

# Royal Mail plc

## Prospectus



**THIS DOCUMENT, THE REGISTRATION DOCUMENT AND THE SECURITIES NOTE** together comprise a prospectus (the "**Prospectus**") relating to Royal Mail plc (the "**Company**") prepared in accordance with the Prospectus Rules of the UK Listing Authority made under section 73A of FSMA, which has been approved by the UK Listing Authority in accordance with section 87A of FSMA and has been made available to the public in accordance with Rule 3.2 of the Prospectus Rules. This document has been prepared in connection with the Offer and Admission. The Prospectus may be obtained free of charge as set out in section 25 of Part XI (*Additional Information*) of the Registration Document. The Company has requested that the UK Listing Authority provides a certificate of approval, a copy of the Prospectus and a translation of this document (where applicable) to the relevant competent authority in each of Belgium, Cyprus, Germany, Gibraltar and Italy.

Application will be made to the UK Listing Authority for all of the issued and to be issued Ordinary Shares to be admitted to the premium listing segment of the Official List and to the London Stock Exchange for the Ordinary Shares to be admitted to trading on the London Stock Exchange's main market for listed securities, which together will constitute official listing on a stock exchange under the Listing Rules. No application has been made or is currently intended to be made for the Ordinary Shares to be admitted to listing or trading on any other exchange. Conditional dealings in the Ordinary Shares are expected to commence on 11 October 2013 (International Security Identification Number (ISIN): GB00BDVZY777). It is expected that Admission will become effective, and that unconditional dealings in the Ordinary Shares will commence, at 8.00 a.m. on 15 October 2013. Dealings on the London Stock Exchange before Admission will only be settled if Admission takes place. **All dealings before the commencement of unconditional dealings will be on a "when issued" basis and will be of no effect if Admission does not take place and such dealings will be at the sole risk of the parties concerned.**

Prospective investors should read the whole of this document, together with the Registration Document and the Securities Note and, in particular, the discussion of certain risks and other factors that should be considered in connection with an investment in the Ordinary Shares. Prospective investors should be aware that an investment in the Company involves a degree of risk and that, if one or more of the risks described in the Prospectus were to occur, investors may find that their investment is materially adversely affected. Accordingly, an investment in the Ordinary Shares is only suitable for investors who are knowledgeable in investment matters and who are able to bear the loss of the whole or part of their investment.



## Royal Mail plc

*(incorporated in England and Wales under the Companies Act 2006 with registered number 08680755)*

**Offer of up to 521,739,130 Ordinary Shares of 1p each  
at an Offer Price expected to be between £2.60 and £3.30 per Ordinary Share  
and admission to the premium listing segment of the Official List and to trading  
on the main market of the London Stock Exchange**

*Joint Global Co-ordinator and Joint Bookrunner*  
**Goldman Sachs International**

*Joint Global Co-ordinator and Joint Bookrunner*  
**UBS Investment Bank**

*Joint Bookrunner and Sponsor*  
**Barclays**

*Joint Bookrunner*  
**BofA Merrill Lynch**

*Co-Lead Manager*  
**Investec Bank plc**

*Co-Lead Manager*  
**Nomura**

*Co-Lead Manager*  
**RBC Capital Markets**

*Financial Adviser to HM Government*  
**Lazard & Co., Limited**

### Issued ordinary share capital on Admission

*Issued and fully paid Ordinary Shares*

*Number*  
1,000,000,000

*Nominal Amount*  
£10,000,000

This document does not constitute an offer of, or the solicitation of an offer to buy or to subscribe for, Ordinary Shares to any person in any jurisdiction to whom or in which jurisdiction such offer or solicitation is unlawful and, in particular, is not for distribution in Australia, Canada or Japan, in each case except in compliance with an exemption from applicable securities laws. The Ordinary Shares have not been and will not be registered under the US Securities Act of 1933, as amended (the "US Securities Act") or qualified for sale under the laws of any state of the United States or under any applicable securities laws of Australia, Canada or Japan. The Ordinary Shares are being offered and sold within the United States only to persons reasonably believed to be "qualified institutional buyers" (as defined in Rule 144A under the US Securities Act) in reliance on Rule 144A or pursuant to another exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act and outside the United States in reliance on Regulation S under the US Securities Act.

**The Ordinary Shares have not been approved or disapproved by the US Securities and Exchange Commission, any state securities commission in the United States or any US regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of the Ordinary Shares or the accuracy or adequacy of this document. Any representation to the contrary is a criminal offence in the United States.**

The distribution of this document, the Registration Document and the Securities Note and the offer, sale and/or issue of Ordinary Shares in certain jurisdictions may be restricted by law. No action has been or will be taken by the Secretary of State, Postal Services Holding Company plc (the “**Selling Shareholder**”), the Company, the directors of the Company (the “**Directors**”) or any of the Underwriters to permit a public offer of Ordinary Shares or possession or distribution of this document (or any other offering or publicity material or application form relating to the Ordinary Shares) in any jurisdiction, other than in the UK and the EEA Passport Jurisdictions. Persons into whose possession this document comes are required by the Secretary of State, the Selling Shareholder, the Company, the Directors and the Underwriters to inform themselves about and to observe any such restrictions. This document does not constitute or form part of an offer to sell, or the solicitation of an offer to buy, Ordinary Shares to any person in any jurisdiction to whom or in which such offer or solicitation is unlawful.

Each of the Underwriters is authorised by the Prudential Regulation Authority and regulated by the FCA and the Prudential Regulation Authority in the UK and is acting exclusively for the Secretary of State, the Selling Shareholder and the Company and for no other person in connection with the Offer and will not regard any other person (whether or not a recipient of this document) as its client in relation to the Offer and will not be responsible to anyone other than the Secretary of State, the Selling Shareholder and the Company for providing the protections afforded to its clients or for providing advice in relation to the Offer or any transaction or arrangement referred to in this document.

The Company consents to the use of the Prospectus by the Intermediaries in connection with the Intermediaries Offer in the UK on the following terms: (i) in respect of Intermediaries who are appointed prior to the date of this document, from the date of this document; and (ii) in respect of Intermediaries who are appointed after the date of this document, from the date on which they are appointed to participate in the Intermediaries Offer and agree to adhere to and be bound by the terms of the Intermediaries Terms and Conditions, in each case until the closing of the Intermediaries Offer. The Company accepts responsibility for the information contained in the Prospectus with respect to any purchaser of Ordinary Shares pursuant to the Offer. **Any Intermediary that uses the Prospectus must state on its website that it uses this document in accordance with the Company’s consent. Intermediaries are required to provide the terms and conditions of the Intermediaries Offer to any prospective investor who has expressed an interest in participating in the Intermediaries Offer. Any application made by investors to any Intermediary is subject to the terms and conditions imposed by each Intermediary.**

For a description of restrictions on the offer, sale and transfer of the Ordinary Shares and distribution of this document, see section 15 of Part III (*Information About the Offer*) of the Securities Note. Please note that by receiving this document, purchasers shall be deemed to have made certain representations, acknowledgements and agreements set out in the Prospectus including, without limitation, those set out in section 15 of Part III (*Information About the Offer*) of the Securities Note and, in the case of investors who submit an Application Form, those set out in section 17.8 of Part III (*Information About the Offer*) of the Securities Note.

Apart from the responsibilities and liabilities, if any, which may be imposed on the Underwriters by FSMA, or the regulatory regime established thereunder, or under the regulatory regime of any other jurisdiction where exclusion of liability under the relevant regulatory regime would be illegal, void or unenforceable, none of the Underwriters nor the Secretary of State nor the Selling Shareholder accept any responsibility whatsoever or make any representation or warranty, express or implied, for the contents of this document, including its accuracy, completeness or verification, or for any other statement made or purported to be made by any of them, or on behalf of them, the Company or any other person in connection with the Company, the Ordinary Shares or the Offer and nothing contained in this document is or shall be relied upon as a promise or representation in this respect, whether as to the past or future. Each of the Underwriters, the Secretary of State and the Selling Shareholder accordingly disclaims all and any responsibility or liability whether arising in tort, contract or otherwise (save as referred to above) which any of them might otherwise have in respect of this document or any such statement.

Certain terms used in this document are defined in the Schedule (*Definitions and Glossary*) to this document.

References to the singular in this document shall include the plural and vice versa, where the context so requires. The terms “subsidiary”, “subsidiary undertaking” and “undertaking” have the meanings given to them by the Companies Act 2006.

The contents of the websites of the Group and the Offer Website do not form part of this document, and prospective investors should not rely on them.

All references to time in this document are to UK time unless otherwise stated.

The date of this document is 27 September 2013.

## SUMMARY

*Summaries are made up of disclosure requirements known as “Elements”. These Elements are numbered in Sections A – E (A.1 – E.7).*

*This summary contains all the Elements required to be included in a summary for this type of security and issuer. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements.*

*Even though an Element may be required to be inserted in the summary because of the type of security and issuer, it is possible that no relevant information can be given regarding the Element. In this case a short description of the Element is included in the summary with the mention of ‘not applicable’.*

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### SECTION A – INTRODUCTION AND WARNINGS

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#### A.1 Warning to investors

This summary should be read as an introduction to the Prospectus.

Any decision to invest in the Ordinary Shares should be based on a consideration of the Prospectus as a whole by the investor.

Where a claim relating to the information contained in the Prospectus is brought before a court, a plaintiff investor might, under the national legislation of the European Economic Area member states, have to bear the costs of translating the Prospectus before the legal proceedings are initiated.

Civil liability attaches to the Directors and the Company, who are responsible for this summary including any translation thereof, but only if this summary is misleading, inaccurate or inconsistent when read together with the other parts of the Prospectus or if it does not provide, when read together with the other parts of the Prospectus, key information in order to aid investors when considering whether to invest in the Ordinary Shares.

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#### A.2 Consent for intermediaries

The Company consents to the use of the Prospectus by the Intermediaries in connection with the Intermediaries Offer in the UK on the following terms: (i) in respect of Intermediaries who are appointed prior to the date of this document, from the date of this document; and (ii) in respect of Intermediaries who are appointed after the date of this document, from the date on which they are appointed to participate in the Intermediaries Offer and agree to adhere to and be bound by the terms of the Intermediaries Terms and Conditions, in each case until the closing of the Intermediaries Offer.

Prospective investors interested in participating in the Intermediaries Offer should apply for Ordinary Shares through the Intermediaries by following their relevant application procedures by no later than 8 October 2013.

**Any Intermediary that uses the Prospectus must state on its website that it uses this Prospectus in accordance with the Company’s consent. Intermediaries are required to provide the terms and conditions of the Intermediaries Offer to any prospective investor who has expressed an interest in participating in the Intermediaries Offer to such Intermediary. Any application made by investors to any Intermediary is subject to the terms and conditions imposed by each Intermediary.**

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### SECTION B – ISSUER

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#### B.1 Legal and commercial name

The legal name of the Company is Royal Mail plc.

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#### B.2 Domicile/legal form/legislation/country of incorporation

The Company is domiciled in the UK. It was incorporated in England and Wales on 6 September 2013 and is registered as a public company limited by shares under registered number 08680755. The Company operates under the UK Companies Act 2006.

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### B.3 Current operations and principal activities

The Group is the leading provider of postal and delivery services in the UK, with significant operations in continental Europe.

Royal Mail's origins date back nearly 500 years to the time of King Henry VIII. Today, the Group's core business is the collection, sorting, transportation and delivery of parcels and letters in the UK, leveraging its unique networks and powerful brands, which underpin leading positions in the UK's parcel and letter delivery markets. It is the UK's designated universal postal service provider and delivers a "one price goes anywhere" service on a range of parcel and letter products in the UK. The Group's UK business is complemented by its ownership of GLS (General Logistics Systems), which operates one of the largest ground-based deferred parcel delivery networks in Europe. In FYE 2013, the Group handled approximately 17.4 billion letters and approximately 1.4 billion parcels across all of its networks.

The Group operates through two core divisions, UKPIL (UK Parcels, International and Letters) and GLS.

UKPIL collects and delivers parcels and letters predominantly through two networks: the Royal Mail Core Network and Parcelforce Worldwide. It provides collection and delivery services under the "Royal Mail" and "Parcelforce Worldwide" brands. The functions of Royal Mail Group Limited ("**RMG**") as the UK's designated universal postal service provider are discharged through UKPIL. Through the Royal Mail Core Network, Royal Mail delivers parcels and letters, and has the capability to deliver to more than 29 million addresses in the UK six days a week (excluding UK public holidays). Parcelforce Worldwide is a separate UK network, which collects and delivers express parcels. UKPIL also generates revenue from international parcels and letters exported from, and imported into, the UK. At the end of Q1 FYE 2014, UKPIL employed approximately 150,000 employees.

GLS comprises the Group's European parcel business and is focused on the deferred parcels segment. GLS operates in 22 European countries and nation states through wholly-owned members of the GLS Group and franchisees, and covers an additional 15 European countries and nation states through network and service partners of the GLS Group, which include Parcelforce Worldwide in the UK. The GLS Network is one of the largest ground-based deferred parcel delivery networks in Europe. GLS's main markets are Germany, Italy and France, and in FYE 2013 revenue generated in these markets contributed 71 per cent. of GLS's total revenue. The Group's ownership of GLS delivers a number of strategic benefits for the Group, including geographic earnings diversification, its ability to generate cash which can be used to fund investment in other parts of the Group's business, a means to capture growth in cross-border parcels and opportunities for sharing operational excellence within the Group. At the end of Q1 FYE 2014, the GLS Group employed approximately 14,000 employees.

"Royal Mail" is a household name in the UK that customers rely on for the delivery of parcels and letters. The Group is a trusted partner for consumers and businesses across the UK and Europe.

Since FYE 2008, Royal Mail has been undergoing a major transformation programme which has covered every aspect of its operations, namely: collection, processing, logistics, sorting and delivery. The transformation programme has focused on enabling Royal Mail to deliver letters and parcels more efficiently and adapting the Royal Mail Core Network so that it can carry more parcels. The Group has improved the productivity and effectiveness of the Royal Mail Core Network, which has traditionally been focused on the delivery of letters and is now well positioned to benefit further from predicted levels of growth in the overall UK parcel market while continuing to deliver high levels of service as the UK's universal postal service provider.

In recent years, the operating environment for the Group has changed following the transition to a new and more supportive regulatory framework in the UK, the development of improved relationships with trade unions representing the Group's employees in the UK and the transfer to HM Government of the Group's pre-1 April 2012 pension liabilities (based on service and pay up to that date) and certain pension assets relating to the Royal Mail Pension Plan.

In April 2012, RMG transferred Post Office Limited ("**POL**") to the Selling Shareholder. POL operates the UK's network of more than 11,500 Post Office branches. The Group and POL have entered into the Mails Distribution Agreement, a long-term distribution agreement, under which POL sells Royal Mail postage stamps and the Group's retail products (under the "Royal Mail" and "Parcelforce Worldwide" brands) to customers across the UK's Post Office branch network. POL currently sells Royal Mail postage stamps and the Group's retail products as agent of RMG and customers contract

with RMG through the agency of POL. Under the agreement, POL receives separate remuneration from RMG for each product sold plus an additional fee payable periodically. In FYE 2013, approximately £1.7 billion of the Group's revenue was generated through the sale of the Group's postage stamps and products by POL on the Group's behalf. In FYE 2013, the Group made payments of £371 million to POL, including the annual fee and other remuneration payable under the Mails Distribution Agreement as well as payments in respect of other operational items. Following Admission, POL will remain, subject to the PSA, in the ownership of HM Government.

In FYE 2013, the Group generated revenue of £9,279 million and operating profit after transformation costs of £440 million. In FYE 2013, UKPIL accounted for 83 per cent. (£7,633 million) of the Group's revenue and 73 per cent. (£294 million) of its operating profit after transformation costs, in each case on an adjusted 52-week basis. In the same period, GLS accounted for 16 per cent. (£1,498 million) of the Group's revenue and 25 per cent. (£101 million) of its operating profit after transformation costs, in each case on an adjusted 52-week basis. In FYE 2013, 48 per cent. of the Group's revenue (£4,477 million) was generated from parcels.

In Q1 FYE 2014, the Group generated revenue of £2,304 million and operating profit after transformation costs of £164 million. In Q1 FYE 2014, UKPIL accounted for 82 per cent. (£1,898 million) of the Group's revenue and 80 per cent. (£132 million) of its operating profit after transformation costs. In the same period, GLS accounted for 17 per cent. (£402 million) of the Group's revenue and 19 per cent. (£31 million) of its operating profit after transformation costs.

Trading in the first quarter of FYE 2014 was slightly ahead of the Group's expectations. The Group's trading typically begins strongly at the beginning of the financial year but then slows due to the summer holiday season. The Group's year-on-year parcel volume growth in the second quarter of FYE 2014 is expected to be further impacted by a temporary slow-down in online retailing due to the good summer weather in the UK, as well as the reaction to the introduction of size-based pricing by Royal Mail. Consequently, with respect to the first half of FYE 2014, the Group anticipates that UKPIL's parcel revenue will be substantially ahead of the same period last year while UKPIL's parcel volumes are expected to remain broadly unchanged compared with the same period last year. Historically, the Group has experienced stronger parcel growth in the third quarter of its financial year due to Christmas, and in the UK, Royal Mail is well placed to take advantage of increases in trading and online retailing in the run-up to Christmas 2013.

There are several one-time exceptional items associated with the Offer and Admission, which, together with the Pensions Reform, will impact the Group's reported results for the first half of FYE 2014 and for the full year. These one-time exceptional items include the expenses associated with the Offer and Admission and certain charges associated with the accounting treatment of the Employee Free Shares Offer. In addition, the Pensions Reform will result in a material one-time non-cash exceptional credit to be recorded in the first half of FYE 2014. The Group's key value drivers remain the objectives for the Group.

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**B.4a Significant recent trends affecting the Group and the industries in which it operates**

***Macro-economic environment in the UK and Europe***

The Group's performance and results of operations are significantly influenced by macro-economic trends and conditions as the volume of deliverable, traded goods and the number of business and transactional communications made by letter and parcel are closely linked to levels of economic activity and economic growth in general. Following on from the global economic crisis, in recent years, the UK and the Eurozone have experienced periods of modest GDP growth and have also suffered periods of GDP contraction.

***New regulatory regime – greater commercial freedom to set prices***

The UK postal activities of Royal Mail (excluding Parcelforce Worldwide) are regulated by the provisions of the Postal Services Act 2011 ("PSA"), which implements the third EU Postal Directive. Ofcom, the regulator for postal services in the UK, introduced a new regulatory framework with effect from March 2012, which gave Royal Mail greater commercial freedom to set prices for its services. Under the previous regime, approximately 60 per cent. of Group revenue was subject to direct price control by the postal regulator whereas, under the new regime, direct price control affected only five per cent. of Group revenue in FYE 2013, although approximately 50 per cent. of Group revenue (including revenue subject to direct price control) is subject to Ofcom oversight relating to the USO and network access (including the margin squeeze price control on mandated network access).



### ***Industrial relations***

For the three years ended with FYE 2013, the Group experienced stable relations with its UK employees predominantly as a result of the Business Transformation Agreement with the CWU, which was signed in 2010. The agreement established a collaborative framework for pay and modernisation within RMG, including the establishment of local employee incentive schemes. Elements of the agreement, including pay, were due for renegotiation in April 2013. RMG has been discussing a new agreement with the CWU since 2011 and continues to engage in discussions with the CWU to reach agreement on relevant matters.

However, both the CWU and the CMA are opposed to, and the CWU, in particular, has publicly campaigned against, the privatisation of Royal Mail. On 20 September 2013, the CWU notified RMG that it intended to ballot relevant employees of RMG who are members of the CWU, including those working in Royal Mail and Parcelforce Worldwide, for industrial action and that the ballot would open on 27 September 2013 and close on 16 October 2013. The sample ballot paper provided to RMG by the CWU indicates that industrial action will take the form of a national strike. The Group expects that the members of the CWU will vote for national strike action in this ballot. Potential investors should therefore assume for the purposes of making any decision to purchase Ordinary Shares that national strike action and other forms of industrial action will take place across the whole of UKPIL's activities in the UK during the period immediately after, and may take place during, the Offer Period.

### ***Structural changes to the Group's business due to e-substitution and e-commerce***

Since 2005, letter and parcel volumes have been significantly affected by e-substitution, having a negative impact on letter volumes, and the increase in online shopping, having a positive impact on parcel volumes.

Since 2005, letter volumes have been declining primarily due to the shift towards substitution of paper communication by electronic methods, which has occurred across letter segments and is expected to continue in the foreseeable future. The reasons for e-substitution vary and include, among others, corporate cost pressures, convenience, environmental considerations, broadband penetration and internet usage, and governmental initiatives to reduce paper-based communications and move them online.

In FYE 2013, addressed letter volumes in the UK declined by eight per cent. and the Group forecasts that letter volumes in the UK (including inland and international letters but excluding election material) will decline by approximately four to six per cent. per year over the period ending with FYE 2016.

In recent years, parcel volumes have grown primarily as a result of a shift by consumers towards online shopping. Growth in parcel volumes, however, has been partially offset by the digital substitution of certain products previously distributed by parcel such as books, films, music and video games.

The Group forecasts that in the three financial years ending with FYE 2016, UK parcel volumes within the B2C segment will grow at approximately five to six per cent. per annum and that, when aggregated, parcel volumes within the B2C and C2X segments will grow at approximately 4.5 to 5.5 per cent. per annum. In addition, the Group forecasts that parcel volumes within the UK's B2B segment will grow at slightly above UK GDP per annum in the three financial years ending with FYE 2016.

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## **B.5 Group structure**

The Company is the holding company of the Group. The Company has five principal subsidiaries: Royal Mail Group Limited, Royal Mail Investments Limited, Royal Mail Estates Limited, GLS B.V. and Romec Limited.

Royal Mail Group Limited operates the letter and parcel business of the Group in the UK (through UKPIL) and is the UK's designated universal provider of postal services. Royal Mail Investments Limited is an intermediate holding company which holds the Group's overseas businesses. Royal Mail Estates Limited holds many of the Group's property interests. GLS B.V. is the holding company for the Group's European parcel business (GLS). Romec Limited is a joint venture entity largely providing facilities management services to the Group.

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## **B.6 Selling Shareholder**

As at the date of this summary Postal Services Holding Company plc (the "**Selling Shareholder**") owns 100 per cent. of the issued ordinary share capital of the Company. The Selling Shareholder is wholly-owned by the Secretary of State. Pursuant to the Offer, the Selling Shareholder is currently expected

to sell between 401,000,000 and 521,739,130 Ordinary Shares, representing between 40.1 per cent. and 52.2 per cent. of the issued ordinary share capital of the Company on Admission. In addition, up to a further 78,260,870 Ordinary Shares (representing 7.8 per cent. of the issued ordinary share capital of the Company on Admission) may be sold by the Selling Shareholder pursuant to the Over-allotment Arrangements. The number of Ordinary Shares sold by the Selling Shareholder pursuant to the Offer is expected to be set within the Offer Size Range, but could be set above or below the Offer Size Range (subject to the minimum free float requirements of the UK Listing Authority). In addition to the Offer, a separate Employee Free Shares Offer has been made to Eligible Employees. Pursuant to the Employee Free Shares Offer, 10 per cent. of the issued share capital of the Company plus an additional 160,000 Ordinary Shares will be transferred to the trustee of the Royal Mail Share Incentive Plan on or immediately after Admission, subject to HMRC approval of the Royal Mail Share Incentive Plan. Each Eligible Employee will then automatically be awarded a number of Employee Free Shares on or around Admission, unless the Eligible Employee completes and submits to Equiniti Limited an opt-out form by 9.00 a.m. on 7 October 2013. The expected interests of the Selling Shareholder in the Ordinary Shares following Admission are set out in Element E.5 below.

