

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.

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.

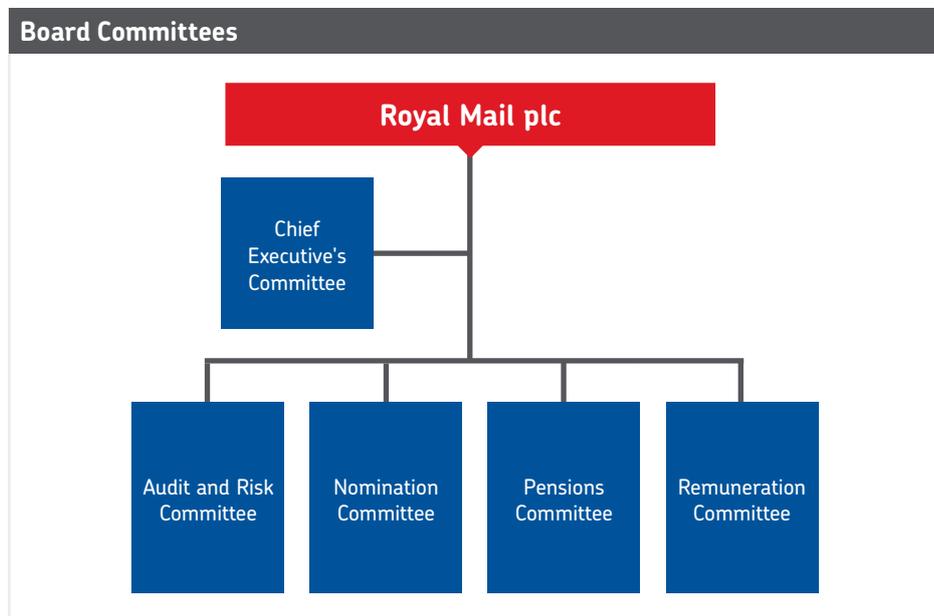
Director induction and training

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.

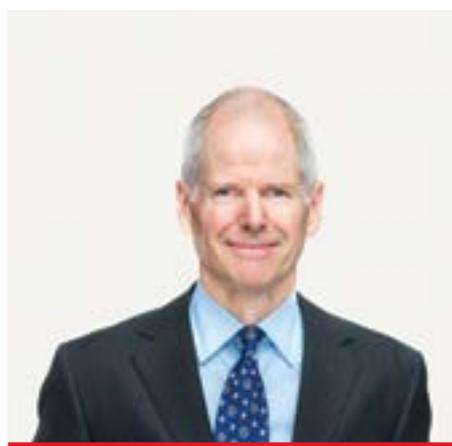
However, Peter Long, the new Chairman, believed that it would be prudent to engage Independent Board Evaluation to review the effectiveness of the Board and the Remuneration Committee.

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	
Chair		
Paul Murray	5	5
Members		
Nick Horler	5	5
Orna Ni-Chionna	5	4 ¹
Les Owen	5	5
Cath Keers	5	5

¹ 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

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	What the Committee did
<p>Ofcom investigation (Contingent liability, see note 25 on page 133)</p> <p>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.</p>	<p>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.</p> <p>We reviewed and challenged Management's assessment of the issue with reference to the accounting standards.</p> <p>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.</p>
<p>French Competition Authority investigation (€55 million, see note 22 on page 131 and note 27 on page 135)</p> <p>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.</p> <p>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.</p>	<p>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.</p> <p>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.</p> <p>We will continue to seek updates from Management on the status of the appeal of the amount of the fine.</p>

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>Royal Mail Defined Benefit Pension Surplus (£3,430 million, see balance sheet and note 10 on page 105) 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>Industrial diseases claims provision (£78 million, see note 22 on page 131) 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>Impact of changing employment legislation (see Principal risks on page 32) 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

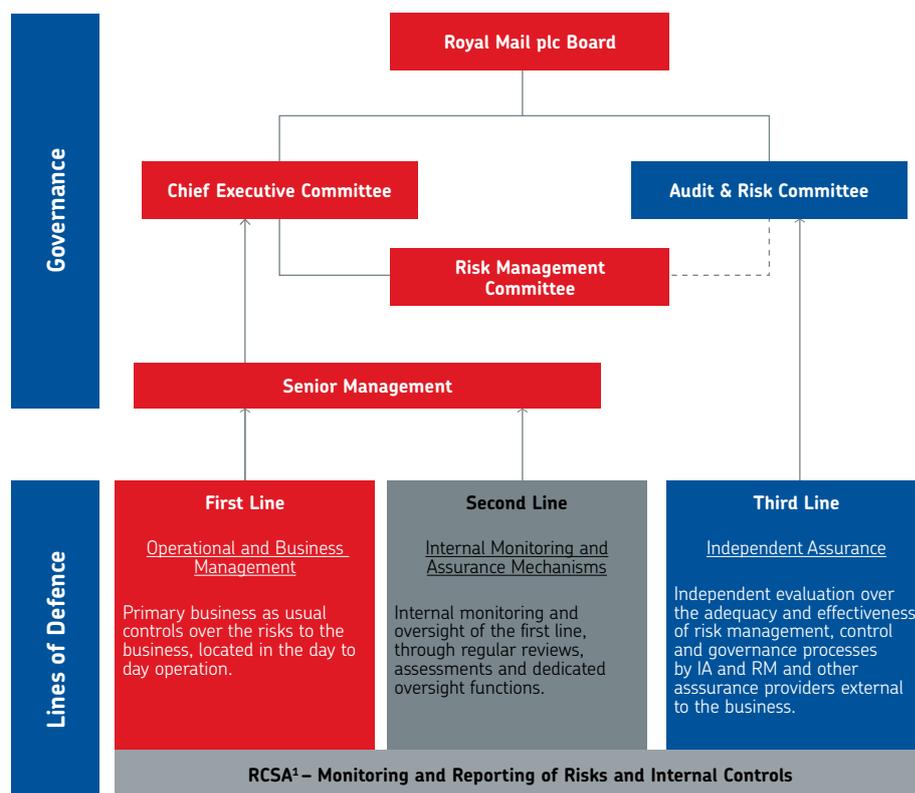
The Group-wide risk management framework includes risk governance, risk identification, measurement and management, and risk reporting and sets out the 'top-down' and 'bottom-up' approach to risk identification for the Group.

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



¹Risk & Control Self-Assessment

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"> • Industrial and employee relations • Pensions • Cyber risks • Delivery of efficiency benefits versus maintenance of Quality of Service levels

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	
Chair		
Peter Long	1	1
Members		
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	
Chair		
Les Owen	3	3
Members		
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.

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.