate. The appointed advisers, PwC, were selected through a competitive tendering process, led by the Chair of the Remuneration Committee, and appointed in October 2014. PwC provided information to the Committee regarding external market trends and advice on executive remuneration design. The total fees paid for advice to the Committee were £201,075.

PwC has provided tax, technology, finance, operations, regulatory and strategic consulting services to the Group in the financial year.

PwC are signatories to the Remuneration Consultants Code of Conduct and report directly to the Chair of the Committee. The Chair of the Committee meets regularly with its advisers without Management present. The Committee is satisfied that the advice it receives is objective and independent.

## 2015 Voting By Shareholders

The table below shows the advisory vote on the 2014-15 Remuneration Report at the AGM on 23 July 2015.

Number of votes cast	For	Against	Withheld
525,689,690	499,637,018	26,052,672	152,184,245
	95.04%	4.96%	

Approved by the Board on 18 May 2016 and signed by

**Orna Ni-Chionna**  
Chair, Remuneration Committee

# Directors' report

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

## Strategic report

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

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

Index	Page
Business model	14
Strategy for delivering objectives	16
Results	4
Financial assets and liabilities	91
Principal risks	32
Corporate responsibility	37
Greenhouse gas emissions	40
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Viability Statement	35
Long-Term Incentive Plans*	115
Statement of the amount of interest capitalised*	111 and 112
Dividend waiver*	81

## Disclosure and Transparency Rules

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

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

## Corporate governance statement

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

## Dividends

### Final dividend

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

### Dividends and distribution

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

### Dividend waivers

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

### Political donations

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

## Future developments

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

## Share capital

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

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

## Rights and obligations attaching to shares

### Voting

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

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

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

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



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

Voting instructions may be submitted electronically at [www.sharevote.co.uk](http://www.sharevote.co.uk) by following the online instructions.

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

#### Deadline for voting rights

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

#### Special rights

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

#### Transfer of shares

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

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

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

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

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

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

#### Authority of the Directors to allot shares

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

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

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

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

#### Purchase of own shares by the Company

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

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

#### Employee Benefit Trust

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

#### Substantial shareholdings

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

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

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

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

#### Amendment to the Company's Articles of Association

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

#### Indemnity of Directors

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

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

#### Appointment and replacement of Directors

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

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

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

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

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

### Directors and their interests

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

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

### Powers of the Directors

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

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

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

### Events after the reporting period

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

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

### Financial risk management

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

### Change of control

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

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

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

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

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

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

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

### Branches

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

### New products and services

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

### Environmental social and governance risks

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

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

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

## Going concern

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

## Viability Statement

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

## Audit information

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

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

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

## Disclaimer

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

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

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

By Order of the Board

**Kulbinder Dosanjh**  
Company Secretary  
18 May 2016

Royal Mail plc  
100 Victoria Embankment  
London  
EC4Y OHQ

Company number 08680755

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

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

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

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

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

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

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

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

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

Each of the Directors, whose names and function are set out on pages 43-45 confirm that, to the best of their knowledge:

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