The Ordinary Shares owned by the Selling Shareholder after Admission will rank *pari passu* with other Ordinary Shares in all respects.

There is a relationship agreement in place between the Company, the Secretary of State and the Selling Shareholder that will have effect from Admission.

## B.7 Selected historical key financial information

The table below summarises the development in certain key financial and operating measures for the Group in Q1 FYE 2014, Q1 FYE 2013, FYE 2013, FYE 2012 and FYE 2011.

£ million	Q1 FYE 2014	Q1 FYE 2013 (unaudited)	Reported 53 weeks 2013	Adjusted 52 weeks 2013 <sup>(1)</sup>	Reported 52 weeks 2012	Reported 52 weeks 2011
<b>Revenue</b>	<b>2,304</b>	<b>2,168</b>	<b>9,279</b>	<b>9,146</b>	<b>8,764</b>	<b>8,415</b>
UKPIL	1,898	1,798	7,766	7,633	7,189	6,885
GLS	402	364	1,498	1,498	1,562	1,485
Other <sup>(2)</sup>	4	6	15	15	13	45
Growth % <sup>(3)</sup>	3%	—	—	5%	4%	—
Net operating costs	(2,109)	(2,065)	(8,644)	(8,548)	(8,383)	(8,205)
Growth % <sup>(3)</sup>	1%	—	—	3%	2%	—
Transformation costs <sup>(4)</sup>	(31)	(39)	(195)	(195)	(229)	(192)
Total net operating costs after transformation costs	(2,140)	(2,104)	(8,839)	(8,743)	(8,612)	(8,397)
Growth %	1%	—	—	2%	2%	—
<b>Operating profit/(loss) after transformation costs</b>	<b>164</b>	<b>64</b>	<b>440</b>	<b>403</b>	<b>152</b>	<b>18</b>
UKPIL	132	36	331	294	33	(110)
GLS	31	26	101	101	128	118
Other	1	2	8	8	(9)	10
<b>Operating profit margin after transformation costs %<sup>(5)</sup></b>	<b>5.0%</b>	<b>3.0%</b>	<b>4.7%</b>	<b>4.4%</b>	<b>1.7%</b>	<b>0.2%</b>
UKPIL <sup>(6)</sup>	4.4%	2.0%	4.3%	3.9%	0.5%	nm <sup>(7)</sup>
GLS	7.7%	7.1%	6.7%	6.7%	8.2%	7.9%
<b>EBITDA before transformation costs<sup>(8)</sup></b>	<b>258</b>	<b>172</b>	<b>915</b>	<b>878</b>	<b>681</b>	<b>493</b>
<b>Free cash flow</b>	<b>110</b>	<b>289</b>	<b>334</b>	<b>NM</b>	<b>154</b>	<b>(246)</b>

### Notes:

- (1) FYE 2013 was a 53-week financial year. In order to provide a meaningful comparison with FYE 2012, revenue, operating profit after transformation costs and operating margin after transformation costs are also presented on an adjusted 52-week basis, which removes the revenue earned and associated costs incurred in the 53rd week.
- (2) Other revenue includes revenue from the Group's separately managed non-core division which holds its interests in two subsidiaries and an associate (for reporting purposes) which provide facilities management, catering and associated cleaning services, consulting and project management services to the Group.
- (3) Changes in revenue and costs at the Group level for FYE 2013 are calculated on an adjusted 52-week basis and the impact of foreign currency movements. Changes in revenue and costs at the Group level for Q1 FYE 2014 are adjusted for the impact of two additional working days in Q1 FYE 2014 and foreign currency movements.
- (4) Transformation costs are costs which fall outside the Group's normal trading activity and are disclosed separately to provide greater visibility of the underlying results of the revenue. The costs represent people and non-people related costs associated with the Transformation Programme.
- (5) Operating profit margin after transformation costs is calculated as operating profit after transformation costs to revenue. Operating profit margin after transformation costs at the Group level for Q1 FYE 2014 is adjusted for the impact of two additional working days in Q1 FYE 2014 and foreign currency movements.
- (6) Operating profit margin after transformation costs at the UKPIL level for Q1 FYE 2014 is adjusted for the impact of two additional working days in Q1 FYE 2014.
- (7) Not meaningful.
- (8) EBITDA before exceptional items is defined as operating profit before exceptional items plus depreciation less share of post-tax profits from associates.



The Group's revenue in FYE 2013, FYE 2012 and FYE 2011, was £9,279 million, £8,764 million and £8,415 million, respectively. Revenue in FYE 2013 increased by five per cent. compared with FYE 2012 on a like-for-like basis, reflecting revenue growth at UKPIL and GLS. Revenue in FYE 2012 increased by four per cent. compared with FYE 2011, reflecting revenue growth at UKPIL and GLS.

The Group's revenue in Q1 FYE 2014 and Q1 FYE 2013 was £2,304 million and £2,168 million, respectively. Adjusting for the impact of the two additional working days in Q1 FYE 2014 and foreign exchange movements, revenue increased by three per cent., which was attributable to revenue growth at UKPIL and GLS.

Operating profit after transformation costs in FYE 2013, FYE 2012 and FYE 2011 was £440 million, £152 million and £18 million, respectively. Operating profit margin after transformation costs was 4.4 per cent. (on an adjusted 52-week basis), 1.7 per cent. and 0.2 per cent. in each of FYE 2013, FYE 2012 and FYE 2011, respectively. The increase from FYE 2011 to FYE 2012 and from FYE 2012 to FYE 2013 was primarily attributable to the increase in revenue, which, in each period, grew at a faster rate than the increase in operating costs including transformation costs.

Operating profit after transformation costs in Q1 FYE 2014 and Q1 FYE 2013 was £164 million and £64 million, respectively. Operating profit margin after transformation costs was five per cent. (adjusting for the impact of the two additional working days in Q1 FYE 2014 and foreign exchange movements) in Q1 FYE 2014 and three per cent. in Q1 FYE 2013. The increase was primarily attributable to the increase in revenue, which grew at a faster rate than the increase in the Group's operating costs including transformation costs.

EBITDA before transformation costs was £915 million in FYE 2013, compared with £681 million in FYE 2012 and £493 million in FYE 2011. The increase in FYE 2013 compared with FYE 2012 and FYE 2011 was primarily attributable to the improved operating performance of UKPIL.

EBITDA before transformation costs in Q1 FYE 2014 was £258 million compared with £172 million in Q1 FYE 2013. This increase was primarily attributable to the improved operating performance of UKPIL.

Free cash flow was a cash inflow of £334 million in FYE 2013, £154 million in FYE 2012 and a cash outflow of £246 million in FYE 2011. Free cash flow increased from FYE 2011 to FYE 2012 and from FYE 2012 to FYE 2013 due to the Group's improved trading performance in each of those periods.

Free cash flow in Q1 FYE 2014 was a cash inflow of £110 million compared with a cash inflow of £289 million in Q1 FYE 2013. The decrease in free cash flow from Q1 FYE 2013 to Q1 FYE 2014 was due to the impact of one-off items that caused a working capital inflow in Q1 FYE 2013, which items were not repeated in Q1 FYE 2014.

Save for: (i) the separation of Post Office Limited from the Group; (ii) the transfer of the pre-1 April 2012 pension liabilities (based on service and pay up to that date for active members) and certain pension assets of the Royal Mail Pension Plan to HM Government; (iii) the insertion of the Company as the holding company of the Group; and (iv) the impact of the Pensions Reform, there has been no significant change in the financial condition or operating results of the Company or the Group during or, as at the date of this document, subsequent to the periods covered by the selected historical key financial information set out in the table above.

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## **B.8 Selected key pro forma financial information**

The summary unaudited pro forma statement of financial position of the Group as at 30 June 2013 set out below has been prepared to illustrate the effect of the Corporate Reorganisation, the expenses of the Offer incurred by the Group and the refinancing of certain Group debt on the financial position of Royal Mail Group Limited and its subsidiaries as if each of the foregoing had taken place or, in the case of the Group's expenses, been incurred on 30 June 2013. The summary unaudited pro forma statement of financial position is based on the audited historical financial information of Royal Mail Group Limited for the 13 weeks ended 30 June 2013. The summary unaudited pro forma statement of financial position has been prepared on a basis consistent with the accounting policies of the Company and on the basis set out in the notes below, and in accordance with Annex I and Annex II to the Prospectus Directive Regulation. It should be read in conjunction with the notes below. The summary unaudited pro forma statement of financial position has been prepared for illustrative purposes only and, because of its nature, addresses a hypothetical situation and, therefore, does not represent the Group's actual financial performance or results. It may not, therefore, give a true picture of the Group's financial position or results nor is it indicative of the results that may or may not be expected to be achieved in the future.

	Royal Mail Group Limited as at 30 June 2013 (note 1) £m	Adjustments			Pro forma Group statement of Group financial position as at 30 June 2013 £m
		The Corporate Reorganisation (note 2) £m	Offer expenses (note 3) £m	Refinancing of Group debt (note 4) £m	
Non-current assets	3,058	–	–	–	3,058
Current assets	1,525	–	(14)	(373)	1,138
<b>Total assets</b>	<b>4,583</b>	<b>–</b>	<b>(14)</b>	<b>(373)</b>	<b>4,196</b>
Current liabilities	(1,784)	–	–	–	(1,784)
Non-current liabilities	(1,423)	–	–	373	(1,050)
<b>Total liabilities</b>	<b>(3,207)</b>	<b>–</b>	<b>–</b>	<b>373</b>	<b>(2,834)</b>
<b>Net assets</b>	<b>1,376</b>	<b>–</b>	<b>(14)</b>	<b>–</b>	<b>1,362</b>
<b>Equity</b>					
Share capital	–	10	–	–	10
Share premium	–	–	–	–	–
Retained earnings	1,299	(10)	(14)	–	1,275
Other reserves	73	–	–	–	73
Equity attributable to equity holder of parent company	1,372	–	(14)	–	1,358
Non-controlling interest	4	–	–	–	4
<b>Total Equity</b>	<b>1,376</b>	<b>–</b>	<b>(14)</b>	<b>–</b>	<b>1,362</b>

**Notes:**

- (1) The consolidated statement of financial position of Royal Mail Group Limited at 30 June 2013 has been extracted without material adjustment from the Historical Financial Information.
- (2) The Company was incorporated on 6 September 2013 with share capital of £150 divided into 100 ordinary shares of 150 pence each. In connection with Admission, the Group undertook a corporate reorganisation between 12 September 2013 and 19 September 2013 that included the Company becoming the holding company of the Group (the “**Corporate Reorganisation**”). The Corporate Reorganisation included the following steps:
  - (A) pursuant to a transfer scheme made in accordance with section 8 of the Postal Services Act 2011 on 12 September 2013, the transfer of all ordinary shares in RMG by the Selling Shareholder to the Company, and, in consideration for such transfer, the allotment and issue of 999,999,900 ordinary shares of 150 pence each in the capital of the Company to the Selling Shareholder; and
  - (B) the share capital of the Company was reduced from £1,500 million to £10 million by the cancellation of 149 pence from the nominal value of each issued ordinary share of the Company. The reduction of capital created distributable reserves of £1,490 million in the Company, which, on consolidation, are offset against the £1,500 million carrying value of the investment in RMG, with the remaining £10 million deducted from retained earnings. On Admission, the Company’s share capital will comprise 1,000 million Ordinary Shares with a nominal value of 1p each and an aggregate nominal value of £10 million.
- (3) As a result of, or incidental to, the Admission and Offer, the Group estimates that it has incurred additional costs of £14 million, which were not accrued as at 30 June 2013.
- (4) On Admission, drawn amounts under the Mails Facilities, the GLS Facility and the Subordinated Facility (the “**Existing Facilities**”) will be repaid in full. This will be funded by a combination of the Group’s existing cash resources and drawing down under the New Facilities. The New Facilities comprise two term loan facilities of £300 million each and an £800 million revolving credit facility. Based on the level of draw down on the Existing Facilities at Admission, which is not expected to be materially different from that as at 30 June 2013, the Group’s cash balance will decrease by £373 million and non-current interest bearing loans will reduce to £600 million. The £600 million balance on non-current interest bearing loans and borrowings is drawn down from the total £1.4 billion available under the New Facilities. However, the actual amount of cash available to the Group at the time of Admission will depend on operational cash requirements and, as a result, there may be a need to draw down further under the New Facilities.
- (5) In connection with the Employee Free Share Offer, 10 per cent. of the issued share capital of the Company plus an additional 160,000 Ordinary Shares will be transferred to the trustee of the Royal Mail Share Incentive Plan on or immediately after Admission. This will be accounted for as a capital contribution by the Company, at the fair value of the shares transferred to the trustee, with an equal and offsetting amount shown as a deduction within equity as Treasury shares. At this stage, it is not possible to determine the fair value of the relevant shares and therefore the amount of any adjustment. There will be no impact on assets, liabilities or total equity.
- (6) No adjustment has been made to reflect any trading or other transactions undertaken by the Company or Royal Mail Group Limited since 30 June 2013.

## B.9 Profit forecasts

Not applicable; the Group has not made any profit forecasts which remain outstanding as at the date of this document.

## B.10 Report on Historical Financial Information – qualifications

Not applicable; Ernst & Young LLP’s report in respect of the Historical Financial Information was unqualified.

## B.11 Working capital – qualifications

Not applicable; the Company is of the opinion that, taking into account the debt facilities available to the Group, the Group has sufficient working capital for its present requirements (that is, for at least the next 12 months from the date of the publication of this document).

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## SECTION C – SECURITIES

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### C.1 Description of class of the securities

The Ordinary Shares will have International Security Identification Number (ISIN) GB00BDVZYZ77 and Stock Exchange Daily Official List (SEDOL) number BDVZYZ7. It is expected that the Ordinary Shares will be traded on the London Stock Exchange under the ticker symbol “RMG”. The Ordinary Shares will, on Admission, comprise the entire issued and to be issued ordinary share capital of the Company.

### C.2 Currency of the securities issue

The Ordinary Shares are denominated in Pounds Sterling.

### C.3 Number of issued and fully paid Ordinary Shares

On Admission, there will be 1,000,000,000 Ordinary Shares of 1p each in issue. All Ordinary Shares will be fully paid.

### C.4 Rights attaching to the Ordinary Shares

The Ordinary Shares rank *pari passu* in all respects with each other, including for voting purposes and in full for all dividends and distributions on Ordinary Shares declared, made or paid after their issue and for any distributions made on a winding-up of the Company.

Subject to the provisions of the Companies Act 2006, any equity securities issued by the Company for cash must first be offered to Shareholders in proportion to their holdings of Ordinary Shares. The Companies Act 2006 and the Listing Rules allow for the disapplication of pre-emption rights which may be waived by a special resolution of the Shareholders, either generally or specifically, for a maximum period not exceeding five years.

Except in relation to dividends which have been declared and rights on a liquidation of the Company, the Shareholders have no rights to share in the profits of the Company.

The Ordinary Shares are not redeemable. However, the Company may purchase or contract to purchase any of the Ordinary Shares on- or off-market, subject to the Companies Act 2006 and the requirements of the Listing Rules.

### C.5 Description of restrictions on free transferability of the Ordinary Shares

Save as described in the paragraph below, there are no restrictions on the free transferability of the Ordinary Shares.

#### *Transfer restrictions under the Companies Act 2006*

The Company may, under the Companies Act 2006, send out statutory notices to those it knows or has reasonable cause to believe have an interest in its shares, asking for details of those who have an interest and the extent of their interest in a particular holding of shares. When a person receives a statutory notice and fails to provide any information required by the notice within the time specified in it, the Company can apply to the court for an order directing, among other things, that any transfer of shares which are the subject of the statutory notice is void.

#### *Transfer restrictions under the Articles*

The Company's board of directors (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:

- 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 or such other evidence of the right to transfer as the Board may reasonably require;
- is in respect of only one class of share; and
- 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.

The Board may decline to register a transfer of any of the Company's certificated shares by a person with an interest of 0.25 per cent. or more of the existing Ordinary Shares (exclusive of any shares held in treasury) if such a person 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, unless the transfer is shown to the Board to be pursuant to an arm's length sale (as defined in the Articles).

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**C.6 Applications for admission to trading on regulated markets**

Application will be made for the entire issued and to be issued ordinary share capital of the Company to be admitted to the premium segment of the Official List of the UK Listing Authority and to trading on the London Stock Exchange's main market for listed securities.

No application has been made or is currently intended to be made for the Ordinary Shares to be admitted to listing or trading on any other exchange.

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**C.7 Dividend policy**

The Directors have adopted a dividend policy that supports the Group's aim of generating value for Shareholders while ensuring that it retains sufficient capital to invest in growing the business.

In respect of FYE 2014, in the absence of unforeseen circumstances, the Directors intend to propose a final dividend only, to be paid in July 2014, of £133 million. This amount is approximately two-thirds of the notional full-year dividend of £200 million that the Directors believe they would have proposed if the Company had been listed throughout FYE 2014.

As described in Element D.1 (A) below, investors should assume that national strike action and other forms of industrial action will take place across the whole of UKPIL's activities during the period immediately after, and may take place during, the Offer Period. Element D.1 (A) below, describes the risks that the Group would face as a result of any such national industrial action and investors should read that section.

The Directors do not currently expect any such action to reduce the amount of the final dividend for FYE 2014, provided that the financial impact of any such action does not compromise the Group's capital structure policy, including targeting financial metrics consistent with an investment grade credit profile.

In subsequent financial years the Directors intend to pursue a progressive dividend policy having regard to the normalised earnings progression of the Group. Given the seasonality of the Group's business, the Directors expect to pay an interim dividend each year equal to approximately one third of the prior financial year's total dividend (in the case of setting the FYE 2015 interim dividend, calculated on the basis of the notional full year dividend described above) and to set the final dividend for each year in the light of the full year outturn; accordingly, the ratio of interim and final dividends may vary over time.

It is envisaged that interim dividends will be paid in December or January of the relevant financial year and final dividends in July or August of the following financial year.

The ability of the Company to pay dividends is dependent on a number of factors, including the availability of sufficient distributable reserves, and there is no assurance that the Company will pay dividends, or if a dividend is paid, what the amount of such dividend will be.

The Board may revise the Company's dividend policy from time to time.

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**SECTION D – RISKS**

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**D.1 (A) Key information on the key risks relating to the Group's business**

- The use of letters as a medium of communication has declined in recent years as a result of greater use of electronic forms of communication, including email and text messaging, which have become increasingly important, especially for businesses. This is known as e-substitution. Letter volumes in the UK may decline at a faster rate than forecast. The decline in letter volumes at the rates forecast by the Group, if not appropriately managed by the Group, or the decline in letter volumes at a faster rate than forecast by the Group, would have a material adverse effect on the Group's results of operations, financial condition and prospects.

- While the Group aims to increase revenue in its parcel businesses to mitigate the continued decline in letter volumes and the slow or declining growth in letter revenue, such increase is contingent on continued growth in both the UK and the European parcel markets. It is possible that parcel volumes in the UK and Europe may fail to grow as forecast by the Group, grow at rates different from the Group's forecasts or decline. If parcel volumes in the UK and Europe fail to grow as fast as forecast by the Group or decline, the Group's results of operations, financial condition and prospects would be materially adversely affected.
- The link between letter and parcel volumes in the UK and Europe and the level of GDP of the relevant market is expected to continue. As a result, continued weak economic conditions in the UK and European economies in particular could have a material adverse effect on the results of operations of the Group. Low levels of economic growth may adversely affect the business of the Group, including as a result of customers adopting cheaper service options for the transmission of letters and parcels or ceasing to send letters and parcels. The Group's performance is dependent on a number of macro-economic factors outside the control of the Group.
- The Group is exposed to changes in the behaviour of its customers and changes to the markets in which it sells its products and services. Such changes have resulted, and could result, in reduced demand for the Group's products and services and require the Group to devote significant energy, resources and expenditure to change its services offering, adapt its business and operations, modify and renew its operating and IT systems and/or retrain or hire new people. The failure by the Group to deliver to the service quality standards expected by customers may lead to customers using alternative delivery providers.
- In the future the Group may not be able to recover all of its costs, including the costs it incurs in providing the USO. The Group's ability to implement price rises in relation to services it delivers within, and outside, the scope of the USO may be limited as a result of market factors as well as the provisions of general competition law. As many of the costs of operating the Group are fixed, together with its obligation to maintain the Royal Mail Core Network to provide the USO, the failure of the Group to reduce its costs or implement price rises in order to recover all of the costs which it incurs in providing the relevant and required services may have a material adverse effect on its financial condition, results of operations and prospects.
- In order to increase productivity and manage the Group's costs, the Group has implemented a number of efficiency programmes and linked the remuneration of frontline employees within Royal Mail and Parcelforce Worldwide to productivity levels. There can be no assurance that the Group will be successful in implementing its productivity improvement programmes, or that the benefits the Group is targeting to achieve from such programmes will be realised during the expected time frame or at all. Any failure by the Group to realise the targeted benefits of these productivity improvement programmes or any material non-budgeted spending on such programmes could have a material adverse effect on its business, financial condition, results of operations and prospects.
- Since FYE 2008, the Group has been implementing its Transformation Programme which has covered every aspect of the operations of Royal Mail in the UK. The ability of the Group to continue to implement the Transformation Programme depends to an extent on its relationships with its employees and the trade unions. The successful completion of the Transformation Programme is an important part of the Group's strategy and any failure to achieve the benefits of the programme could have a material adverse effect on the Group's business, results of operations, financial condition and prospects. The Royal Mail Core Network may experience operational inefficiencies and an increase in costs if the mix of letters and parcels in the network changes more quickly than forecast or if the mix changes differently from how the Group expects.
- The Group's business is labour-intensive and necessitates a large workforce. The Group is reliant on its staff for the management, operation, creation, maintenance, repair and upgrading of its business, operations and systems. The size of, and high fixed employment costs associated with, the Group's workforce in the UK may make the Group less competitive compared with other postal operators in the UK.
- The Group has established certain financial objectives. These objectives are forward-looking statements and the Group's achievement of these objectives is subject to a range of sensitivities and external factors. There can be no assurance that the Group will achieve these objectives. In



particular, the Group's earnings in the future could be highly volatile. As many of the Group's costs are fixed, any material reduction in volumes and revenue may have a material adverse effect.

- There is extensive trade union recognition in respect of the Group's workforce in the UK and there is a risk that one or more material disagreements or disputes between the Group and its trade unions could result in widespread localised or national industrial action. Both the CWU and the CMA are opposed to, and the CWU, in particular, has publicly campaigned against, the privatisation of Royal Mail. On 20 September 2013, the CWU notified RMG that it intended to ballot relevant RMG employees who are members of the CWU, including those working in Royal Mail and Parcelforce Worldwide, for industrial action and that the ballot would open on 27 September 2013 and close on 16 October 2013. The sample ballot paper provided to RMG by the CWU on 20 September 2013 indicates that industrial action will take the form of a national strike. The Group expects that the members of the CWU will vote for national industrial action in this ballot. Potential investors should therefore assume, for the purposes of making any decision to purchase Ordinary Shares, that national strike action and other forms of industrial action will take place across the whole of UKPIL's activities during the period immediately after, and may take place during, the Offer Period. National industrial action affecting UKPIL would cause material disruption to the Group's business in the UK and would result in an immediate and significant loss of revenue for the Group. National industrial action may cause Royal Mail to fail to meet the quality of standards prescribed by Ofcom with which it must comply, leading to enforcement action and fines. National industrial action, or the threat of such industrial action, during, or after, the Offer Period, is likely to materially adversely affect the operations, financial condition, results of operations, reputation and prospects of the Group. There is no way of reliably quantifying the financial impact (including the ongoing impact) for the Group of any industrial action with any certainty before the event. National industrial action, or the threat of national industrial action, affecting UKPIL could also have a material adverse effect on the success of the Offer and, if it occurs after Admission, could cause the price of Ordinary Shares to fall significantly.
- Increased "end to end" competition may lead to a significant decline in the volume of letters handled through the Royal Mail Core Network, which facilitates the delivery of the UK's universal postal service. "End to end" competition arises where a postal operator, other than Royal Mail, collects, transports, sorts and delivers letters directly from the posting customer to the end-recipient without using any part of the Royal Mail network. Although Royal Mail would be handling fewer letters, it would still be required to operate a national network capable of delivering a next-day service six days per week to every address in the UK at uniform and affordable prices. The risks to maintaining the profitability of the Royal Mail Core Network are likely to increase with increased competition.
- The parcel markets in the UK and Europe in which the Group operates are highly competitive. The Group may be adversely affected by parcel operators that successfully capture some of the Group's market share, including through the use of aggressive pricing strategies or otherwise. Any reduction in the Group's revenue or market share due to increased competition could have a material adverse effect on the Group's results of operations, financial condition or prospects. The Group faces risks from mail-order, online and other retailers, who are existing customers of the Group's parcel delivery businesses, establishing their own delivery capability.
- There can be no assurance that the Group will be able to compete successfully against its current or future competitors or that the competitive pressures it faces will not result in reduced revenue or market share or seriously harm its business. Any reduction in the Group's revenue or market share due to increased competition could have a material adverse effect on the Group's results of operations, financial condition or prospects.
- The Group's IT systems underpin its operations in the UK and the Group is heavily dependent on the proper functioning of these systems. A large proportion of the Group's IT applications, systems and infrastructure in the UK are ageing and will require further investment and improvement in the future in order to deliver the capability to continue to support the Group's UK operations. Further, the Group is currently reliant on a small number of key suppliers for the provision of its IT services. The Group has experienced material service failures by key IT suppliers in the UK in the past, some of which have led to disputes. A failure or insolvency of any of these suppliers in the future could cause business disruption and financial loss to the Group. Any material failure in the Group's IT applications, systems and infrastructure may lead to

material systems disruptions which could have a material adverse effect on the Group's operations, results of operations, financial condition and future prospects.

- Mandated network access services provided by Royal Mail are currently exempt from value added tax ("VAT"). The VAT exemption is the subject of judicial review proceedings. The imposition of VAT on mandated network access services provided by the Group could result in a loss of revenue and increased competition. As a result of the imposition of VAT on mandated network access services, end-users that use such network access services for distribution of their letters may accelerate their adoption of e-substitution or alternative means of communicating with their customers or switch to competing third party "end to end" delivery services if they become economically more attractive on a VAT-inclusive basis.
- The Group has funding risks relating to its defined benefit pension schemes. The pre-1 April 2012 pension liabilities (based on service and pay up to that date) and certain pension assets of the Royal Mail Pension Plan were transferred to HM Government on 1 April 2012. However, the Group's ongoing defined benefit pension costs and pension scheme liabilities will continue to be material.
- The Group faces a number of risks arising out of its relationship with POL. Revenue generated for the Group through its long-term distribution agreement with POL, combined with limitations accepted by RMG on its ability to use other retail outlets in addition to Post Office branches, means the Group has a significant reliance on POL. Any material failure by POL to meet its obligations under that agreement could result in retail customers not being able to purchase the Group's products and services at Post Offices. There remains a perception on the part of some customers of the Group and some members of the general public in the UK that the "Post Office" and "Royal Mail" are the same entity. Any failure or disruption in the Post Office branch network, and any commercial decisions taken by POL, could therefore adversely affect the reputation and brand of the Group.
- In order to retain existing customers, the Group is required to satisfy customer requirements and remain competitive in the market, and a failure to do so may lead to a loss of customers and/or a reduction in the volume of items they choose to send through the Group's networks.

**(B) Key information on the key risks relating to the legal and regulatory environment within which the Group operates**

- The conduct of the Group's business is subject to significant legal and regulatory requirements and their interpretation, application, enforcement and development could have a material adverse effect on the Group, its results of operations, financial condition and prospects. Failure by the Group to comply with applicable law and/or regulation could lead to investigation of the Group by, and/or onerous requests for information from, relevant regulators and national and supranational government bodies, disciplinary action, prosecution, claims by third parties, the imposition of fines or the revocation of licences or authorisations that the Group requires to conduct its business, and may adversely affect the reputation and brand of the Group.
- RMG is subject on an ongoing basis to regulation by Ofcom pursuant to the PSA and various regulatory conditions made pursuant to the PSA. The new regulatory regime introduced by Ofcom with effect from 27 March 2012 is relatively untested and the future development of the regime is uncertain. Further and subject to the special administration regime set out in the PSA, while RMG's designation as the provider of the universal postal service in the UK is not time-limited, Ofcom may review, and make changes to, aspects of the scope of the USO not explicitly required by the existing framework of the PSA. Also, from 1 October 2021, if Ofcom has determined that it would be unfair for RMG to bear the whole or part of the financial burden of its universal service obligations, and the Secretary of State has directed Ofcom to do so, Ofcom may appoint either one or more further designated universal postal service providers in addition to RMG or as a replacement to RMG. If the scope of the USO is reduced in the future, the Group may not be able to achieve corresponding reductions in the costs it incurs in operating and maintaining the Royal Mail Core Network.
- The Group faces a number of risks associated with the future provision of universal postal services in the UK. Because of the Group's obligation to deliver the universal postal service and maintain the associated collection and delivery network in the UK, the Group may not be able to reduce the high fixed costs it incurs in operating that network if demand for USO services

provided by the Group continues to decline, as is expected, which may have a material adverse effect on the Group's results of operations, financial condition and prospects.

- The Group faces risks associated with the provision of network access services in the UK. There is a risk that Ofcom may reopen the regulatory regime to impose requirements on the Group to offer network access in relation to a wider range of products than it currently offers. Such requirements could be onerous and uneconomical for the Group.
- RMG's universal service provider condition requires it to meet certain quality of service targets in relation to universal service products. Any failure by the Group to meet regulatory quality of service targets to which it is subject may result in the imposition of fines and other regulatory enforcement action which could have a material adverse effect on the reputation, financial condition, results of operations or prospects of the Group.

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### **D.3 Key information on the key risks relating to the Offer and the Ordinary Shares**

- After Admission, the Selling Shareholder will have significant influence over matters requiring the approval of the Company's shareholders after the Offer as a result of its shareholding, and its interests may not be aligned with those of the other Shareholders. The Selling Shareholder and Secretary of State have entered into a relationship agreement with the Company in which the Selling Shareholder and the Secretary of State agree, among other things, that they will exercise their respective powers to ensure that the Group is capable of operating independently of them and that they will not influence the day-to-day running of the Group. The agreement grants the Selling Shareholder the right to nominate one non-executive director for appointment to the Board for so long as the Selling Shareholder (together with its associates) is entitled to exercise or to control the exercise of 10 per cent. or more of the voting rights exercisable at a general meeting of the Company.
- If the Selling Shareholder remains the beneficial owner of more than 25 per cent. of the issued Ordinary Shares following Admission, it will have the power to block special resolutions of the Company. If the Selling Shareholder remains the beneficial owner of 50 per cent. or more of the issued Ordinary Shares following Admission, it will have the power to block ordinary resolutions and special resolutions of the Company. In practice, the Selling Shareholder may be able to block special resolutions of the Company in circumstances where it is the beneficial owner of less than 25 per cent. of the issued Ordinary Shares following Admission if not all Shareholders exercise their votes in respect of the relevant special resolutions.
- Investors may misinterpret the Group's future relationship with HM Government and assume that if the Group were to encounter financial or other difficulty, HM Government would provide support to the Group. No such guarantee, or undertaking or assurance has been given by HM Government.
- The Group faces a number of risks associated with it ceasing to be wholly-owned by HM Government. There may be a change in perception on the part of third parties as to the financial strength of the Group. The ceasing of HM Government to wholly-own the Group as well as any future sale of Ordinary Shares may trigger termination, and other, rights under contracts to which the Group is party, which could entitle counterparties to terminate or amend the contract.
- The policy of HM Government in relation to the Group and its business may change over time, in particular as a result of a change in government.
- The share price of publicly traded companies can be highly volatile, including for reasons related to differences between expected and actual operating performance, corporate and strategic actions taken by such companies or their competitors, speculation about the business and management of such companies and general market conditions and regulatory changes.
- Future substantial sales of Ordinary Shares, or the perception that such sales might occur, could depress the market price of the Ordinary Shares.
- The Company's ability to pay dividends in the future depends on, among other things, the Group's financial performance and is therefore not guaranteed.

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## SECTION E – ADMISSION AND THE OFFER

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### E.1 Total net proceeds of the Offer and estimated expenses

Net proceeds of approximately £1,333 million will be received by the Selling Shareholder from the sale of Ordinary Shares (assuming that the Offer Size is set at the mid-point of the Offer Size Range, and that the Offer Price is set at the mid-point of the Price Range). The estimated net proceeds receivable by the Selling Shareholder are stated net of the following amounts incurred by the Secretary of State and the Selling Shareholder: (i) underwriting commissions payable by the Selling Shareholder to the Underwriters in connection with the Offer (excluding any underwriting commissions payable in connection with any sales of Ordinary Shares pursuant to the exercise of the Over-allotment Option) (which are estimated to be approximately £11.4 million); (ii) transaction advisory fees and expenses incurred by the Secretary of State and the Selling Shareholder in respect of the Offer and fees and expenses in connection with the Retail Offer (including commissions payable to Intermediaries pursuant to the Intermediaries Offer) (which in aggregate are estimated to be approximately £10.3 million); and (iii) amounts in respect of stamp duty and stamp duty reserve tax payable by the Selling Shareholder in connection with the Offer which are payable to HM Government (which are estimated to be approximately £6.8 million). The amounts referred to above are calculated on the basis of the following assumptions: (a) the Offer Size is set at the mid-point of the Offer Size Range; (b) the Offer Price is set at the mid-point of the Price Range; (c) approximately 70 per cent. of the Ordinary Shares sold in the Offer (excluding pursuant to any exercise of the Over-allotment Option) are sold pursuant to the Institutional Offer and 30 per cent. are sold pursuant to the Retail Offer; and (d) the underwriting commissions payable by the Selling Shareholder to the Underwriters in connection with the Offer are, for the purposes of the deductions set out above, assumed to be the maximum percentage payable by the Selling Shareholder.

The aggregate expenses of, or incidental to, Admission and the Offer incurred and to be borne by the Company are estimated to be approximately £23.4 million (inclusive of amounts in respect of VAT), which the Company intends to pay out of existing cash resources (to the extent they have not already been paid). In addition to this, the Company has agreed to reimburse the Secretary of State in respect of up to £5 million of the third party transaction and advisory fees and expenses incurred by the Secretary of State in connection with the Offer referred to above. The Company will not receive any proceeds from the Offer.

No expenses will be directly charged to investors in connection with Admission or the Offer by the Company or the Selling Shareholder.

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### E.2a Reasons for the Offer and use of proceeds

The Directors believe that the Offer and Admission are important steps in the Group's development.

The Offer represents the first stage of HM Government's divestment of the Group from public ownership to the private sector – the final element in the package of formal recommendations that arose out of the independent review of the postal services sector originally commissioned by HM Government in 2007 and conducted by Richard Hooper CBE.

The Directors believe that private sector ownership will enable the Group to become more flexible and responsive to the dynamics of the competitive markets in which it operates.

Through making available free Ordinary Shares representing 10 per cent. of the Company's issued share capital on Admission plus an additional 160,000 Ordinary Shares to Eligible Employees, the Employee Free Shares Offer will also provide the Group's existing employee body with a substantial and meaningful stake in the business, helping to align their interests with those of the Group and offering the potential for them to benefit from growth and the performance of the modernised business. Admission will also permit the introduction of further employee share ownership schemes, which will assist on an ongoing basis in the recruitment, retention and incentivisation of both employees and senior management.

In addition, while the Company is not receiving any proceeds from the Offer, Admission does provide the Group with the opportunity for future access to public capital markets, as well as a wider range of debt financing possibilities. Since HM Government has made it clear that, in the current fiscal environment and given competing demands for HM Government investment, public sector capital investment is much less likely to be forthcoming than private sector capital (which can be raised more quickly and does not require lengthy clearance under EU State Aid rules), the Directors believe that

Admission will provide the Group with greater freedom to take advantage of market opportunities that may present themselves in the future through increased access to private capital and investment.

### **E.3 Terms and conditions of the Offer**

The Offer Price and the Offer Size will be determined by the Secretary of State, in consultation with the Joint Global Co-ordinators. It is currently expected that the Offer Price and Offer Size will be within the Price Range and the Offer Size Range. A number of factors will be considered in deciding the Offer Price and the Offer Size, including the level and the nature of the demand for Ordinary Shares in the book-building process, the level of demand in the Retail Offer, prevailing market conditions and the objective of encouraging the development of an orderly and liquid after-market in the Ordinary Shares. All Ordinary Shares being sold to investors pursuant to the Offer will be sold at the Offer Price.

The Offer Price and Offer Size are expected to be announced on or around 11 October 2013. The Pricing Statement, which will contain, among other things, the Offer Price and Offer Size, will (subject to certain restrictions) be published on the Company's website at [www.royalmailgroup.com](http://www.royalmailgroup.com) and the Offer Website and be available in printed form at the Company's registered office, 100 Victoria Embankment, London EC4Y 0HQ until 14 days after Admission.

If the Offer Price is set above the Price Range and/or the number of Ordinary Shares to be sold by the Selling Shareholder is set above or below the Offer Size Range (subject to the minimum free float requirements of the UK Listing Authority), then the Secretary of State would make an announcement via a Regulatory Information Service and prospective investors would have a statutory right to withdraw their offer to purchase Ordinary Shares in the Offer pursuant to section 87Q of FSMA. The arrangements for withdrawing offers to purchase Ordinary Shares would be made clear in the announcement.

The Offer comprises an Institutional Offer and a Retail Offer (itself comprising an Intermediaries Offer and a Direct Retail Offer). Under the Institutional Offer, the Ordinary Shares are being made available: (i) to certain institutional investors in the UK and elsewhere outside the United States in reliance on Regulation S and in accordance with local applicable laws and regulations; and (ii) in the United States, only to QIBs in reliance on Rule 144A or pursuant to another exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act. Under the Intermediaries Offer, the Ordinary Shares are being offered by the Selling Shareholder to Intermediaries in the UK for onward distribution to retail investors located in the UK. Under the Direct Retail Offer, the Ordinary Shares are being offered by the Selling Shareholder: (i) to Eligible Employees on a priority allocation basis; (ii) to retail investors located in the UK; and (iii) to Permitted Service Personnel located in certain jurisdictions outside the UK including, without limitation, in the EEA Passport Jurisdictions, but excluding members of the regular forces located in the United States, Canada, Australia and Japan.

In addition to the Offer, a separate Employee Free Shares Offer has been made to Eligible Employees.

If the demand for Ordinary Shares exceeds the number of Ordinary Shares made available in the Offer, allocations may be scaled down at the discretion of the Secretary of State and applicants may be allocated Ordinary Shares having an aggregate value (based on the Offer Price) which is less than the sum applied for. Investors who apply for Ordinary Shares in either the Intermediaries Offer or the Direct Retail Offer shall be allocated Ordinary Shares on the same basis (save for the special arrangements in relation to the Employee Priority Offer).

Ordinary Shares (representing up to 15 per cent. of the final Offer Size) are being made available pursuant to the Over-allotment Arrangements.

It is expected that Admission will take place and unconditional dealings in the Ordinary Shares will commence on the London Stock Exchange at 8.00 a.m. on 15 October 2013. Prior to Admission, it is expected that dealings in the Ordinary Shares will commence on a conditional basis on the London Stock Exchange on 11 October 2013. The earliest date for settlement of such conditional dealings will be 16 October 2013. All dealings in the Ordinary Shares prior to the commencement of unconditional dealings will be on a "when issued" basis and will be of no effect if Admission does not take place, and such dealings will be at the sole risk of the parties concerned. These dates and times may be changed without further notice.

Investors should note that only investors who apply for, and are allocated, Ordinary Shares in the Institutional Offer or (save in certain circumstances) the Intermediaries Offer will be able to deal in



Ordinary Shares on a conditional basis. Investors who apply for, and are allocated, Ordinary Shares in the Direct Retail Offer will not be able to deal in Ordinary Shares on a conditional basis. Therefore, the earliest time at which such investors in the Direct Retail Offer will be able to deal in Ordinary Shares is at the start of unconditional dealings on Admission.

The Offer is subject to the satisfaction of conditions which are customary for transactions of this type contained in the Underwriting Agreement, including Admission becoming effective by no later than 8.00 a.m. on 15 October 2013 or such later date as the Secretary of State and the Joint Global Co-ordinators (on behalf of the Underwriters) may agree, determination of the Offer Price, and the Underwriting Agreement not having been terminated prior to Admission.

None of the Ordinary Shares may be offered for subscription, sale or purchase or be delivered, or be subscribed, sold or delivered, and this document and any other offering material in relation to the Ordinary Shares may not be circulated, in any jurisdiction where to do so would breach any securities laws or regulations of any such jurisdiction or give rise to an obligation to obtain any consent, approval or permission, or to make any application, filing or registration.

The Offer (excluding the Direct Retail Offer) is, subject to certain conditions, fully underwritten by the Underwriters in accordance with the terms of the Underwriting Agreement. The Direct Retail Offer is not underwritten by the Underwriters. The Employee Free Shares Offer is not part of the Offer and is also not underwritten by the Underwriters.

The expected timetable of principal events is as follows:

	<i>Time and date</i>
• Latest date for receipt of completed application forms by the Intermediaries in respect of the Intermediaries Offer	8 October 2013
• Latest time and date for completion of Online Applications in respect of the Direct Retail Offer (including the Employee Priority Offer)	11.59 p.m. on 8 October 2013
• Latest time and date for receipt of completed hard copy Application Forms in respect of the Direct Retail Offer (including the Employee Priority Offer) by the Receiving Agent	11.59 p.m. on 8 October 2013
• Announcement of the Offer Price and Offer Size, publication of the Pricing Statement and notification of allocations of Ordinary Shares	7.00 a.m. on 11 October 2013
• Commencement of conditional dealings in Ordinary Shares on the London Stock Exchange	8.00 a.m. on 11 October 2013
• Admission and commencement of unconditional dealings in Ordinary Shares on the London Stock Exchange	8.00 a.m. on 15 October 2013

Times and dates set out in the timetable above are indicative only and may be subject to change without further notice. All references to time in this timetable are to UK time.

**Investors should ensure that they allow sufficient time in order to complete an Online Application or, as the case may be, sufficient time for the Application Form to be sent by post in order that the application is received by the Receiving Agent by the relevant time and date specified above.**

#### **E.4 Material interests in the Offer**

The Company considers that the Selling Shareholder has interests that are material to the Offer by virtue of the size of its existing shareholding in the Company. The Company does not consider that this is a conflicting interest, or that there are other interests, including conflicts of interest, that are material to the Offer.

#### **E.5 Selling Shareholder/Lock-up Arrangements**

##### **(A) Expected interests of the Selling Shareholder immediately prior to and following Admission**

Between 401,000,000 and 521,739,130 Ordinary Shares will be sold by the Selling Shareholder pursuant to the Offer (representing between 40.1 and 52.2 per cent. of the issued ordinary share capital on Admission). The following table sets out the Selling Shareholder's interests in Ordinary Shares immediately prior to Admission, together with its indicative interests immediately following Admission (calculated on the basis that the Offer Price and Offer Size are set at the mid-point of the Price Range and Offer Size Range, respectively):

	Interests in Ordinary Shares immediately prior to Admission		Ordinary Shares to be sold pursuant to the Offer <sup>(2)</sup>		Ordinary Shares to be transferred to the trustee of the Royal Mail Share Incentive Plan <sup>(3)</sup>		Interests in Ordinary Shares immediately following Admission and the transfer of Ordinary Shares to the trustee of the Royal Mail Share Incentive Plan <sup>(2)</sup>	
	No.	% of total issued	No.	% of total issued	No.	% of total issued	No.	% of total issued
Selling Shareholder <sup>(1)</sup>	1,000,000,000	100	461,369,565	46.1	100,160,000	10.0	438,470,435	43.8

- (1) The business address of the Selling Shareholder is 148 Old Street, London EC1V 9HQ, United Kingdom.
- (2) In addition, the Selling Shareholder may sell up to a further 69,205,435 Ordinary Shares pursuant to the Over-allotment Arrangements (assuming that the Offer Size is set at the mid-point of the Offer Size Range).
- (3) Subject to Admission and HMRC approval of the Royal Mail Share Incentive Plan, the Secretary of State will procure that the Selling Shareholder transfers the Employee Free Shares to the trustee of the Royal Mail Share Incentive Plan on or immediately after Admission. Each Eligible Employee will then automatically be awarded a number of Employee Free Shares on or around Admission, unless the Eligible Employee completes and submits to Equiniti Limited an opt-out form by 9.00 a.m. on 7 October 2013. The Employee Free Shares Offer is not part of the Offer.

The Secretary of State has informed the Company that, in order to limit HM Government control over the Company, the Secretary of State and the Selling Shareholder intend, following Admission and the exercise or lapse of the Over-allotment Option, to execute a deed poll in which the Secretary of State and the Selling Shareholder undertake to limit their exercise of voting rights in the Company to a level below the retained stake of the Selling Shareholder and in any event no higher than 30 per cent. of the issued share capital of the Company from time to time. The deed poll will not be executed if the Selling Shareholder holds less than 30 per cent. or 50 per cent. or more of the issued Ordinary Shares following exercise or lapse of the Over-allotment Option. The provisions of the deed poll will terminate if the interests of the Secretary of State and the Selling Shareholder in the issued Ordinary Shares are reduced below 30 per cent. The Secretary of State will make an announcement via the Regulatory Information Service of the London Stock Exchange when the deed poll is executed.

#### **(B) Lock-up Arrangements**

Pursuant to the Underwriting Agreement, subject to certain customary exceptions:

- the Selling Shareholder has agreed that, other than pursuant to the Over-allotment Arrangements, it will not, without the prior written consent of the Joint Global Co-ordinators, offer, sell, contract to sell or otherwise dispose of any Ordinary Shares (or any interest therein in respect thereof) or enter into any transaction with the same economic effect of the foregoing for a period of 180 days from the date of Admission; and
- the Company has agreed that, other than pursuant to any share schemes in existence on the date of Admission, it will not, without the prior written consent of the Joint Global Co-ordinators, issue, offer, sell, contract to sell or otherwise dispose of any Ordinary Shares (or any interest therein in respect thereof) or enter into any transaction with the same economic effect of the foregoing for a period of 180 days from the date of Admission.

Pursuant to deeds of lock-up, each of the Directors has agreed that, subject to certain exceptions, during the period of 365 days from the date of Admission, he or she will not, without the prior written consent of the Joint Global Co-ordinators, offer, sell or contract to sell, or otherwise dispose of any Ordinary Shares (or any interest therein in respect thereof) or enter into any transaction with the same economic effect as any of the foregoing, including in respect of any Ordinary Shares acquired by them pursuant to the Offer (including the Employee Priority Offer) and/or the Employee Free Shares Offer.

#### **E.6 Dilution**

Not applicable; no new Ordinary Shares are to be issued under the Offer.

#### **E.7 Expenses charged to Investors**

Not applicable; no expenses will be directly charged to investors by the Selling Shareholder or the Company.

The Selling Shareholder will not assume any liability in relation to any element of any stamp duty or stamp duty reserve tax arising in the UK on a transfer of Ordinary Shares to a clearance service or depositary receipt issuer or any agent or nominee thereof (currently imposed at a rate of 1.5 per cent.). Accordingly, investors should note that they may be liable for any such stamp duty or stamp

duty reserve tax upon any transfer of Ordinary Shares to a clearance service or depositary receipt issuer or any agent or nominee thereof.

Any expenses incurred by an Intermediary are for its own account. Intermediaries are prohibited from charging any fees, charges or commissions to a retail investor for making an application for Ordinary Shares on behalf of such retail investor in the Intermediaries Offer. However, Intermediaries may charge retail investors a fee for holding the allocated Ordinary Shares for them (including any fees relating to the opening of an Individual Savings Account or a Self-Invested Personal Pension for that purpose), provided that the Intermediary has disclosed the fees and terms and conditions of providing those services to each retail investor prior to the underlying application being made. Any application made by investors through any Intermediary is subject to the terms and conditions agreed with each Intermediary.

## SCHEDULE

### DEFINITIONS AND GLOSSARY

The definitions set out below apply throughout this document, unless the context requires otherwise.

<b>“Admission”</b>	means the admission of the Ordinary Shares to the premium listing segment of the Official List and the admission of such shares to trading on the London Stock Exchange’s main market for listed securities;
<b>“Application Form”</b>	means the form of application for Ordinary Shares in connection with the Direct Retail Offer, including an Online Application;
<b>“Articles”</b>	means the articles of association of the Company in force as of Admission;
<b>“B2B”</b>	means business to business;
<b>“B2C”</b>	means business to consumer;
<b>“C2X”</b>	means customer to all parties;
<b>“CMA”</b>	means the Communications Managers’ Association section of Unite the Union;
<b>“Co-Lead Managers”</b>	means Investec Bank plc, Nomura International plc and RBC Europe Limited;
<b>“Company”</b>	means Royal Mail plc, a company incorporated in England and Wales with registered number 08680755 whose registered office is 100 Victoria Embankment, London EC4Y 0HQ, United Kingdom;
<b>“CWU”</b>	means the Communication Workers Union;
<b>“deferred”</b>	in relation to parcels, means the least time-sensitive type of delivery, including delivery of parcels on a second class basis;
<b>“Direct Retail Offer”</b>	means the offer by the Selling Shareholder of Ordinary Shares to retail investors in the UK and to Permitted Service Personnel pursuant to the terms and conditions of the Direct Retail Offer;
<b>“Directors”</b>	means the directors of the Company;
<b>“EEA Passported Jurisdictions”</b>	means Belgium, Cyprus, Germany, Gibraltar and Italy (being jurisdictions into which the UK Listing Authority will, before a public offer is made in such jurisdiction, have provided to the competent authority in each such jurisdiction a certificate of approval attesting that the Prospectus has been drawn up in accordance with the provisions of the Prospectus Directive and Commission Regulation (EC) No. 809/2004);
<b>“Eligible Employee”</b>	means an employee or director of the Company or RMG (either full-time or part-time) as at 10 July 2013 who remains employed continuously by the Company and/or RMG, in the case of: (i) the Employee Free Shares Offer, up to the date of award of Employee Free Shares on or around Admission; and (ii) the Employee Priority Offer, up to 12 September 2013 and has a UK address and is located in the UK, and in either case has any earnings which are or would be (if there were any earnings) subject to UK tax;
<b>“Employee Free Shares”</b>	means the Ordinary Shares which have been offered to Eligible Employees for free under the Employee Free Shares Offer to be awarded on or around Admission on and subject to the terms of the Royal Mail Share Incentive Plan;
<b>“Employee Free Shares Offer”</b>	means the offer of Employee Free Shares to Eligible Employees;

<b>“Employee Priority Offer”</b>	means that part of the Direct Retail Offer that is allocated to Eligible Employees on a priority basis;
<b>“end to end”</b>	where a single postal operator or deliverer is responsible for all phases of the journey of a parcel or letter without the involvement of any other postal operator or deliverer;
<b>“express”</b>	in relation to parcels, means deliveries made on a time-certain or day-definite basis;
<b>“FCA”</b>	means the Financial Conduct Authority of the UK;
<b>“FSMA”</b>	means the Financial Services and Markets Act 2000, as amended;
<b>“FYE”</b>	means, in relation to: <ul style="list-style-type: none"> <li>(i) 2011, the financial year (that is the period of 52 weeks) ended 27 March 2011;</li> <li>(ii) 2012, the financial year (that is the period of 52 weeks) ended 25 March 2012;</li> <li>(iii) 2013, the financial year (that is the period of 53 weeks) ended 31 March 2013;</li> <li>(iv) 2014, the financial year (that is the period of 52 weeks) ended 30 March 2014; or</li> <li>(v) any other year, the relevant financial year of the Group (being a period of 52 or 53 weeks) ended or ending on the last Sunday of March in that year,</li> </ul> <p>save that references to FYE 2013 financial and other information (including in relation to parcel volumes) relating exclusively to GLS or the GLS Group are references to the GLS Group’s financial year (that is the period of 12 months ended 31 March 2013);</p>
<b>“GLS”</b>	means General Logistics Systems, being the business of the GLS Group including the business conducted pursuant to arrangements with network and service partners, and franchisees of the GLS Group;
<b>“GLS B.V.”</b>	means General Logistics Systems B.V.;
<b>“GLS Facility”</b>	means the £500 million credit facility dated 7 February 2005 (as amended from time to time) between RMG (as borrower) and the Secretary of State (as lender);
<b>“GLS Group”</b>	means GLS B.V. and its subsidiaries;
<b>“GLS Network”</b>	means the European network and infrastructure (including hubs and depots) of the GLS Group, its network and service partners and franchisees for the collection, sorting, transportation and delivery of parcels for the purposes of GLS;
<b>“Group”</b>	means the Company and its subsidiaries;
<b>“Historical Financial Information”</b>	means the consolidated financial information for RMG and its subsidiaries for the 13 weeks ended 30 June 2013, FYE 2013, FYE 2012 and FYE 2011 (as reported on by Ernst & Young LLP) and the 13 weeks ended 24 June 2012;
<b>“HMRC”</b>	means HM Revenue & Customs;
<b>“IFRIC”</b>	means the International Financial Reporting Interpretations Committee;
<b>“Institutional Offer”</b>	means the offer by the Selling Shareholder of Ordinary Shares to certain institutional investors, including QIBs in the United States;



<b>“Intermediaries”</b>	means each intermediary financial institution appointed by the Secretary of State and the Selling Shareholder in connection with the Intermediaries Offer (before or after the date of this document), details of which are set out on the Offer Website;
<b>“Intermediaries Offer”</b>	means the offer by the Selling Shareholder of Ordinary Shares to Intermediaries;
<b>“Intermediaries Terms and Conditions”</b>	means the terms and conditions agreed between the Secretary of State, the Selling Shareholder and the Intermediaries in relation to the Intermediaries Offer;
<b>“Investor”</b>	means any person who acquires Ordinary Shares pursuant to the Offer;
<b>“Joint Bookrunners”</b>	means Barclays Bank PLC, Goldman Sachs International, Merrill Lynch International and UBS Limited;
<b>“Joint Global Co-ordinators”</b>	means Goldman Sachs International and UBS Limited;
<b>“large letter”</b>	means a letter weighing up to 750 grams and satisfying certain requirements as to its dimensions;
<b>“Listing Rules”</b>	means the listing rules made by the UK Listing Authority under Part VI of FSMA (as set out in the Financial Conduct Authority Handbook), as amended;
<b>“London Stock Exchange”</b>	means the London Stock Exchange plc or its successor(s);
<b>“Mails Distribution Agreement”</b>	means the distribution agreement entered into by RMG and POL, under which POL provides retail distribution and other services for the Group;
<b>“Mails Facilities”</b>	means the £1,044 million credit facilities agreement dated 20 December 2002 (as amended and restated from time to time) between RMG (as borrower) and the Secretary of State (as lender);
<b>“network access”</b>	means the provision of access to the downstream part of the Royal Mail Core Network for customers and other postal operators who deposit letters at Royal Mail’s mail centres for delivery by Royal Mail to end-recipients. RMG is mandated by Ofcom to provide network access for certain letter and large letter products;
<b>“network access services”</b>	means the services offered by Royal Mail by which customers and other postal operators are provided with network access;
<b>“New Facilities”</b>	means the £1,400,000,000 term loan facility and revolving credit facility dated 12 September 2013 between RMG (as borrower and guarantor), certain financial institutions and The Royal Bank of Scotland plc (as agent);
<b>“Ofcom”</b>	means the Office of Communications established under the Communications Act 2003, acting in its capacity as the regulator of postal services in the UK pursuant to the PSA;
<b>“Offer”</b>	means the offer of the Ordinary Shares pursuant to the Institutional Offer and the Retail Offer to investors in the UK and elsewhere. For the avoidance of doubt, the Employee Free Shares Offer is not part of the Offer;
<b>“Offer Period”</b>	means the period beginning on the date of this document and ending on 8 October 2013;
<b>“Offer Price”</b>	means the price at which the Ordinary Shares are to be offered and sold under the Offer;

<b>“Offer Size”</b>	means the number of Ordinary Shares to be sold pursuant to the Offer;
<b>“Offer Size Range”</b>	means the range within which the Offer Size is currently expected to be set, being between 401,000,000 Ordinary Shares and 521,739,130 Ordinary Shares (excluding any Ordinary Shares which may be over-allotted pursuant to the Over-allotment Arrangements);
<b>“Offer Website”</b>	means the Offer website at <a href="http://www.gov.uk/royalmailshares">www.gov.uk/royalmailshares</a> ;
<b>“Official List”</b>	means the official list of the UK Listing Authority;
<b>“Online Application”</b>	means an application for Ordinary Shares in the Direct Retail Offer completed and submitted online on the Offer Website;
<b>“Ordinary Shares”</b>	means the ordinary shares with a nominal value of 1p each in the capital of the Company;
<b>“Over-allotment Arrangements”</b>	means the arrangements pursuant to which Ordinary Shares representing up to an additional 15 per cent. of the Ordinary Shares comprised in the Offer may be made available to investors;
<b>“Over-allotment Option”</b>	means the option granted by the Selling Shareholder to the Stabilising Manager to buy Ordinary Shares at the Offer Price, in accordance with the Over-allotment Arrangements;
<b>“Parcelforce Worldwide”</b>	means the business of the Group conducted by UKPIL under the “Parcelforce Worldwide” brand;
<b>“Pensions Reform”</b>	means the pensions reform with respect to the Royal Mail Section of the Royal Mail Pension Plan to be implemented with effect from 1 April 2014;
<b>“Permitted Service Personnel”</b>	means members of the regular forces as defined in section 374 of the Armed Forces Act 2006 who are located outside the UK who have been specifically notified by or on behalf of the Secretary of State that they are eligible to apply for Ordinary Shares in the Direct Retail Offer as if they were located in the UK (which excludes members of the regular forces located in the United States, Canada, Australia and Japan);
<b>“POL”</b>	means Post Office Limited;
<b>“Price Range”</b>	means the range within which the Offer Price is currently expected to be set, being between £2.60 to £3.30 per Ordinary Share;
<b>“Pricing Statement”</b>	means the statement expected to be published by the Company on or around 11 October 2013, in which the Offer Price and Offer Size will be announced;
<b>“Prospectus”</b>	means the prospectus issued by the Company in relation to the Offer, comprising this document, the Registration Document and the Securities Note prepared, published and approved by the UK Listing Authority in accordance with the Prospectus Rules;
<b>“Prospectus Directive”</b>	means the EU Prospectus Directive (2003/71/EC) (and amendments thereto);
<b>“Prospectus Directive Regulation”</b>	means the EU Prospectus Directive Regulation (No. 2004/809/EC);
<b>“Prospectus Rules”</b>	means the prospectus rules made by the UK Listing Authority under Part VI of FSMA (as set out in the Financial Conduct Authority Handbook), as amended;
<b>“Q1 FYE 2013”</b>	means the 13 weeks ended 24 June 2012;

<b>“Q1 FYE 2014”</b>	means the 13 weeks ended 30 June 2013;
<b>“QIB”</b>	has the meaning ascribed to it by Rule 144A;
<b>“Receiving Agent”</b>	means Equiniti Limited;
<b>“Registration Document”</b>	means the Registration Document, which, together with this document and the Securities Note, constitutes the Prospectus;
<b>“Regulation S”</b>	means Regulation S under the US Securities Act;
<b>“Retail Offer”</b>	means the retail offer by the Selling Shareholder in the UK pursuant to the Direct Retail Offer and the Intermediaries Offer and, in relation to the Direct Retail Offer only, to Permitted Service Personnel;
<b>“RMG”</b>	means Royal Mail Group Limited, a subsidiary of the Company, which operates UKPIL and is the UK’s designated universal postal service provider;
<b>“Royal Mail”</b>	means the business of the Group conducted by UKPIL under the “Royal Mail” brand and which includes the collection, sorting and delivery of letters and parcels as part of the USO;
<b>“Royal Mail Core Network”</b>	means the UK network and infrastructure of Royal Mail (including mail centres and delivery offices) for the collection, sorting, transportation and delivery of parcels and letters;
<b>“Rule 144A”</b>	means Rule 144A under the US Securities Act;
<b>“Secretary of State”</b>	means the Secretary of State for Business, Innovation and Skills;
<b>“Securities Note”</b>	means the Securities Note, which, together with this document and the Registration Document, constitutes the Prospectus;
<b>“Selling Shareholder”</b>	means Postal Services Holding Company plc (formerly named Royal Mail Holdings plc), which is wholly-owned by the Secretary of State;
<b>“Shareholder(s)”</b>	means holder(s) of Ordinary Shares from time to time;
<b>“Stabilising Manager”</b>	means UBS Limited;
<b>“Subordinated Facility”</b>	means the £300 million subordinated term loan facility deed dated 19 March 2007 between RMG (as borrower) and the Secretary of State (as lender);
<b>“Transformation Programme”</b>	means the transformation programme implemented by the Group from FYE 2008 in relation to Royal Mail and the Royal Mail Core Network;
<b>“UK Listing Authority”</b>	means the Financial Conduct Authority acting in its capacity as the competent authority for the purposes of Part VI of FSMA;
<b>“UKPIL”</b>	means the UK Parcels, International and Letters division of the Group, which includes Royal Mail and Parcelforce Worldwide;
<b>“Underwriters”</b>	means the Joint Global Co-ordinators, the Joint Bookrunners and the Co-Lead Managers, whether acting in their capacities as underwriters or otherwise;
<b>“Underwriting Agreement”</b>	means the agreement between the Secretary of State, the Selling Shareholder, the Company and the Underwriters dated 27 September 2013;
<b>“USO”</b>	means the universal service obligation imposed on RMG to provide the universal postal service in the UK pursuant to, and in accordance with, certain minimum standards imposed by Ofcom under section 36 of the PSA; and
<b>“US Securities Act”</b>	means the US Securities Act 1933, as amended.

**THIS DOCUMENT, THE SECURITIES NOTE AND THE SUMMARY** together comprise a prospectus (the “**Prospectus**”) relating to Royal Mail plc (the “**Company**”) prepared in accordance with the Prospectus Rules of the UK Listing Authority made under section 73A of FSMA, which has been approved by the UK Listing Authority in accordance with section 87A of FSMA and has been made available to the public in accordance with Rule 3.2 of the Prospectus Rules. This document has been prepared in connection with the offer of Ordinary Shares to certain institutional and other investors described in Part III (*Information About the Offer*) of the Securities Note and the admission of Ordinary Shares to the premium listing segment of the Official List of the UK Listing Authority and to the London Stock Exchange’s main market for listed securities. The Company has requested that the UK Listing Authority provides a certificate of approval, a copy of the Prospectus and a translation of the Summary (where applicable) to the relevant competent authority in each of Belgium, Cyprus, Germany, Gibraltar and Italy.

The Directors, whose names appear on page 49 of this document, and the Company accept responsibility for the information contained in this document. To the best of the knowledge of the Directors and the Company (who have taken all reasonable care to ensure that such is the case) such information is in accordance with the facts and this document does not omit anything likely to affect the import of such information.

Application will be made to the UK Listing Authority for all of the issued and to be issued Ordinary Shares to be admitted to the premium listing segment of the Official List and to the London Stock Exchange for the Ordinary Shares to be admitted to trading on the London Stock Exchange’s main market for listed securities, which together will constitute official listing on a stock exchange under the Listing Rules. No application has been made or is currently intended to be made for the Ordinary Shares to be admitted to listing or trading on any other exchange. Conditional dealings in the Ordinary Shares are expected to commence on 11 October 2013 (International Security Identification Number (ISIN): GB00BDVZY777). It is expected that Admission will become effective, and that unconditional dealings in the Ordinary Shares will commence at 8.00 a.m. on 15 October 2013. Dealings on the London Stock Exchange before Admission will only be settled if Admission takes place. **All dealings before the commencement of unconditional dealings will be on a “when issued” basis and will be of no effect if Admission does not take place and such dealings will be at the sole risk of the parties concerned.**

Prospective investors should read the whole of this document, together with the Securities Note and the Summary, and in particular the discussion of certain risks and other factors that should be considered in connection with an investment in the Ordinary Shares as set out in the sections entitled “Risk Factors” in this document and the Securities Note. Prospective investors should be aware that an investment in the Company involves a degree of risk and that, if one or more of the risks described in the Prospectus were to occur, investors may find that their investment is materially adversely affected. Accordingly, an investment in the Ordinary Shares is only suitable for investors who are knowledgeable in investment matters and who are able to bear the loss of the whole or part of their investment.



## Royal Mail plc

(incorporated in England and Wales under the Companies Act 2006 with registered number 08680755)

**Offer of up to 521,739,130 Ordinary Shares of 1p each  
at an Offer Price expected to be between £2.60 and £3.30 per Ordinary Share  
and admission to the premium listing segment of the Official List and to trading  
on the main market of the London Stock Exchange**

*Joint Global Co-ordinator and Joint Bookrunner*  
**Goldman Sachs International**

*Joint Global Co-ordinator and Joint Bookrunner*  
**UBS Investment Bank**

*Joint Bookrunner and Sponsor*  
**Barclays**

*Joint Bookrunner*  
**BofA Merrill Lynch**

*Co-Lead Manager*  
**Investec Bank plc**

*Co-Lead Manager*  
**Nomura**

*Co-Lead Manager*  
**RBC Capital Markets**

*Financial Adviser to HM Government*  
**Lazard & Co., Limited**

### Issued ordinary share capital on Admission

*Issued and fully paid Ordinary Shares*

*Number*  
1,000,000,000

*Nominal Amount*  
£10,000,000

Pursuant to the Offer, the Selling Shareholder is currently expected to sell between 401,000,000 and 521,739,130 Ordinary Shares, representing between 40.1 per cent. and 52.2 per cent. of the issued ordinary share capital of the Company on Admission. The Company will not receive any of the net proceeds of the sale of the Ordinary Shares, all of which will be paid to the Selling Shareholder. The Selling Shareholder is wholly-owned by HM Government (through the Secretary of State).

The Price Range and Offer Size Range have been set by the Secretary of State. It is currently expected that the Offer Price will be set within the Price Range and that the number of Ordinary Shares to be sold by the Selling Shareholder will be set within the Offer Size Range. A number of factors will be considered in determining the Offer Price, the Offer Size and the basis of allocation to investors, including the level and nature of the demand for the Ordinary Shares during the book-building process, the level of demand in the Retail Offer, prevailing market conditions and the objective of establishing an orderly after-market in the Ordinary Shares. Unless required to do so by law or regulation, the Company does not envisage publishing any supplementary prospectus or a pricing statement, as the case may be, until announcement of the Offer Price and Offer Size. A Pricing Statement containing the Offer Price, confirming the Offer Size and containing any other outstanding information is expected to be published on or about 11 October 2013. If the Offer Price is set above the Price Range and/or the number of Ordinary Shares to be sold by the Selling Shareholder is set above or below the Offer Size Range (subject to the minimum free float requirements of the UK Listing Authority), then the Secretary of State would make an announcement via a Regulatory Information Service and prospective investors would have a statutory right to withdraw their offer to purchase Ordinary Shares pursuant to section 87Q of FSMA. The arrangements for withdrawing offers to purchase Ordinary Shares would be made clear in the announcement. Further details of how the Offer Price and the Offer Size will be determined are contained in Part III (*Information About the Offer*) of the Securities Note.

The Company consents to the use of the Prospectus by the Intermediaries in connection with the Intermediaries Offer in the UK on the following terms: (i) in respect of Intermediaries who are appointed prior to the date of this document, from the date of this document; and (ii) in respect of Intermediaries who are appointed after the date of this document, from the date on which they are appointed to participate in the Intermediaries Offer and agree to adhere to and be bound by the terms of the Intermediaries Terms and Conditions, in each case until the closing of the Intermediaries Offer. The Company accepts responsibility for the information contained in the Prospectus with respect to any purchaser of Ordinary Shares pursuant to the Offer. **Any Intermediary that uses the Prospectus must state on its website that it uses this document in accordance with the Company's consent. Intermediaries are required to provide the terms and conditions of the Intermediaries Offer to any prospective investor who has expressed an interest in participating in the Intermediaries Offer. Any application made by investors to any Intermediary is subject to the terms and conditions imposed by each Intermediary.**

**This document does not constitute an offer of, or the solicitation of an offer to buy or to subscribe for, Ordinary Shares to any person in any jurisdiction to whom or in which jurisdiction such offer or solicitation is unlawful and, in particular, is not for distribution in Australia, Canada or Japan, in each case except in compliance with an exemption from applicable securities laws. The Ordinary Shares have not been and will not be registered under the US Securities Act of 1933, as amended (the "US Securities Act") or qualified for sale under the laws of any state of the United States or under any applicable securities laws of Australia, Canada or Japan. The Ordinary Shares are being offered and sold within the United States only to persons reasonably believed to be "qualified institutional buyers" (as defined in Rule 144A under the US Securities Act) in reliance on Rule 144A or pursuant to another exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act and outside the United States in reliance on Regulation S under the US Securities Act.**

**The Ordinary Shares have not been approved or disapproved by the US Securities and Exchange Commission ("SEC"), any state securities commission in the United States or any US regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of the Ordinary Shares or the accuracy or adequacy of this document. Any representation to the contrary is a criminal offence in the United States.**

The distribution of this document, the Securities Note and the Summary and the offer, sale and/or issue of Ordinary Shares in certain jurisdictions may be restricted by law. No action has been or will be taken by the Secretary of State, the Selling Shareholder, the Company, the Directors or any of the Underwriters to permit a public offer of Ordinary Shares or possession or distribution of this document (or any other offering or publicity material or application form relating to the Ordinary Shares) in any jurisdiction, other than the UK and the EEA Passport Jurisdictions. Persons into whose possession this document comes are required by the Secretary of State, the Selling Shareholder, the Company, the Directors and the Underwriters to inform themselves about and to observe any such restrictions. This document, the Securities Note and the Summary do not constitute or form part of an offer to sell, or the solicitation of an offer to buy, Ordinary Shares to any person in any jurisdiction to whom or in which such offer or solicitation is unlawful.

Certain statements contained in this document, the Securities Note and the Summary, including any information as to the Group's strategy, plans or future financial or operating performance constitute "forward-looking statements". By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future or are beyond the Group's control. Forward-looking statements are not guarantees of future performance. Prospective investors should read the section entitled "Forward-looking statements" on page 47 of this document for further details.

Any reproduction or distribution of this document, the Securities Note and the Summary, in whole or in part, and any disclosure of their contents or use of any information contained in these documents for any purpose other than considering an investment in the Ordinary Shares is prohibited. Recipients of this document, the Securities Note and the Summary agree to the foregoing by accepting delivery of these documents.

No person has been authorised to give any information or make any representations other than those contained in this document, the Securities Note and the Summary and, if given or made, such information or representations must be relied upon as having been authorised by the Company, the Directors, the Selling Shareholder, the Secretary of State or any of the Underwriters. Neither the delivery of this document, the Securities Note and the Summary nor any acquisition or sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Group since the date of these documents or that the information in these documents is correct as at any time after their date.

The contents of this document, the Securities Note and the Summary are not to be construed as legal, business or tax advice. Each prospective investor should consult his or its own legal adviser, financial adviser or tax adviser for legal, financial or tax advice.

Without limitation, the contents of the websites of the Group and the Offer Website do not form part of this document, the Securities Note or the Summary, and prospective investors should not rely on them.



## THE UNDERWRITERS

Each of the Underwriters is authorised by the Prudential Regulation Authority and regulated by the FCA and the Prudential Regulation Authority in the UK and is acting exclusively for the Secretary of State, the Selling Shareholder and the Company and for no other person in connection with the Offer and Admission and will not regard any other person (whether or not a recipient of this document) as its client in relation to the Offer and Admission and will not be responsible to anyone other than the Secretary of State, the Selling Shareholder and the Company for providing the protections afforded to its clients or for providing advice in relation to the Offer, Admission or any transaction or arrangement referred to in this document.

The Underwriters and any of their respective affiliates may have engaged in transactions with, and provided various investment banking, financial advisory, lending and commercial banking, and other services for the Secretary of State, the Selling Shareholder and the Company, for which they would have received customary fees. The Underwriters and any of their respective affiliates may provide such services to the Secretary of State, the Selling Shareholder and the Company and any of their respective affiliates in the future.

In connection with the Offer, each of the Underwriters and any of their respective affiliates acting as an investor for its or their own account(s) may purchase Ordinary Shares and, in that capacity, may retain, purchase, sell, offer to sell or otherwise deal for its or their own account(s) in the Ordinary Shares, any other securities of the Company or other related investments in connection with the Offer or otherwise. Accordingly, references in this document, the Securities Note and the Summary to the Ordinary Shares being issued, offered, subscribed for or otherwise dealt with should be read as including any issue or offer to, or subscription or dealing by, the Underwriters or any of them and any of their respective affiliates acting as an investor for its or their own account(s). The Underwriters do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so. In addition, in connection with the Offer, certain of the Underwriters may enter into financing arrangements with investors, such as share swap arrangements or lending arrangements where Ordinary Shares are used as collateral, that could result in such Underwriters or any of their respective affiliates from time to time acquiring, holding and/or disposing of shareholdings in the Company.

Apart from the responsibilities and liabilities, if any, which may be imposed on the Underwriters by FSMA, or the regulatory regime established thereunder, or under the regulatory regime of any other jurisdiction where exclusion of liability under the relevant regulatory regime would be illegal, void or unenforceable, none of the Underwriters nor the Secretary of State nor the Selling Shareholder accepts any responsibility whatsoever or makes any representation or warranty, express or implied, for the contents of this document, including its accuracy, completeness or verification, or for any other statement made or purported to be made by any of them, or on behalf of them, the Company or any other person in connection with the Company, the Ordinary Shares or the Offer and nothing contained in this document is or shall be relied upon as a promise or representation in this respect, whether as to the past or future. Each of the Underwriters, the Secretary of State and the Selling Shareholder accordingly disclaims all and any responsibility or liability whether arising in tort, contract or otherwise (save as referred to above) which any of them might otherwise have in respect of this document or any such statement.

## STABILISATION

In connection with the Offer, UBS Limited (as Stabilising Manager), or any of its agents, may (but will be under no obligation to), to the extent permitted by applicable law and for stabilisation purposes, over-allot Ordinary Shares up to a total of 15 per cent. of the total number of Ordinary Shares comprised in the Offer or effect other transactions with a view to supporting the market price of the Ordinary Shares at a higher level than that which might otherwise prevail in the open market. The Stabilising Manager is not required to enter into such transactions and such transactions may be effected on any securities market, over-the-counter market, stock exchange or otherwise and may be undertaken at any time during the period commencing on the date of the conditional dealings of the Ordinary Shares on the London Stock Exchange and ending no later than 30 calendar days thereafter. Such stabilisation, if commenced, may be discontinued at any time without prior notice. In no event will measures be taken to stabilise the market price of the Ordinary Shares above the Offer Price. Except as required by law or regulation, neither the Stabilising Manager nor any of its agents intends to disclose the extent of any over-allotments made and/or stabilisation transactions conducted in relation to the Offer.

For the purposes of allowing the Stabilising Manager to cover short positions resulting from any such over-allotment and/or from sales of Ordinary Shares effected by it during the stabilising period, it has entered into the Over-allotment Option with the Selling Shareholder pursuant to which it may purchase (or nominate purchasers of) additional Ordinary Shares representing up to 15 per cent. of the total number of Ordinary Shares comprised in the Offer (before utilisation of the Over-allotment Arrangements) (the "**Over-allotment Shares**") at the Offer Price. The Over-allotment Option may be exercised in whole or in part upon notice by the Stabilising Manager at any time on or before the 30th calendar day after the commencement of conditional dealings of the Ordinary Shares on the London Stock Exchange. Any Over-allotment Shares made available pursuant to the Over-allotment Option will be sold on the same terms and conditions as Ordinary Shares being offered pursuant to the Offer and will rank *pari passu* in all respects with, and form a single class with, the other Ordinary Shares (including for all dividends and other distributions declared, made or paid on the Ordinary Shares).

## NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED STATES

The Ordinary Shares have not been and will not be registered under the US Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act and in compliance with any applicable state securities laws. Prospective investors are hereby notified that sales of Ordinary Shares may be made in reliance on an exemption from the provisions of Section 5 of the US Securities Act. The Underwriters, through their respective selling agents, may arrange for the offer and resale of the Ordinary Shares in the United States only to persons reasonably believed to be QIBs in reliance on Rule 144A or pursuant to another exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act. Any offer or sale of shares in the United States will be made by broker-dealers who are registered as such under the US Securities Exchange Act of 1934, as amended (the "**US Exchange Act**").

For a description of these and certain further restrictions on the offer, sale and transfer of the Ordinary Shares and distribution of this document, see section 26 of Part XI (*Additional Information*). Please note that by receiving this document, purchasers shall be deemed to have made certain representations, acknowledgements and agreements set out in the Prospectus including, without limitation, those set out in section 26 of Part XI (*Additional Information*) and, in the case of investors submitting an Application Form, those set out in section 17.8 of Part III (*Information About the Offer*) of the Securities Note.

#### **NOTICE TO NEW HAMPSHIRE RESIDENTS ONLY**

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ("RSA 421-B") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

#### **AVAILABLE INFORMATION FOR INVESTORS IN THE UNITED STATES**

Neither the Company nor any of its subsidiaries is required to file periodic reports under Section 13 or Section 15(d) of the US Exchange Act. For so long as any Ordinary Shares are "restricted securities" within the meaning of Rule 144(a)(3) of the US Securities Act, the Company will, during any period in which it is neither subject to Section 13 or 15(d) of the US Exchange Act nor exempt from reporting pursuant to Rule 12g3-2(b) of the US Exchange Act, provide, upon written request, to holders of Ordinary Shares, any owner of any beneficial interest in Ordinary Shares or any prospective purchaser designated by such holder or owner, the information required to be delivered pursuant to Rule 144A(d)(4) under the US Securities Act.

This document, the Securities Note and the Summary are being furnished by the Company in connection with an offering exempt from the registration requirements of the US Securities Act, solely for the purpose of enabling a prospective investor to consider the subscription for or acquisition of Ordinary Shares described herein. The information contained in this document, the Securities Note and the Summary has been provided by the Company and other sources identified herein or therein. This document, the Securities Note and the Summary are being furnished on a confidential basis only to persons reasonably believed to be QIBs in the United States. Any reproduction or distribution of this document, the Securities Note and/or the Summary, in whole or in part, in the United States and any disclosure of its contents or use of any information herein or therein in the United States for any purpose, other than in considering an investment by the recipient in the Ordinary Shares offered hereby or thereby, is prohibited. Each potential investor in the Ordinary Shares, by accepting delivery of this document, the Securities Note and the Summary, agrees to the foregoing.

#### **NOTICE TO OVERSEAS SHAREHOLDERS**

The distribution of this document, the Securities Note and the Summary and the offer of the Ordinary Shares in certain jurisdictions may be restricted by law and therefore persons into whose possession this document, the Securities Note and/or the Summary comes should inform themselves about and observe any restrictions, including those set out in the paragraphs that follow. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

No action has been or will be taken in any jurisdiction (other than the UK and the EEA Passported Jurisdictions) that would permit a public offering of the Ordinary Shares, or possession or distribution of this document, the Securities Note, the Summary or any other offering material in any country or jurisdiction where action for that purpose is required. Accordingly, the Ordinary Shares may not be offered or sold, directly or indirectly, and neither this document, the Securities Note, the Summary nor any other offering material or advertisement in connection with the Ordinary Shares may be distributed or published, in or from any country or jurisdiction except in circumstances that will result in compliance with any and all applicable rules and regulations of any such country or jurisdiction. Persons into whose possession this document, the Securities Note and/or the Summary comes should inform themselves about and observe any restrictions on the distribution of this document, the Securities Note, the Summary and the Offer.

In addition, the Ordinary Shares are subject to restrictions on transferability and resale in certain jurisdictions and may not be transferred or resold except as permitted under applicable securities laws and regulations. Investors should be aware that they may be required to bear the financial risk of this investment for an indefinite period of time. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. This document, the Securities Note and the Summary do not constitute or form part of an offer to subscribe for or purchase any of the Ordinary Shares offered hereby to any person in any jurisdiction to whom it is unlawful to make such offer or solicitation in such jurisdiction.

Further information with regard to the restrictions on the distribution of this Prospectus and the offering, sale and transfer and resale of the Ordinary Shares is set out in section 26 of Part XI (*Additional Information*). Each purchaser of Ordinary Shares will be deemed to have made the relevant representations made therein.

#### **INTERPRETATION**

Certain capitalised terms used in this document are defined in Schedule I (*Definitions*) to this document and the meaning of certain other terms used in this document is explained in Schedule II (*Glossary*).

References to the singular in this document shall include the plural and vice versa, where the context so requires. References to sections or Parts are to sections or Parts of this document. The terms "subsidiary", "subsidiary undertaking" and "undertaking" have the meanings given to them by the Companies Act.

All references to time in this document are to UK time unless otherwise stated.

The date of this document is 27 September 2013.

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## EXPECTED TIMETABLE OF PRINCIPAL EVENTS

	Time and Date <sup>(1)(2)</sup>
Latest date for receipt of completed application forms by the Intermediaries in respect of the Intermediaries Offer	8 October 2013
Latest time and date for completion of Online Applications in respect of the Direct Retail Offer (including the Employee Priority Offer)	11.59 p.m. on 8 October 2013
Latest time and date for receipt of completed hard copy Application Forms in respect of the Direct Retail Offer (including the Employee Priority Offer) by the Receiving Agent	11.59 p.m. on 8 October 2013
Latest time and date for receipt of indications of interest in the Institutional Offer	5.00 p.m. on 8 October 2013
Announcement of the Offer Price and Offer Size, publication of the Pricing Statement and notification of allocations of Ordinary Shares <sup>(3)</sup>	7.00 a.m. on 11 October 2013
Commencement of conditional dealings in Ordinary Shares on the London Stock Exchange	8.00 a.m. on 11 October 2013
Admission and commencement of unconditional dealings in Ordinary Shares on the London Stock Exchange	8.00 a.m. on 15 October 2013
CREST accounts credited in respect of Ordinary Shares in uncertificated form	8.00 a.m. on 15 October 2013
Share Account Statements in respect of Ordinary Shares held through the Royal Mail Nominee Share Service sent by email to Shareholders who submitted an Online Application and elected to receive this via email <sup>(4)</sup>	On 15 October 2013
Latest date for despatch by post of Share Account Statements to all Shareholders holding Ordinary Shares through the Royal Mail Nominee Share Service, other than those who are sent this by email	By 21 October 2013
Latest date for despatch by post of definitive share certificates (where applicable) for Ordinary Shares in certificated form	By 21 October 2013

### Notes:

- (1) Times and dates set out in the timetable above and mentioned throughout this document that fall after the date of publication of this document are indicative only and may be subject to change without further notice.
- (2) All references to time in this timetable are to UK time.
- (3) The Offer Price and Offer Size will be set out in the Pricing Statement. The Pricing Statement will not automatically be sent to persons who receive this document but it will be available free of charge at the Company's registered office at 100 Victoria Embankment, London EC4Y 0HQ. In addition, the Pricing Statement will (subject to certain restrictions) be published on the Company's website at [www.royalmailgroup.com](http://www.royalmailgroup.com) and the Offer Website.
- (4) Shareholders who, pursuant to the Direct Retail Offer (including the Employee Priority Offer), choose to hold their Ordinary Shares in the Royal Mail Nominee Share Service will not be able to deal in Ordinary Shares on a conditional basis prior to Admission but will be able to buy and sell Ordinary Shares from Admission, subject to a charge. For further details on how to effect sales and purchases from Admission, and the charges payable, please refer to section 7 of Part V (*Terms and Conditions of the Royal Mail Nominee Share Service*) of the Securities Note.

**It should be noted that, if Admission does not occur, all conditional dealings will be of no effect and any such dealings will be at the sole risk of the parties concerned.**

## OFFER AND ADMISSION STATISTICS

Price Range (per Ordinary Share) <sup>(1)</sup>	£2.60 to £3.30
Number of Ordinary Shares in issue on Admission	1,000,000,000
Expected minimum number of Ordinary Shares which may be comprised in the Offer <sup>(2)</sup>	401,000,000
Expected maximum number of Ordinary Shares which may be comprised in the Offer <sup>(2)</sup>	521,739,130
Expected number of Ordinary Shares in the Offer as a percentage of total number of Ordinary Shares in existence on Admission <sup>(2)</sup>	Between 40.1% and 52.2%
Number of Ordinary Shares to be transferred by the Selling Shareholder to the trustee of the Royal Mail Share Incentive Plan <sup>(3)</sup>	100,160,000
Expected maximum number of Ordinary Shares subject to the Over-allotment Arrangements <sup>(4)</sup>	Between 60,150,000 and 78,260,870
Estimated gross proceeds of the Offer receivable by the Selling Shareholder at the mid-point of the Price Range and Offer Size Range <sup>(5)</sup>	£1,361,040,217
Market capitalisation of the Company at the mid-point of the Price Range <sup>(6)</sup>	£2,950,000,000

### Notes:

- (1) It is currently expected that the Offer Price will be set by the Secretary of State within the Price Range. The Company expects to publish the Pricing Statement containing the Offer Price and the Offer Size on or around 11 October 2013. If the Offer Price is set above the Price Range, then prospective investors would have a statutory right to withdraw their offer to purchase Ordinary Shares in the Offer pursuant to section 87Q of FSMA before the end of a period of two Business Days commencing on the first Business Day after the date on which an announcement of this is published by the Secretary of State via a Regulatory Information Service announcement. The arrangements for withdrawing offers to purchase Ordinary Shares would be made clear in the announcement.
- (2) Calculated (i) on the basis that the Offer Size will be set within the Offer Size Range of between 40.1 per cent. and 52.2 per cent. of the total number of Ordinary Shares in issue on Admission and (ii) before taking into account any over-allotment of Ordinary Shares pursuant to the Over-allotment Arrangements. It is currently expected that the Offer Size will be set by the Secretary of State within the Offer Size Range. However, the number of Ordinary Shares subject to the Offer may represent a higher or lower percentage than that indicated (subject to meeting the free float requirements set by the UK Listing Authority for Admission). If the Offer Size is set above or below the Offer Size Range, then prospective investors would have a statutory right to withdraw their offer to purchase Ordinary Shares in the Offer pursuant to section 87Q of FSMA before the end of a period of two Business Days commencing on the first Business Day after the date on which an announcement of this is published by the Secretary of State via a Regulatory Information Service announcement. The Company expects to publish the Pricing Statement containing the Offer Price and the Offer Size on or around 11 October 2013.
- (3) Subject to Admission and HMRC approval of the Royal Mail Share Incentive Plan, the Secretary of State will procure that the Selling Shareholder transfers the Employee Free Shares to the trustee of the Royal Mail Share Incentive Plan on or immediately after Admission. Each Eligible Employee will then automatically be awarded a number of Employee Free Shares on or around Admission, unless the Eligible Employee completes and submits to Equiniti Limited an opt-out form by 9.00 a.m. on 7 October 2013. The Employee Free Shares Offer is not part of the Offer.
- (4) Calculated on the basis that the Offer Size is set within the Offer Size Range. The maximum number of Ordinary Shares subject to the Over-allotment Arrangements is subject at all times to a maximum of 15 per cent. of the number of Ordinary Shares subject to the Offer (before utilisation of the Over-allotment Arrangements). In the event that the Offer Size is set outside the Offer Size Range, the maximum number of Ordinary Shares subject to the Over-allotment Arrangements would correspondingly increase or decrease.
- (5) Calculated on the basis that the Offer Size is set at the mid-point of the Offer Size Range and the Offer Price is set at the mid-point of the Price Range. The estimated gross proceeds receivable by the Selling Shareholder are stated before taking into account any proceeds which may be receivable by the Selling Shareholder pursuant to exercise of the Over-allotment Option. The estimated gross proceeds are stated without the deduction of the following amounts incurred by the Secretary of State and the Selling Shareholder: (i) underwriting commissions payable by the Selling Shareholder to the Underwriters in connection with the Offer (excluding any underwriting commissions payable in connection with any sales of Ordinary Shares pursuant to the exercise of the Over-allotment Option) (which are estimated to be approximately £11.4 million); (ii) transaction advisory fees and expenses incurred by the Secretary of State and the Selling Shareholder in respect of the Offer and fees and expenses in connection with the Retail Offer (including commissions payable to Intermediaries pursuant to the Intermediaries Offer) (which in aggregate are estimated to be approximately £10.3 million); and (iii) amounts in respect of stamp duty and SDRT payable by the Selling Shareholder in connection with the Offer which are payable to HM Government (which are estimated to be approximately £6.8 million). The amounts referred to above are calculated on the basis of the following assumptions: (a) the Offer Size is set at the mid-point of the Offer Size Range; (b) the Offer Price is set at the mid-point of the Price Range; (c) approximately 70 per cent. of the Ordinary Shares sold in the Offer (excluding pursuant to any exercise of the Over-allotment Option) are sold pursuant to the Institutional Offer and 30 per cent. are sold pursuant to the Retail Offer; and (d) the underwriting commissions payable by the Selling Shareholder to the Underwriters in connection with the Offer are, for the purposes of the deductions set out above, assumed to be the maximum percentage payable by the Selling Shareholder.
- (6) Calculated on the basis of the number of Ordinary Shares in Issue at Admission. The market capitalisation of the Company at any given time will depend on the market price of the Ordinary Shares at that time. There can be no assurance that the market price of an Ordinary Share will be equal to or exceed the Offer Price.



## RISK FACTORS

*Any investment in the Company is subject to a number of risks. Accordingly, prospective investors should carefully consider the risks and uncertainties associated with the Group's business and the legal and regulatory environment within which the Group operates, described below, together with all other information contained in this document, the Securities Note and the Summary, prior to making an investment decision. In particular and in addition to the risk factors included below, prospective investors should carefully review the risks associated with the Offer and the Ordinary Shares detailed in the section entitled "Risk Factors" in the Securities Note.*

*Prospective investors should note that the risks relating to the Group's business, the legal and regulatory environment within which it operates, the Offer and the Ordinary Shares summarised in the Summary are the risks that the Directors believe to be the most essential to an assessment by a prospective investor of whether to consider an investment in the Ordinary Shares. However, as the risks which the Group faces relate to events and depend on circumstances that may or may not occur in the future, prospective investors should consider not only the information on the key risks summarised in the Summary but also, among other things, the additional risks and uncertainties described below and in the section entitled "Risk Factors" in the Securities Note.*

*The risks and uncertainties described below and in the section entitled "Risk Factors" in the Securities Note represent those the Directors consider to be material as at the date of this document. However, these risks and uncertainties are not the only ones facing the Group. Additional risks and uncertainties not presently known to the Directors, or that the Directors currently consider to be immaterial, may individually or cumulatively also materially and adversely affect the business, results of operations, financial condition and/or prospects of the Group. If any or a combination of these risks actually occurs, the business, results of operations, financial condition and/or prospects of the Group could be materially and adversely affected. In such case, the market price of the Ordinary Shares could decline and investors may lose all or part of their investment. Investors should consider carefully whether an investment in the Ordinary Shares is suitable for them in the light of the information in this document and their personal circumstances.*

### **1. RISKS RELATING TO THE GROUP'S BUSINESS**

#### **1.1 Letter volumes in the UK are declining and may decline at a faster rate than forecast**

In FYE 2013, letters accounted for 52 per cent. of the Group's revenue. The use of letters as a medium of communication has declined in recent years as a result of greater use of electronic forms of communication, including email and text messaging, which have become increasingly important, especially for businesses. This is known as e-substitution. The Group estimates that, due in large part to e-substitution, addressed letter volumes in the UK have declined on average by approximately six per cent. per annum over the last five years.

Business (including transactional) letter volumes in the UK are expected to decrease further in the coming years as a result of further e-substitution, particularly by utility companies, banks and other financial services providers, which represent some of the Group's largest addressed letter customers, by revenue. The increased use, and promotion, of electronic bills and invoices by utility companies and electronic "paperless" statements by banks and other financial services providers is expected to result in a further reduction in addressed letter volumes. Furthermore, moves by governments and other bodies to incentivise the use of "paperless" communication may lead to further declines in the volumes of letters sent in the UK.

In FYE 2013, addressed letter volumes in the UK declined by eight per cent. and the Group forecasts that addressed letter volumes (including inland and international letters but excluding election material) in the UK will decline by approximately four to six per cent. per year over the three financial years ending with FYE 2016. It is possible that letter volumes may decline faster than forecast by the Group. The decline of letter volumes in the UK at the rates forecast by the Group, if not appropriately managed by the Group, or the decline of letter volumes at a faster rate than forecast by the Group would have a material adverse effect on the Group's results of operations, financial condition and prospects.

While the Group's unaddressed mail volumes increased between FYE 2012 and FYE 2013 to approximately 3.3 billion items, there can be no certainty that these volumes will continue to increase or be maintained. Moreover, there can be no assurance that the Group's MarketReach initiative, which the Directors believe offers the potential to play a part in the Group's ongoing management of the structural decline in the overall

UK letter market, will be successful. Please see section 4.8(A) of Part II (*The Business*) for further details of MarketReach.

Forecasting letter volumes is a complex process that is subject to significant uncertainty. Forecasts of letter volumes published by third parties may diverge from the Group's own forecasts. For example, PwC has forecast that addressed letter volumes in the UK (excluding international letters) will decline by five per cent. per year between 2013 and 2018 (Source: PwC Strategy & Economics – The Outlook for UK Mail Volumes to 2023, 15 July 2013; based on data partly sourced from the Group). Forecasts, including the Group's, may change over time due to changes in the assumptions on which they are based. There can be no assurance that letter volumes will not decline faster than forecast by the Group.

In addition to the effects of e-substitution, letter volumes are also dependent on other factors including levels of economic activity, pricing and demographics. Please see risk factors below for further discussion of these factors and the risks they present.

## **1.2 Parcel volumes in the UK and Europe may fail to grow as forecast or may decline as a result of increased e-substitution in relation to certain products**

In FYE 2013, parcels accounted for 48 per cent. of the Group's revenue. In the UK, the Group forecasts that in the three financial years ending with FYE 2016, parcel volumes within the B2C segment will grow at approximately five to six per cent. per annum and that, when aggregated, parcel volumes within the B2C and C2X segments will grow at approximately 4.5 to 5.5 per cent. per annum. The Group forecasts that parcel volumes within the UK's B2B segment will grow at slightly above UK GDP per annum in the three financial years ending with FYE 2016. In Europe, the Group forecasts that parcel volumes will increase in line with, or above, GDP over the three financial years ending with FYE 2016.

Forecasting parcel volumes is a complex process that is subject to significant uncertainty. Forecasts of the volume growth of UK and European parcel markets published by third parties may diverge from, and in some cases be lower than, the Group's own forecasts in this area. For example, PwC has forecast that the overall parcel volumes in the UK will grow at a CAGR of 3.3 per cent. per annum from 2013 to 2018. Between 2013 and 2018 in the UK, PwC also expects B2C parcel volumes to grow at a CAGR of 3.7 per cent., B2B volumes to grow at a CAGR of three per cent. and C2X volumes to grow at a CAGR of 1.8 per cent. (Source: PwC Strategy & Economics – The Outlook for UK Mail Volumes to 2023, 15 July 2013; based on data partly sourced from the Group). Forecasts, including the Group's, may change over time due to changes in the assumptions on which they are based. There can be no assurance that parcel volumes will grow in line with the Group's forecasts.

While the Group aims to increase revenue in its parcel businesses to mitigate the continued decline in letter volumes and the slow or declining growth in letter revenue, such increase is contingent on continued growth in both UK and European parcel markets. It is possible that parcel volumes in the UK and Europe may fail to grow as forecast by the Group, grow at rates different from the Group's forecasts or decline. If parcel volumes in the UK and Europe fail to grow as fast as forecast by the Group or decline, the Group's results of operations, financial condition and prospects would be materially adversely affected. Moreover, there can be no assurance that the Group will maintain or increase its share of the parcel markets in which it operates and its share of those markets may decline in the future.

The Group derives significant revenue from the delivery of items such as books, films and magazines purchased by customers. Such items, which previously were purchased and delivered only in physical form, are now increasingly being purchased by customers for viewing and use electronically, whether through websites or in downloadable form. This trend is expected to continue and may accelerate in coming years as consumers, whether for reasons of cost, convenience or otherwise, seek to purchase these products for use only in electronic form. The continuation or acceleration of this trend would have a material adverse effect on the Group's results of operations, financial condition and prospects.

## **1.3 Weak economic conditions in the UK and Europe may have a material adverse effect on the Group**

As letter and parcel volumes have historically been linked to levels of economic activity, the Group's business and operating results are affected by macroeconomic conditions, particularly in its principal markets in the UK and Europe. Since the start of 2008, the global economy has experienced significant turbulence and the outlook for the near to medium term remains challenging with many forecasts predicting only modest levels of GDP growth across the Group's principal markets (in particular the UK, Germany, France and Italy).

The link between letter and parcel volumes in the UK and Europe and the level of GDP of the relevant market is expected to continue. As a result, continued weak economic conditions in the UK and European economies in particular could have a material adverse impact on the results of operations of the Group. Low levels of economic growth may have a number of effects on the business of the Group, including customers adopting cheaper service options for the transmission of letters and parcels or ceasing to send letters and parcels, and there can be no assurance that such trends would reverse should economic growth improve in the future.

The Group's performance is dependent on a number of macroeconomic factors outside the control of the Group, including political, financial and economic factors. These include inflation and consumer, business and government spending, all of which affect the business and economic environment, demand for the Group's products and services, the prices of the Group's products and services and, ultimately, the future results of operations and prospects of the Group. In addition, the continued existence of the Euro as a currency in its current form is not certain. If any country were to leave the Euro, or if the Eurozone were to break up entirely, the treatment of debt and payment obligations previously denominated in Euro would be uncertain and whether such obligations were re-denominated into a new currency would depend on a number of factors including the place of payment, the place of incorporation of the debtor and the governing law of the relevant contract or transaction. The partial or total collapse of the Euro may lead to a number of operational and practical issues for members of the Group (in particular members of the GLS Group) who transact in Euro or operate in members of the Eurozone affected by that collapse.

#### **1.4 Changes in customers' behaviour or a failure by the Group to meet the levels of service expected by customers could reduce demand for the Group's products and services**

The Group is exposed to changes in the behaviour of its customers and changes to the markets in which it sells its products and services. Such changes have resulted, and could result, in reduced demand for the Group's products and services and require the Group to devote significant energy, resources and expenditure to change its services offering, adapt its business and operations, modify and renew its operating and IT systems and/or retrain or hire new people. Such changes could have a material adverse effect on the Group's results of operations, financial condition and prospects. The Group is also subject to the risk that its services offering may not adequately meet evolving customer needs, particularly when compared with alternative products and services made available by new technologies.

The Group is mandated to provide network access in the UK both to other postal operators and to customers in relation to certain second class letter and large letter products. Users of the Group's network access services deposit pre-sorted addressed letters and large letters into the Royal Mail Core Network at one of Royal Mail's inward mail centres, from where they are delivered by Royal Mail to the end-recipient. In FYE 2004, there were no access letter volumes. By FYE 2013 network access volumes had grown to 7.3 billion letters out of a total of approximately 17.4 billion letters handled by the Group in that year. Although network access letter volumes have been relatively stable in the last three financial years, there remains a risk that existing business customers may in future continue to increase volumes sent through the Group's network access services (for which the Group charges lower prices), whether directly as access customers or through another postal operator.

In addition, the Group believes there is a strong link between the quality of the service which customers receive from a particular delivery provider and their willingness to use that delivery provider again in the future. During FYE 2013, the number of complaints received by the Group in the UK increased to approximately 486,400 from approximately 457,600 in FYE 2012, on a like-for-like basis. The failure by the Group to deliver to the service quality standards expected by customers may lead to customers using alternative delivery providers. More generally, the failure by the Group and other delivery providers to meet the service quality standards expected by customers may lead to a decline in the overall size of the market as customers choose different options for the delivery of information and for sending and receiving items, including by using email and other forms of electronic communication, purchasing goods using traditional forms of retailing (rather than online retailing) or by using "click and collect" services offered by multi-channel retailers with a high street presence or "pick up drop off" points offered by other parcel deliverers who enter partnerships with retailers with a physical presence (such as convenience stores and garages) from whose premises consumers can collect parcels.

The Group forecasts investments relating to infrastructure and key network assets (including real estate, vehicles, machinery and other equipment) in anticipation of the volumes of parcels and letters it expects to deliver through its networks and the services to be provided. If these forecasts are not accurate, there may be a mismatch between investment and actual requirements. If the Group underestimates its future capacity

requirements, the needs of the Group and its customers may not be met and it could lose business, which could have a material adverse effect on the Group's results of operations, financial condition and prospects. If the Group overestimates future needs it may experience costly excess capacity and this could also have a material adverse effect on its financial condition and prospects, including where it is required to increase prices for its products and services to recover those costs. Such price increases could lead to a loss of business which could have a material adverse effect on the Group's results of operations, financial condition and prospects.

The volume of items sent through the Group's delivery networks by the Group's parcel customers could decline as a result of external events and circumstances. Such events and circumstances could include periods of good weather, which lead to a reduction in the levels of online shopping and e-commerce, and a fall in the volume of parcels through the Group's delivery networks. Any material reduction in the volume of parcels sent through the Group's delivery networks as a result of such external events and circumstances could have a material adverse effect on the Group, its results of operations, financial condition and prospects.

#### **1.5 In the future the Group may not be able to recover all of its costs, including the costs it incurs in providing the USO**

While the UK postal services regulatory framework which came into effect from 27 March 2012 gives the Group greater freedom in relation to the setting of prices compared with the framework in force prior to that date, the Group's ability to implement price rises in relation to services it delivers within, and outside, the scope of the USO may be limited as a result of market factors as well as the provisions of general competition law. In addition, the Group is subject to a number of regulatory constraints and obligations, including direct price caps in relation to certain second class products delivered under the USO which may act as a constraint on the Group's ability to increase the prices of those products. Moreover, the prospect of regulatory intervention in response to price rises implemented by the Group may limit the ability of the Group to increase prices of certain products or services. As many of the costs of operating the Group are fixed, together with its obligation to maintain the Royal Mail Core Network to provide the USO, the failure of the Group to reduce its costs or to implement price rises in order to recover all of the costs which it incurs in providing the relevant and required services, may have a material adverse effect on its financial condition, results of operations and prospects.

#### **1.6 The Group may not be successful in meeting its productivity targets**

In order to increase productivity and manage the Group's costs, the Group has implemented a number of efficiency programmes and linked the remuneration of frontline employees within Royal Mail and Parcelforce Worldwide to productivity levels. Over the past three years, the Transformation Programme has delivered year-on-year productivity improvements within the Royal Mail Core Network of approximately 4.4 per cent., 3.2 per cent. and 1.7 per cent. in FYE 2011, FYE 2012 and FYE 2013, respectively. In the future, the Group is targeting productivity improvements within the Royal Mail Core Network of approximately two to three per cent. per year. Productivity is the primary measure for the ability of Royal Mail to efficiently process and deliver mail, and is measured by reference to the weighted items (workload) that the Royal Mail Core Network handles per gross hour. The Group's targeted productivity improvements within the Royal Mail Core Network assume that workload across the Royal Mail Core Network will remain broadly stable as the increase in workload expected to arise as a result of forecast parcel volume growth broadly offsets the decline in workload expected to arise as a result of forecast letter volume decline. Further information on the Group's productivity improvements, including how productivity is measured by the Group, can be found in section 4.7 of Part VII (*Operating and Financial Review*).

There can be no assurance, however, that overall workload within the Royal Mail Core Network will not decline, whether as a result of letter volumes declining faster than forecast or parcel volumes failing to grow at forecast levels, that the Group will be successful in implementing its productivity improvement programmes, or that the targeted benefits of such programmes will be realised during the expected time frame or at all. Further, the Group may be required to spend more on these programmes than it has currently budgeted, which could constrain its investments in other areas. Any failure of the Group to realise the targeted benefits of these productivity improvement programmes or any material non-budgeted spending on such programmes could have a material adverse effect on its business, financial condition, results of operations and prospects.



### **1.7 The Group may fail to implement the remainder of the Transformation Programme and/or the expected benefits of that programme may not be achieved at the time or to the extent expected, or at all**

Since FYE 2008, the Group has been implementing its Transformation Programme, which has covered each phase of the operations of Royal Mail in the Royal Mail Core Network. The key elements of the Transformation Programme are expected to be completed in FYE 2014. The implementation of the Transformation Programme will continue, with a number of initiatives already under way or planned with the aim of optimising the efficiency, productivity, quality of service and cost saving potential of the Transformation Programme (as described further in section 4.3 of Part II (*The Business*)).

There can be no certainty that measures already under way as part of the Transformation Programme will be completed in whole or in part. Furthermore, a number of additional measures, such as the automation of parcel sorting, remain under consideration by the Group and there can be no certainty that they will be implemented in part or at all. In addition, measures forming part of the Transformation Programme, if implemented, may not deliver the expected benefits to the Group. The successful implementation of measures as part of the Transformation Programme is contingent upon a range of factors, both internally driven, such as the ability of the organisation to effectively and appropriately implement IT or business change, and those which are beyond the Group's control, including the general business environment and the activities of competitors and customers. In recent years, the Group has worked with its employees and the Trade Unions on a collaborative basis with respect to the implementation of the Transformation Programme. The ability of the Group to continue to implement the Transformation Programme depends on its relationships with its employees and the Trade Unions (see the Risk Factors set out in sections 1.10 and 1.11 below). Any deterioration in the relationship between the Group and its employees or the Trade Unions may delay or inhibit the implementation of all or parts of the Transformation Programme. The implementation of the Transformation Programme may also lead to short-term operational and service disruption, including on a localised basis, which may affect the Group's ability to deliver services and products in the UK in accordance with the service levels required by Ofcom or the expectations of its customers. Any such disruption may have a material adverse effect on the brand and reputation of the Group. An objective of the Transformation Programme is, and has been, to adapt the Royal Mail Core Network so that it is able, safely and efficiently, to deliver the changing mix and profile of letters and parcels passing through the network. The Royal Mail Core Network may experience operational inefficiencies and an increase in costs if the mix and/or profile of letters and parcels in the Royal Mail Core Network changes more quickly than forecast or if the mix and/or profile changes differently to how the Group expects.

The successful completion of the Transformation Programme is an important part of the Group's strategy and any failure to achieve the benefits of the programme, including in circumstances where it is unable to otherwise recover the costs of maintaining the Royal Mail Core Network in order to fulfil RMG's obligations as the UK's designated universal postal service provider, could lead to an increased risk of regulatory intervention by Ofcom and could have a material adverse effect on the Group's business, results of operations, financial condition and prospects. Further information regarding RMG's obligations as the UK's designated universal postal service provider can be found in section 2.2 of part A of Part X (*Regulation, State Aid and Procurement*).

The Group's success depends in part on its ability to take advantage of further technological enhancements in the delivery of its services for customers, including in relation to the efficient and safe sorting and delivery of letters and parcels. To achieve its strategic objectives and remain competitive, the Group must continue to develop and enhance its technology systems, building on the developments it has already introduced in the Royal Mail Core Network as part of the Group's Transformation Programme. No assurance can be given that the Group will be able to continue to develop, implement or utilise, in a cost-efficient manner, technology systems that provide the capability necessary for the Group to compete effectively. Any failure to adapt to technological developments could mean that the Group fails to consolidate and increase its share of the markets in which it operates and may put it at a disadvantage compared with its competitors. This failure could have a material adverse effect on the Group's results of operations, financial condition and prospects.

### **1.8 The Group faces risks associated with the labour-intensive nature of its business and its large workforce**

The Group's business is labour-intensive and necessitates a large workforce and the Group is reliant on its staff for the management, operation, creation, maintenance, repair and upgrading of its business, operations and systems. At 30 June 2013, the Group employed approximately 167,000 employees, including approximately 150,000 employees within UKPIL. In particular, the Group is required to maintain a large, fixed-



cost collection and delivery network in the UK to enable it to fulfil its obligations under the USO. The size of, and high fixed employment costs associated with, the Group's workforce in the UK may make the Group less competitive compared with other postal operators in the UK.

Since 2009, the Group has reduced the number of its employees, mainly through reductions in numbers in UKPIL, largely through voluntary redundancies and retirements. If levels of voluntary redundancy and retirement among the Group's staff are lower than the Group expects, it may not, over time, be able to achieve anticipated reductions in the overall number of personnel in its UK workforce. If the Group is unable to reduce levels of employment in a manner consistent with its productivity targets, its employment costs will be higher than anticipated and this will affect the profitability and financial condition of the Group.

Changes to laws and regulations relating to employment (including the interpretation and enforcement of those laws and regulations) could have a material adverse effect on the Group, its results of operations, financial condition and prospects. In particular, changes in this area could, directly or indirectly, increase the Group's employment costs, which, given the size of the Group's workforce, could have a material adverse effect on the Group, its profitability and financial condition. Section 8.3(B) of Part VII (*Operating and Financial Review*) sets out details of certain increased employment-related costs incurred by the Group in FYE 2013 as a result of the implementation of new legislation in this area, and the costs of the Group may rise in the future as a result of the implementation of other employment legislation.

#### **1.9 The Group may fail to achieve its financial objectives, including as a result of a reduction in its earnings or volumes**

The Group has established certain financial objectives: low single digit revenue growth; net operating costs (operating costs and transformation costs) growth to remain below the rate of revenue growth; and operating profit margin after transformation costs to grow over the next five years ending with FYE 2018 to achieve margins in line with the Group's peers. These objectives are forward-looking statements and the Group's achievement of these objectives is subject to a range of sensitivities and external factors, more details on which are set out in section 5.6 of Part VII (*Operating and Financial Review*). The Group's ability to achieve these financial objectives is subject to a number of risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future or are beyond the control of the Group, including as a result of those risks and factors identified in sections 1.1 to 1.8 of these Risk Factors. There can be no assurance that the Group will achieve these objectives, whether in part or at all. In particular, the Group's earnings in the future could be highly volatile and, for example, a uniform decrease in UKPIL letter and parcel volumes of one per cent. in a financial year is estimated to result in a decrease in revenue of approximately £75 million (see section 5.7 of Part VII (*Operating and Financial Review*) for more detail). As many of the Group's costs are fixed, any material reduction in volumes and revenue may have a material adverse effect on its financial condition, results of operations and prospects.

#### **1.10 There is extensive trade union recognition in respect of the Group's workforce in the UK and the Group is subject to the ongoing risk that one or more material disagreements or disputes between the Group and the Trade Unions could result in widespread localised or national industrial action**

In the UK, RMG (which employs the majority of the Group's employees in the UK) recognises the Communications Workers Union (the "CWU") in respect of operational and administrative grade employees (who comprise the vast majority of its UK workforce) and the Communication and Managers Association section of Unite (the "CMA") in respect of most managers across RMG. The Group estimates that approximately 80 per cent. of RMG's operational and administrative grade employees are members of the CWU and approximately 40 per cent. of RMG's managers are members of the CMA. RMG is therefore required to reach agreement with the CWU and the CMA prior to implementing changes to pay and terms and conditions of employment (for which the Trade Unions have been recognised to conduct collective bargaining) in respect of relevant employees. Changes to some non-contractual matters, including certain working arrangements and various processes for the introduction of new ways of working aimed at improving efficiency, are also subject to prior consultation and, in some circumstances, negotiation with the Trade Unions in accordance with the applicable industrial relations framework. There are currently in excess of 80 national collective agreements in place in the UK between RMG and the Trade Unions on a wide range of matters. The extent of Trade Union involvement across the Group's workforce in the UK may limit the Group's flexibility in dealing with operational matters and lead to increased operating costs.

Although in the period from 2009 to date the Group has not been subject to national industrial action in the UK, the historical tendency of the CWU to ballot its members for industrial action in the lead-up to the review date of an existing pay deal and its members' historical willingness to vote in favour of such action mean that, in the UK, RMG is subject to ongoing risks of national industrial action.

In addition to action at a national level, the Group is also subject to the risk of localised industrial action at specific sorting, delivery or other operational units which may take the form of local strikes or a refusal on the part of employees to work normally. This can arise for a number of reasons, including, without limitation, in response to proposed changes in working arrangements at a local level, or the treatment of a member of staff. Localised industrial action occurs from time to time and the issues arising are typically managed on a site-by-site basis and only likely to have a material impact if localised industrial action is part of wider national industrial action (as discussed in Risk Factor 1.11 below).

The Group is subject to the ongoing risk that if there is a material disagreement or dispute between the Group and the Trade Unions resulting in widespread localised or national industrial action, or the threat of such industrial action, the Group's business could suffer material disruption and be adversely affected and revenue could decline. Material or sustained industrial action (or the threat of such industrial action) could also adversely affect the reputation and brand of the Group. Further detail regarding the potential impact of industrial action on the Group and its business in the UK can be found in Risk Factor 1.11 below.

In addition to the risks set out in this Risk Factor, potential investors should read Risk Factor 1.11 below in relation to national strike action and other forms of industrial action involving the workforce of Royal Mail and Parcelforce Worldwide expected to take place during the period immediately following, and which may occur during, the Offer Period, and its impact on the Group.

**1.11 The Group expects that members of the CWU employed by RMG will vote for national strike action in the ballot due to open on 27 September 2013. Potential investors should therefore assume, for the purposes of making any decision to purchase Ordinary Shares, that national strike action and other forms of industrial action will take place across the whole of UKPIL's activities during the period immediately following, and may occur during, the Offer Period**

#### ***Privatisation of Royal Mail***

Both the CWU and the CMA are opposed to, and the CWU, in particular, has publicly campaigned against, the privatisation of Royal Mail. On 20 September 2013, the CWU notified RMG that it intended to hold a ballot for national strike action and that the ballot would open on 27 September 2013 and close on 16 October 2013. The Group expects that the members of the CWU will vote for national strike action in this ballot. Potential investors should therefore assume, for the purposes of making any decision to purchase Ordinary Shares, that national strike action and other forms of industrial action will take place across the whole of UKPIL's activities during the period immediately following, and may occur during, the Offer Period.

#### ***Negotiations with the CWU***

A number of elements of RMG's collective agreement reached with the CWU following the industrial action in 2009, including pay, became due for renegotiation in April 2013. RMG has held negotiations with the CWU about these elements, including in relation to a new three-year pay deal.

On 17 June 2013, RMG proposed a new pay deal to the CWU under which CWU represented grades of employees working in Royal Mail Core Operations, Logistics, Engineers, Fleet and Maintenance Services, Royal Mail International and Royal Mail Specialist Services would receive an increase of 8.6 per cent. on basic pay over a three-year period backdated to 1 April 2013 and a non-consolidated lump sum of £300 gross each (subject to certain conditions). This pay offer does not extend to CWU graded staff in Parcelforce Worldwide and RMG support functions.

This proposal was made as part of a package to deliver an agenda for growth and industrial stability (including a new model for the CWU and RMG to work together) and protections in respect of both the current employment model and the operation of the business (including in relation to the future outsourcing of services and company structure), together with confirmation that contracts of employment and terms and conditions for existing employees and those hired into the relevant part of the business would remain on the same basis for the three-year period of the agreement. RMG also said that it would make its proposal part of a legally binding agreement with the CWU. The additional rights and protections which would be afforded to the CWU by a legally binding agreement may further limit the Group's flexibility to deal with operational matters and in the future increase the involvement of the CWU in RMG's decision-making processes. Although the CWU stated that the pay element will be seen as "significant", it has rejected it in the context of

the overall package offered. The CWU has subsequently published its own proposed package for legally binding protections. RMG does not accept the CWU's position and is continuing to negotiate with the CWU to achieve the right balance of stability for the business and protections for the relevant employees. Please see section 10.2 of Part II (*The Business*) for further information.

#### ***Anticipated industrial action affecting Royal Mail and Parcelforce Worldwide***

On 2 September 2013, CWU announced that if current talks with RMG do not lead to an agreement, a ballot for national industrial action would be held. On 20 September 2013, the CWU notified RMG that it intended to ballot relevant RMG employees who are members of the CWU, including those working in Royal Mail and Parcelforce Worldwide, for industrial action and that the ballot would open on 27 September 2013 and close on 16 October 2013. The sample ballot paper provided to RMG by the CWU on 20 September 2013 indicates that industrial action will take the form of a national strike. The duration of any industrial action to be taken is unlikely to be known until 16 October 2013 at the earliest. In accordance with the notification given by the CWU, the first date on which this national strike could occur is 23 October 2013. The elements of the dispute identified by the CWU as giving rise to possible industrial action are: the settlement of the CWU's 2013 pay deal; RMG's Pensions Reform; and the impact of privatisation on job security and terms and conditions.

Negotiations between RMG and the CWU are continuing, and RMG remains committed to reaching an agreement with the CWU and averting industrial action. It should be assumed that the CWU will not settle an agreement prior to Admission as it could be seen as compromising its official campaign to oppose the Transaction. It should therefore be assumed that national strike action and other forms of industrial action will take place across the whole of UKPIL's activities during the period immediately following, and may take place during, the Offer Period, and that agreement with the CWU will not be concluded until after Admission.

Although there is no recent history of industrial action by managers employed by RMG who are members of the CMA, it is possible that industrial action could take place or be threatened in the future and therefore RMG is also subject to ongoing risks of industrial action by CMA members during, and/or after, the Offer Period.

Industrial action by the CWU could take a number of different forms and there can be no certainty as to the form that any industrial action, either during and/or after the Offer Period, might take. It could take the form of a strike or action short of a strike, for example, refusing to work overtime. It is possible that localised or regional industrial action might occur. Alternatively, industrial action could occur on a national basis. This could include one or more incidents of "single day" action (affecting all aspects of Royal Mail and/or Parcelforce Worldwide's operations on the same day(s)) or "rolling" action (affecting different parts of Royal Mail and/or Parcelforce Worldwide's operations on different days). In either case, the same group could take action on consecutive days. "Rolling" industrial action is likely to cause greater levels of disruption to Royal Mail's operations as the overall impact would be spread over a longer period. Neither the length of any industrial action, nor the form it could take, can be predicted with any certainty.

It is possible that the type of industrial action could evolve during the course of any dispute. This occurred in 2009, the last year in which the Group was subject to national industrial action in the UK, where action started out with low levels of sporadic local industrial action affecting Royal Mail and built steadily through the year with regional and national coordinated rolling strikes. However, potential investors should note that the sample ballot paper provided by the CWU to RMG on 20 September 2013 indicates that it intends to ballot RMG employees for national strike action, and this should be assumed.

Investors should note that in 2009, the proportion of the Group's revenue and volumes represented by UK parcels was significantly lower than it is today and the competitive landscape within the parcel and letter markets within which the Group operates in the UK was significantly different. Therefore, as the business and operations of Royal Mail today are very different from 2009, the impact of national industrial action on the Group now and in the future could differ materially from the impact of the national industrial action that occurred in 2009.

#### ***Impact of threatened and actual industrial action***

The threat of national industrial action (regardless of whether national industrial action actually occurs) would be likely to have an adverse effect on the business of the Group. The threat that the Group may not be able to fulfil the delivery of parcels and letters as a result of national industrial action would be likely to cause customers of the Group to approach, and enter into contractual arrangements with, other operators. This is particularly relevant for parcel customers wishing to enter into new, or renew, amend or expand existing, contractual arrangements now for the delivery of items at a time, including the busy autumn and Christmas period, when national industrial action might occur.

National industrial action affecting UKPIL, especially if protracted, would cause material disruption to the Group's UK business, result in an immediate and significant loss of revenue for the Group and adversely affect its reputation and brand. If, as assumed, national industrial action is called during or after the Offer Period, this will coincide with UKPIL's busiest seasonal period (from autumn through until Christmas), and further exacerbate the financial impact on the Group.

#### *Impact on UKPIL's parcel business*

In response to threatened, or actual, national industrial action, existing higher-volume parcel customers of UKPIL may put in place contingency measures, including by entering into arrangements with other parcel operators for the delivery of their parcels in the event of actual or threatened industrial action affecting UKPIL, particularly in connection with the upcoming Christmas season. In addition, while Royal Mail's parcel products remain competitively priced, prices charged by certain other postal operators for equivalent parcel delivery services are believed to be lower. Therefore, subject to availability of spare capacity in competing delivery networks, Royal Mail's existing customers have the option of using other operators that offer parcel delivery services that are more cheaply priced than those of Royal Mail. As a result, actual or threatened national industrial action could result in a permanent loss of parcel volumes and revenue for UKPIL. Competing parcel operators may seek longer-term commitments and/or other contractual enhancements from customers in return for delivering items during the period of any actual or threatened national industrial action affecting UKPIL. The making of alternative delivery arrangements by UKPIL's parcel customers in response to actual or threatened national industrial action, particularly if such arrangements are long-term in nature, could lead to a permanent loss of certain parcel volumes for UKPIL and have a material adverse impact on the financial condition, results of operations, reputation, brand and prospects of UKPIL.

Parcelforce Worldwide was not affected by the national industrial action that affected Royal Mail in 2009. However, employees working in Parcelforce Worldwide will be covered in the ballot announced by the CWU and it is likely that Parcelforce Worldwide will be subject to industrial action at, or around, the same time as industrial action affecting Royal Mail. The impact of national industrial action affecting Parcelforce Worldwide could be even more significant than for Royal Mail given that the majority of its parcel volumes and revenue are derived from business customers and express parcels requiring delivery on a day-certain or time-certain basis. Heightened competition within the business and express segments of the UK parcel market, combined with a commercial need to access uninterrupted parcel delivery services, could lead some business customers of Parcelforce Worldwide to switch volumes to competing operators at short notice, which would have a material adverse effect on the financial condition, results of operations, reputation, brand and prospects of Parcelforce Worldwide. National strike action would also have a material adverse effect on the business of Royal Mail Relay, which, among other things, delivers confidential and other sensitive consignments for a range of commercial customers in the UK.

There is also a risk that, as a result of industrial action affecting UKPIL and the possible capacity limitations that might arise in the UK's parcel market during the period of industrial action, consumers and other customers might return to more traditional forms of shopping rather than using online retail and/or make more use of "click and collect" facilities. Such a change might occur only around the period of any industrial action affecting UKPIL but it is possible that any such change, if it were to occur to a material extent and over an extended period of time, could have a longer-term structural impact on the UK parcel market and lead to an overall reduction in the number of online purchases requiring fulfilment through a parcel delivery.

#### *Impact on Royal Mail's letter business*

National industrial action affecting Royal Mail could also have a material adverse effect on Royal Mail's letter business. National industrial action could lead to customers deferring the despatch of letters or using other means to communicate. In addition, national industrial action, especially if protracted, could lead to an acceleration of the structural decline in letter volumes in the UK as customers, including business and social customers of Royal Mail, refrain from using postal services in favour of increased use of electronic communication and delivery methods, or cease sending certain types of written communication altogether. While there is currently very little "end to end" competition in the UK, national industrial action (especially if protracted) could enable competing postal operators offering an "end to end" service to increase their letter volumes at the expense of Royal Mail.

#### *Regulatory impact*

Royal Mail is required to comply with certain quality of service standards prescribed by Ofcom in relation to the delivery of mail in the UK. National industrial action, especially if protracted, (whether on its own or in



combination with other factors adversely affecting Royal Mail's service delivery) may cause Royal Mail to fail to meet these standards. Any such failure could lead to regulatory enforcement action and fines. In addition, the failure by Royal Mail to meet quality of service standards could lead to adverse publicity and adversely affect the reputation and brand of the Group.

### **Overall impact**

National industrial action affecting UKPIL, or the threat of such industrial action, during, or after, the Offer Period is likely to have a material adverse effect on the operations, financial condition, results of operations, reputation, brand and prospects of the Group. However, it is not possible to reliably estimate such effects or quantify the financial impact (including the ongoing impact) for the Group of any industrial action with any certainty before the event. The Group's ability to achieve its objectives, particularly its revenue, cost and productivity objectives, would also be materially adversely impacted by any national industrial action.

National industrial action, or the threat of national industrial action, affecting UKPIL could also have a material adverse effect on the success of the Offer and, if it occurs after Admission, could cause the price of Ordinary Shares to fall significantly.

Potential investors should assume for the purposes of making any decision to purchase Ordinary Shares that national strike action and other forms of industrial action will take place across the whole of UKPIL's activities during the period immediately following, and may occur during, the Offer Period.

### **1.12 The Group may be adversely affected by competition from alternative providers of "end to end" letter delivery services in the UK**

The Group operates in different market segments for the delivery of letters in the UK with variable competitive conditions. These currently include mandated network access (under which customers and other postal operators are able to obtain access to the Royal Mail Core Network for "final mile" delivery of pre-sorted second class letters and large letters to end-recipients) and "end to end" delivery competition.

"End to end" competition arises where a postal operator other than Royal Mail collects, transports, sorts and delivers letters directly from the posting customer to the end-recipient without using any part of the Royal Mail network.

Although other postal operators are active in the "end to end" delivery segment, there is currently very little "end to end" competition in the UK, in contrast to the position in a number of European countries. In FYE 2013 the Group delivered approximately 99 per cent. of letter volumes in the UK. In 2012, TNT launched an "end to end" delivery trial in parts of London following a similar trial in Liverpool and expanded the scope of its "end to end" delivery service into other parts of London, most recently in June 2013. If TNT further expands the size and scope of its "end to end" offering, as it has stated it intends to do, and/or other postal operators enter the "end to end" delivery segment in the UK, the Group may suffer a decline in its market share and revenue. Any response by the Group to "end to end" competition will be subject to general competition law and to the regulatory regime for postal services in the UK.

A number of other postal operators who currently use the Group's access services, including TNT, have a relatively large number of customers for whom they currently provide upstream letter services and with whom they may already have established relationships. In the future, these other postal operators may, by leveraging existing and established customer relationships, seek to provide "end to end" services for their existing customers for whom they currently provide only upstream services.

Increased "end to end" competition risks significantly accelerating the decline in the volume of letters handled through the Royal Mail Core Network, which facilitates the delivery of the UK's universal postal service. Although Royal Mail would be handling fewer letters, it would still be required to operate a national network capable of delivering a next-day service six days per week to every address in the UK at uniform and affordable prices. The risks to maintaining the profitability of the Royal Mail Core Network are likely to increase with increased competition, and may do so significantly, particularly if competitors are permitted to target only more profitable, higher-density delivery areas and/or to deliver fewer days a week than the Group, leaving the Group (through RMG) with the continued obligation, as the UK's designated universal postal service provider, to deliver in less profitable, lower density areas of the UK six days a week. Any such moves would be likely to mean that the Group may not be able to offset increased costs associated with deliveries in less profitable areas through deliveries in more profitable areas. The impact of increased "end to end" competition on the Group's financial position and prospects would be significantly greater than that of increased network access.



While Ofcom has stated that “end to end” delivery competition has the potential to affect the provision of the UK’s universal postal service negatively, it does not believe that there is an immediate need to conduct a review of the impact of competition in this area or to impose conditions, including general universal service conditions, on any other “end to end” providers to protect the universal postal service. It has committed to commence a full review of the impact of “end to end” delivery competition no later than the end of 2015. If “end to end” delivery competition should rapidly develop, any failure or delay by Ofcom in undertaking such a review in the future, or any failure or delay in introducing appropriate regulatory safeguards to protect the universal postal service in this regard, would be likely to undermine the Group’s ability to earn revenue necessary to cover the costs of providing the universal postal service in the UK. Furthermore, intervention by Ofcom would be based on a need to protect the universal postal service in the UK and would not be undertaken to ensure the healthy financial performance of the Group. There can be no assurance that the Group will be able to compete successfully against its current or future competitors or that the competitive pressures it faces will not result in reduced revenue or market share or seriously harm its business.

### **1.13 The parcel markets in the UK and Europe in which the Group operates are highly competitive**

The parcel markets in the UK and Europe are highly competitive. The Group already faces significant competition in the UK and Europe from companies with established delivery capabilities, particularly in the express parcel segment. The Group may be adversely affected by parcel operators that successfully capture some of the Group’s market share, including through the use of aggressive pricing strategies, offering products and services which the Group does not offer or otherwise. In particular, it is possible that mergers and/or strategic partnerships may occur between infrastructure or delivery companies and retailers or service providers. It is possible that consolidation may occur within the parcel markets in the UK and Europe leading to the development of larger competitors to the Group with broader delivery networks and operations that are even better able to compete with the Group. Any such competitors may be able to take advantage of synergies derived from the consolidation of their businesses and operations and thereby offer lower prices than the Group, particularly in the express parcel segment.

The Group also faces risks associated with the further expansion of “click and collect” in the UK parcel market as a delivery option for consumers in the UK. The growth in the use of “pick up drop off” points located in high street shops and other locations by existing parcel customers of the Group (whether online retailers who do not have their own high street presence or “multi-channel” retailers who sell goods online and through more traditional retail locations) may lead to a reduction in the volume of parcels delivered by the Group for those customers, particularly if the Group’s own “click and collect” offering does not develop as expected in the UK or if the Group’s “click and collect” offering does not meet the requirements of customers or compete effectively with equivalent services offered by other parcel delivery operators in the UK.

There are risks for the Group associated with mail order, online and other retailers and service providers, who are existing customers of the Group’s parcel delivery businesses, establishing their own delivery capability, both for themselves and, potentially, for others (or their use of strategic partnerships or other joint venture arrangements with existing delivery companies). Certain large existing customers of the Group have established their own delivery capabilities in certain countries in which the Group does not currently operate, including the US. The establishment of these alternative delivery structures by existing or potential customers of the Group in the markets in which the Group operates may lead to a decline in the volume of items they (or where they deliver items for other existing customers of the Group, others) place, or might in the future place, with the Group for delivery through its networks in the UK and/or Europe.

The Group derives a portion of its income from parcels sent by consumers and SMEs selling items using online market-places and online auction sites. However, during summer 2013, there was a reduction in the number of items sent through the Group’s stamped, meter and account sales channels in the UK by those consumers and SMEs. This reduction has occurred due to, among other things, the reaction to size-based pricing by Royal Mail, which has resulted in some purchasers collecting items directly from the seller rather than receiving them through the post, as well as the temporary slowdown in online retailing due to the prolonged spell of good weather in the UK in summer 2013. It is possible that this reduction in volumes may continue, and could accelerate, in the future leading to a reduction in the Group’s parcel volumes and revenue in the UK.

In a number of areas in recent years, the IT that supports the Group’s parcel business in the UK has not had the flexibility to respond quickly to the need to implement certain additional services and products, which the Group’s competitors in the UK have offered to their customers. Consequently, the introduction of new

services and products by the Group in the UK has taken longer to complete, compared with the introduction of equivalent services and products by the Group's competitors. While the Group has invested in improvements to its IT systems and platforms in the UK to support the introduction of services in this area during 2013 and 2014, a number of comparable services have already been offered by leading competitors of the Group for some time. No assurance can be given that in the future the Group will be able to develop, and implement, IT systems that provide the capability necessary for the Group to compete effectively. Any failure to adapt to, or anticipate, technological developments could mean that the Group fails to consolidate and increase its market share in the markets in which it operates and may put it at a disadvantage compared to its competitors. This may have a material adverse effect on the Group's results of operations, financial condition and future prospects.

GLS faces significant competition in the markets in which it operates. In the future, GLS may not be able to increase its prices in order to recover increases in its costs. Indeed, it may come under commercial and market pressure to reduce its prices, including in response to price changes by its key competitors or the requirements of significant customers. There can be no certainty that GLS's prices will be maintained or increase in the future, and any reduction in GLS's prices may lead to a reduction in its revenue, which could in turn adversely affect the Group's results of operations, financial condition and prospects.

There can be no assurance that the Group will be able to compete successfully against its current or future competitors or that the competitive pressures it faces will not result in reduced revenue or market share or seriously harm its business. Any reduction in the Group's revenue or market share due to increased competition, could have a material adverse effect on the Group's results of operations, financial condition or prospects.

#### **1.14 The implementation of price rises by the Group in the future may lead to customers switching to alternative media and/or switching to cheaper services**

The Group has implemented significant price increases in the UK over the past two years for many of its products and services in both its letter and its parcel businesses. In the future the Group may wish to further increase prices, including at rates higher than the prevailing rate of inflation, for some or all of its products and services. Any failure by the Group to accurately predict the impact of any price rise it proposes to implement on its volumes and revenue (including the extent to which existing customers would continue to use the Group's products and services following such price rise), could have a material adverse effect on the Group's results of operations and prospects. If the Group does increase prices, customers may more rapidly move to alternative media for the delivery of information (including email and other electronic forms of communication) or reduce the number of items they send and/or they may seek to send items using cheaper services offered by the Group (for example, by changing to second class letters from first class or by using deferred, rather than express, parcel delivery services) or choose to send items through other operators who will provide such delivery services at more competitive prices. A perception that the Group is increasing prices unreasonably, particularly prices for certain products provided as part of the USO (including first class and second class stamp prices), could lead to regulatory intervention and may damage the brand and reputation of the Group.

If the impact of price rises implemented by the Group leads to a reduction in the volume of letters and/or parcels customers choose to send through the Group's networks, the Group's financial condition, results of operations and prospects may be materially adversely affected. Any such changes could reduce the revenue of the Group and, as a result, the Group may not recover all of the costs of maintaining the Royal Mail Core Network through which RMG fulfils its obligations as the UK's designated universal postal service provider.

#### **1.15 The Group's IT systems are critical to its business operations and are currently undergoing significant change. Any significant failure of those systems may have a material adverse effect on the Group's operations**

The Group's IT systems underpin its operations in the UK and the Group is heavily dependent on the proper functioning of these systems. While in recent years these systems have been relatively stable, a large proportion of the Group's IT applications, systems and infrastructure in the UK are ageing and they will require further investment and improvement in the future in order to deliver the capability to continue to support the Group's UK operations.

Any material failure in the Group's IT applications, systems and infrastructure or any failure to maintain, invest in or improve them over the coming years may lead to material operational and systems disruptions which could have a material adverse effect on the Group's results of operations, financial condition and future

prospects. In addition, poor maintenance of the Group's IT infrastructure may result in the loss of information and data stored by the Group and any such loss may have a material adverse effect on the Group's reputation, results of operations, financial condition and future prospects. In particular, and although they are subject to ongoing replacement projects, certain of the Group's older IT applications, systems and infrastructure in the UK may be susceptible to inefficiencies and service failure.

The Group is currently reliant on a small number of key suppliers for the provision of its IT services. In particular, the Group has a dependency on CSC, Capgemini and Lockheed Martin for the provision of a substantial proportion of its IT requirements and in FYE 2013 more than 50 per cent. of UKPIL's IT operational expenditure was incurred with CSC. A number of the Group's contracts with its key IT suppliers are due to expire between 2014 and 2018, with the Group's contract with CSC due to expire in May 2015.

The Group is reliant on the continued performance of CSC, Capgemini, Lockheed Martin and its other key IT suppliers. In the past, the Group has experienced material service failures by certain key IT suppliers in the UK, some of which have led to disputes. The Group may experience further material service failures and disputes with key IT suppliers in the future. For example, UKPIL experienced disruption to its online and website platforms in November and December 2011 (including disruption to UKPIL's online postage, redirection, online shop and online account services). A failure or insolvency of any of the Group's key IT suppliers in the future could cause business disruption and financial loss to the Group, and could have a material adverse effect on the Group's results of operations, financial condition or prospects. Furthermore, the Group relies on the integration of its IT systems to manage its back-office and customer-facing processes. This interdependency means a failure of one IT system may have material adverse effects on the Group's wider IT network.

In 2011, an assessment of the current state of UKPIL's IT identified a need for considerable transformation of, and investment in, UKPIL's IT infrastructure and systems. As part of its response to the findings of the 2011 assessment, the Group is currently undertaking the ITST Programme to replace and reshape many of the services delivered through contracts with its existing IT suppliers, primarily those provided by or through CSC. The ITST Programme, as part of the Group's wider IT transformation programme in the UK, aims to transform the way the Group obtains its IT, and limit its dependency on a small number of key suppliers. The ITST Programme (further details on which can be found in section 12.3 of Part II (*The Business*)) is a large procurement programme and in the event it is delayed, or suffers from any market challenge resulting in delay, there are likely to be consequential financial and commercial consequences for the Group, which may include the need to extend the Group's contracts with existing IT suppliers.

CSC is carrying out a number of strategic IT initiatives to improve the state of UKPIL's IT in anticipation of the transition to the new suppliers under the ITST Programme, including the planned migration of a number of priority software applications on to a properly supported, robust hardware and software platform. This requires CSC to commission and configure the necessary hardware and software infrastructure in the Group's UK data centres for the migration of these priority applications (the "**Critical Hosting Platform**"). CSC's delivery of the Critical Hosting Platform is delayed. There are risks that the Critical Hosting Platform will not be commissioned and configured in time to migrate the priority applications prior to transition to new suppliers under the ITST Programme, or at all. Any delay or failure in commissioning and configuring the Critical Hosting Platform risks adding complexity and delays to the ITST Programme and to the transition of UKPIL's IT infrastructure and systems to the new suppliers. There are delays to the delivery of the initiatives and mitigation plans are being put into place.

The Group faces additional risks associated with the exit from its current arrangements with CSC and its other key IT suppliers and the associated transition to new arrangements and potentially new suppliers as part of the ITST Programme. This exit and transition will be complex as the Group will be transitioning its IT services simultaneously to multiple new suppliers. The Group may need to rely on existing IT suppliers for exit and transition who are not contracted to provide IT services on an ongoing basis as part of the ITST Programme. Further, in the final years of its current IT supply contracts, existing IT suppliers may become aware that they will not be contracted to provide IT services on an ongoing basis as part of the ITST Programme. As a result, during the transition period the Group may be at particular risk of material service failures and poor IT performance by certain existing IT suppliers. Any of the foregoing events could have a material adverse effect on the Group's business, prospects, results of operations and financial position.

As with any other project of comparable size and complexity, there can be no assurance that the Group will be able to implement all of the initiatives forming part of the ITST Programme on time or at all, and it may experience unexpected cost increases and delays. Any failure by the Group to realise the benefits of the ITST Programme, whether on time or at all, may have a material adverse effect on the Group's business, results

of operations, financial condition and future prospects. In particular, any delay in the implementation of the ITST Programme would require the Group to extend the arrangements with its incumbent suppliers and have the effect of delaying the Group's IT transformation in the UK. The terms upon which the Group would be required to extend these arrangements may be less favourable than the current terms on which it receives services, including with respect to price and service levels. Any such extensions may also expose the Group to a challenge that the extension is not compliant with public procurement law. Notwithstanding the Group's stated intent to procure, through the ITST Programme, a broader, multiple vendor, IT supplier landscape resulting in less reliance on any one key supplier, there is a risk that one or a small number of suppliers will be awarded all of the material IT supply contracts through the ITST Programme.

Most of the Group's critical IT systems and applications and nearly all of its other IT systems and applications lack sufficient disaster recovery capabilities. This presents a risk to the resilience of those IT services, as a failure of an affected system or application could render parts of the Group's operations unavailable for an extended period and expose the Group to financial loss and reputational damage. The parts of the Group's IT estate considered to be most at risk are one of its key data centres in the UK and its business integration platform, which together handle a significant proportion of the business's customer-facing activities. The Group is undertaking a programme to improve the disaster recovery capability of its IT estate. While the programme has already delivered improvements in the Group's capabilities since its launch and the Group is targeting further improvements to the resilience and availability of critical IT systems during 2013 and 2014, there can be no assurance that such improvements will be delivered on time or at all, or that the need for disaster recovery will not occur before improvements to the Group's systems are delivered. A failure in any of the Group's critical IT systems and applications with insufficient disaster recovery facilities may lead to disruptions in the Group's business. Any such disruptions may have a material adverse effect on the Group's reputation, results of operations, financial condition and future prospects.

#### **1.16 The exemption from VAT for the network access services provided by Royal Mail is the subject of judicial review proceedings. The imposition of VAT on network access services provided by the Group could result in a loss of revenue and increased competition**

Mandated network access services provided by Royal Mail are currently exempt from VAT. TNT is pursuing judicial review proceedings against HMRC, claiming that this VAT exemption contravenes EU law. At a procedural hearing on 11 February 2013, the Judge ordered that the matter proceed to a substantive hearing, at which the Judge will decide whether to give substantive judgment or refer the matter to the European Court of Justice. The hearing has been scheduled for 26 November 2013. A final decision in relation to the matter is unlikely before the end of 2014, although it cannot be ruled out that a final decision is given earlier.

If the UK authorities were required or decided to impose VAT on mandated network access services, Royal Mail would be obliged to charge VAT when providing such network access services. For those customers who are unable to recover VAT (such as financial services firms), this could lead to a significant effective price increase if they continue to purchase such network access services from Royal Mail. As a result, those end-users that use network access services for distribution of their letters may accelerate their adoption of e-substitution or alternative means of communicating with their customers, or switch to competing third party "end to end" delivery services if they become economically more attractive on a VAT-inclusive basis. Either of those outcomes may lead to a loss of revenue for the Group. In addition, in order to remain competitive, Royal Mail may need to reduce the prices it charges for certain network access services, which would lead to a loss of revenue for the Group. The impact of the imposition of VAT on mandated network access services (should this occur) is difficult to assess or quantify. In particular, the financial impact is currently indeterminable and is subject to a variety of factors, some of which may not be known until after any imposition of VAT comes into effect.

#### **1.17 The Group has funding risks relating to its defined benefit pension schemes**

The pre-1 April 2012 pension liabilities (based on service and pay up to that date) and certain pension assets of RMPP were transferred to HM Government on 1 April 2012 as a result of the Pensions Transfer. However, the Group's ongoing defined benefit pension costs and pension scheme liabilities continue to be material. Please see section 11.2 of Part II (*The Business*) for further details on the Pensions Transfer.

Following the Pensions Transfer, the Royal Mail Section was left fully-funded on an actuarial basis using assumptions scheduled to the Postal Services Act 2011 (Transfer of Assets) Order 2012. It remains the case that no deficit contributions are currently due to the Royal Mail Section. RMG has, however, agreed to pay up to an additional £50 million per annum from 2016 onwards, if required to ensure that the Royal Mail Section



continues to be funded on the measure of liabilities agreed with the RMPP trustee from time to time. The next triennial actuarial valuation is scheduled to have an effective date of 31 March 2015.

As part of the valuation as at 31 March 2012, agreement has been reached with the RMPP trustee requiring RMG to continue to pay contributions of 17.1 per cent. of pensionable pay (around £400 million per annum) in respect of the future service accrual of approximately 112,000 active members as at 31 March 2013. RMG was able to maintain this rate as a result of the implementation of the Pensions Reform with effect from 1 April 2014. However, agreement has not yet been reached with the Trade Unions on the Pensions Reform. Agreement with the Trade Unions on the Pensions Reform is not a legal requirement and therefore RMG has implemented the Pensions Reform without an agreement with them. However, proceeding with the Pensions Reform without Trade Union agreement is likely to be seen as “unilateral action”, and might be used by the Trade Unions as a basis for industrial action. While RMG would prefer to achieve agreement with the Trade Unions, this may not be possible to achieve in a timely manner or at all. Please see section 11.3(A) of Part II (*The Business*) for further details on the Pensions Reform.

RMSEPP had a funding deficit of £83 million (based on assets of £304.1 million and liabilities of £387.1 million) as at 31 March 2012, being the date of the last triennial actuarial valuation<sup>1</sup>. The Group has agreed a pension funding plan with the trustees of RMSEPP to fund the deficit. The funding plan commits RMG to deficit contributions of £11.2 million per year until at least the date on which the triennial valuation as at 31 March 2018 is completed. POL has agreed to pay seven per cent. of such contributions, with RMG therefore needing to pay the remaining 93 per cent. The funding deficit in RMSEPP was estimated by the scheme actuary as at 31 March 2013 to be £19.7 million (based on assets of £361.4 million and liabilities of £381.1 million and on the basis of actuarial assumptions which are consistent with those used for the valuation as at 31 March 2012). Please see section 11.3(B) of Part II (*The Business*) for the key factors which have resulted in an improvement in RMSEPP's funding position. Such improvement will, however, not impact the size of the deficit contributions currently payable under the funding plan agreed with the RMSEPP trustee.

The Group may be required to increase its level of contributions to RMSEPP and the Royal Mail Section due to changes in market conditions, investment strategy and actuarial assumptions such as life expectancy. For example, lower than assumed gilt yields may disproportionately increase liabilities compared with increases in assets from investment returns. Any requirement to contribute into RMSEPP or the Royal Mail Section at a substantially increased level above the currently agreed contribution levels could have a material adverse effect on the Group's business, results of operations, financial condition and prospects. In addition, actions by the Pensions Regulator or the trustees of such schemes (who can require an early valuation in order to review contribution levels), or any material revisions to the existing pension legislation, could result in additional funding obligations. This could currently include an obligation to fund the whole of the deficit in the Royal Mail Section and RMSEPP as calculated on a “buy-out” basis (which assumes the liabilities have been bought out by an insurance company). The Royal Mail Section is estimated by the scheme actuary as at 31 March 2013 to not have a buy-out deficit. The buy-out deficit in RMSEPP was estimated by the scheme actuary as at 31 March 2013 to be £205.6 million.

In addition, as a result of the new single-tier state pension system to be introduced in April 2016 (and consequently the closure of the State Second Pension scheme and, with it, the ability of RMPP to contract out of this element of the system), the Group will see an increase in its employer National Insurance contributions for employees participating in the Royal Mail Section. The Group could thereby incur additional costs of up to £75 million per annum from FYE 2017. Recognising the additional National Insurance costs of the abolition of contracting out, HM Government intends to give powers to private sector employers to enable them to change their scheme rules to offset such costs without trustee consent. RMG does not intend to utilise this proposed statutory “override” facility until at least the conclusion of its next pension review in March 2018. In addition, any permitted changes to the scheme rules in order to offset the increase in employer costs will need to be discussed with the Trade Unions at the relevant time. Any increase in costs could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

As a result of the formal segregation of RMPP, the Royal Mail and Post Office Sections are, for funding and investment purposes, effectively two separate schemes such that neither RMG nor POL is directly liable in respect of any deficit arising in the other employer's section. However, members of the Group could be

<sup>1</sup> Note that the RMSEPP deficit figure provided here is the funding deficit determined as part of the actuarial valuation as at 31 March 2012 in accordance with Part 3 of the Pensions Act 2004 (as amended). The RMSEPP deficit figure quoted in relation to the State Aid decision on page 199 is determined as at the time of the State Aid Decision in accordance with IAS 19 (i.e. on an accounting basis) and so produces a different deficit figure.



required to make contributions to, or otherwise financially support, the Post Office Section (or any pension scheme to which the assets and liabilities of the Post Office Section are transferred in the future) if the Pensions Regulator considered that to be a reasonable exercise of its powers under the Pensions Act 2004 (as amended). The Pensions Regulator's powers will continue in respect of the Post Office Section for as long as RMG continues to be associated or connected with POL and for two years (in respect of a financial support direction) or six years (in respect of a contribution notice) after such association or connection has ceased. Such association or connection will cease on a change of control of RMG involving HM Government ceasing to hold, directly or indirectly, one third or more of the shares in RMG. However, the Post Office Section is estimated by the scheme actuary as at 31 March 2013 to not have a buy-out deficit.

#### **1.18 The Group's relationship with POL exposes it to a number of material risks**

*Post Office branches serve as the Group's principal retail distribution network in the UK and the Group's distribution agreement with POL limits its ability to use other retail channels*

The UK's network of more than 11,500 Post Office branches is a key sales channel for the Group's products in the UK and serves as the Group's principal retail distribution network in the UK. The Group's relationship with the Post Office is of material significance to the business and revenue of the Group. In FYE 2013, approximately £1.7 billion of the Group's revenue was generated through the sale of Royal Mail postage stamps and the Group's products by POL on the Group's behalf.

Under the Mails Distribution Agreement (further detail on which can be found in section 16.2(A) of Part XI (*Additional Information*)) between RMG and POL, POL sells Royal Mail postage stamps and the Group's letter and parcel products, under both the "Royal Mail" and the "Parcelforce Worldwide" brands. Part of the UK's Post Office network is used to satisfy part of RMG's obligation to provide access points for universal postal services under the designated universal service provider condition issued by Ofcom in March 2012. Post Office branches will continue to serve as points for the collection of letters and parcels by customers, including pursuant to the "click and collect" service announced by the Group in May 2013.

The Mails Distribution Agreement imposes limitations on the ability of the Group to use third party retail outlets in the UK for the sale or distribution of its products. The Group may be required to use POL's branch network as the retail outlet for any new products it wishes to introduce even if in the future there are circumstances in which POL may not be the Group's preferred retail partner, with the potential result that the Group is not able to realise all or part of the benefits that it expects from that new product. The Group is also reliant to an extent on POL to ensure that Post Office branches provide a physical estate and environment in which customers want to purchase the Group's products or ask for advice on sending items through the post. Furthermore, the Group's ability to introduce new products and services may be adversely affected by operational problems or limitations that may be encountered by POL. As an example, the Group is reliant on POL in connection with the successful implementation of its new "click and collect" service. Any limitations in POL's IT systems, or the ability of the Group's and POL's IT systems to interface with each other, may affect the ability of the Group to introduce new products or services (including Royal Mail's "click and collect" service) successfully through POL's branch network.

Although Royal Mail sells postage stamps through other sales channels, revenue generated for the Group under the Mails Distribution Agreement represents a significant proportion of the Group's total revenue and this, combined with the limitations accepted by RMG on its ability to use other retail outlets in addition to Post Office branches, means that the Group has a significant reliance on POL and POL's ability to meet its service obligations under the Mails Distribution Agreement.

##### *Risk of material operational failure by POL*

Any material failure by POL to meet its obligations under the Mails Distribution Agreement (including as a result of a failure of POL's IT systems or industrial action by POL's employees) could result in retail customers not being able to purchase the Group's products, or use the Group's services, at some or all Post Offices, which could have a material adverse effect on the Group's reputation, business, results of operations, financial position and prospects. POL is in the process of implementing its own modernisation programme in relation to its network of Post Office branches which may lead to localised service and quality disruptions, including as a result of industrial action, or lack of cooperation, affecting POL and/or all or part of the Post Office branch network.

The Group is also dependent on the effective operation of POL's IT and or other systems and processes for the successful provision of services by POL, including the sale of the Group's products in Post Office branches across the UK. Any material failures in POL's IT and or other systems and processes, including

their interface with the Group's own IT systems, could cause material disruption to the operations of the Group and could affect the ability of POL to provide services for the Group, including the sale of the Group's products. Any such failures or disruption could have a material adverse effect on the Group's reputation, results of operations, financial condition and prospects.

*Possible termination or expiry of the Mails Distribution Agreement*

The provision of services under the Mails Distribution Agreement commenced on 26 March 2012, and the agreement will continue in force until at least the tenth anniversary of the date the agreement was signed (19 January 2012), subject to scheduled renegotiation events or termination in certain limited circumstances before the end of such period. Although the Group would have notice of POL's intention not to renew the agreement and would have the opportunity to develop alternative distribution arrangements, the termination or expiry of the agreement would result in the Group ceasing to have access to its principal retail distribution network in the UK which could have a material adverse effect on the business, results of operations, financial position and prospects of the Group. If the agreement were renewed or extended so that it did not expire in accordance with its terms, the new terms of any agreement with POL may be less favourable to the Group than the terms on which the current arrangements were concluded. Any deterioration in the terms on which the Group and POL contract could have a material adverse effect on the Group's results of operations, financial condition and prospects.

Further, the Mails Distribution Agreement provides for a number of renegotiation events whereby RMG and POL are to meet in good faith to enter into discussions with a view to agreeing amendments to the agreement. Under one such renegotiation event, the Mails Distribution Agreement and its operation will be reviewed by the parties within six weeks following the fifth anniversary of the commencement date to ensure that it continues to meet both parties' expectations and takes into account changing market dynamics over the first five years of the term. There is a risk that, following the occurrence of a renegotiation event under the Mails Distribution Agreement, the terms of any new agreement with POL may be less favourable to the Group than the terms of the current agreement. Any deterioration in the terms on which the Group and POL contract could have a material adverse effect on the Group's results of operations, financial condition and prospects.

*Public perceptions that Royal Mail and POL are the same entity*

There remains a perception on the part of some customers of the Group and some members of the general public in the UK that the "Post Office" and "Royal Mail" are the same entity. Any operational failure, disruption or industrial action affecting POL and/or the Post Office branch network, and/or any other business or commercial decisions taken by POL, could therefore be perceived as decisions taken by, or events relating directly to, the Group and adversely affect the reputation and brand of the Group. In particular given this perception on the part of some customers and members of the general public, any failure in POL's IT or other systems (including any failure which affects POL's ability to sell the Group's products and services) may lead to adverse publicity and adversely affect the reputation and brand of the Group.

*The Group faces risks associated with the separation of POL's IT systems and infrastructure from those of the Group*

Under the Master Services Agreement (further details on which can be found in section 16.2(B) of Part XI (*Additional Information*)), the Group provides certain services on a transitional basis to POL. POL is currently heavily dependent on the Group for the provision of IT services under the Master Services Agreement, including certain services provided through the Group's external IT suppliers. The IT services provided by the Group to POL are complex and cover a range of areas. Any failure in the Group's own IT systems, infrastructure or estate which affects the level of service which it is able to provide to POL may lead to adverse publicity and reputational damage for the Group. The Group and POL are undertaking a joint programme to deliver the required standalone IT capability for POL in order to facilitate the cessation of the provision of IT services by the Group to POL. The programme was originally intended to be completed by September 2014, when the provision of IT services to POL under the Master Services Agreement is due to terminate. However, as it is expected that some separation projects will go beyond September 2014, it is likely that POL will require certain ongoing IT services from the Group (and its external IT suppliers) after September 2014. Further details regarding the separation of POL's IT systems and infrastructure from those of the Group can be found in section 9.4 of Part II (*The Business*).

The ITST Programme (which is described further in section 1.15 of these Risk Factors) faces certain risks if the separation of POL's IT systems and infrastructure from those of the Group has not been completed by

the time the Group transitions to its new IT arrangements as part of the ITST Programme. If this occurs, the Group could choose to delay the implementation of the ITST Programme. Alternatively, the scope of the ITST Programme, which does not currently include the provision of ongoing services to POL, may need to be changed to include the provision of services to POL. This could expose the Group to a challenge that the ITST Programme is not compliant with public procurement law, which, if successful, could have a number of material adverse consequences for the Group including the suspension of the ITST Programme or the award of a contract under the ITST Programme being deemed void and unenforceable. The ongoing provision of IT services to POL during the ITST Programme transition period would add considerable complexity to the transition, which would require the transition of additional services (or volumes of services) to the external suppliers selected as part of the ITST Programme. Such complexity may affect the level of service assurance which the Group could provide to POL during the ITST Programme transition period and would be likely to result in the need for the devotion of significant additional management time and other Group resources. In addition, the completion of the separation of POL's IT from that of the Group following the transition to the ITST Programme may adversely impact the Group's ability to execute its ongoing IT transformation activities. Any of the foregoing events could have a material adverse effect on the Group's business, prospects, results of operations and financial position.

The separation of POL's IT from that of the Group is a complex programme for both POL and the Group which requires significant management time and other Group and POL resources. Moreover, any failure or delay in completing the separation of POL's IT from that of the Group may lead to adverse publicity and reputational damage for the Group. Although the Group does not currently anticipate any material impediments in this regard, it may not, for technical reasons, be possible to achieve the entire separation of POL's IT systems and infrastructure from those of the Group as currently planned. As a result, POL may continue to be dependent on the Group for the provision of all or part of its IT systems and infrastructure in the future. The ongoing provision of IT systems and infrastructure by the Group to POL would be likely to require management time and other Group resources. Any of the foregoing events could have a material adverse effect on the Group's business, prospects, results of operations and financial position.

*From Admission, the Group and POL will cease to be under common ownership*

Prior to Admission, the Group and POL will be wholly-owned subsidiaries of the Selling Shareholder (and thereby, HM Government) but this will cease from Admission. Following Admission, POL will, subject to the PSA, remain under the ownership of the Selling Shareholder (and thereby, HM Government). There is therefore a risk that the Group's relationship with POL may change when they cease to be wholly-owned by, and under the control of, a common shareholder. Furthermore, it is possible that HM Government policy might change in the future in relation to the Post Office network, leading, in certain circumstances, to a reduction in the number of Post Office branches in the UK at which customers are able to purchase "Royal Mail" and "Parcelforce Worldwide" products and services. While, in the Mails Distribution Agreement, POL has agreed to use its reasonable endeavours to maintain a network of at least 11,500 Post Office branches until at least the end of March 2015, any material reduction in the size of the Post Office branch network could have a material adverse effect on the Group's results of operations, financial condition and prospects. Further information in relation to HM Government policy with respect to the Post Office can be found in Part V (*Relationship with HM Government*).

*Draft European Directive relating to transactions in "vouchers"*

In May 2012, the European Commission published a proposal for a Directive to change the VAT treatment of transactions in, or concerning, "vouchers" under the provisions of the Directive of 28 November 2006 on the Common System of Value Added Tax (Directive 2006/112/EC). The definition of a "voucher" in the draft Directive does not refer specifically to postage stamps but is expressed in terms which would be likely to encompass postage stamps.

It is uncertain whether this draft Directive will be adopted by the EU member states, either in its current form or in some amended form. Nor is it certain when the draft Directive, if so adopted, would be implemented in UK law. However, if the draft Directive were to be adopted in its current form, the resultant changes to the UK VAT treatment of transactions in postage stamps would potentially give rise to an increased cost for the Group. This is because the Mails Distribution Agreement between RMG and POL described in section 16.2(A) of Part XI (*Additional Information*) provides, as more fully explained in that section, for a substantial part of the remuneration earned by POL under that agreement to accrue to POL, once RMG and POL have ceased to be members of the same VAT group (which they will do if, upon implementation of the Offer, HM Government no longer has "control" of RMG and may do in other circumstances), as profit margin on the purchase and sale by POL of Royal Mail postage stamps (the "**POL Margin**"). It has been proposed to HMRC

that the POL Margin should not, under current law, be liable to VAT and HMRC have accepted this in respect of part of the POL Margin. The implementation in UK law of the draft Directive in its current form would potentially change that treatment and require POL instead to account for VAT on the whole of the POL Margin. The resultant additional irrecoverable VAT cost to be borne by RMG in that event could have a material adverse effect on the Group's results of operations, financial condition and prospects.

#### **1.19 The Group's IT systems are at risk of security breaches and attacks, including hacking and vandalism**

As is the case with other entities that make material use of IT, security breaches or attacks on the Group's websites or IT systems could interrupt the Group's operations or materially impact its ability to conduct business or otherwise adversely affects its reputation. Repeated incidents could compromise the Group's ability to provide services to its customers and could result in the loss of business relationships. Any such incidents could have an adverse effect on the Group's results of operations, financial condition and future prospects. The Group cannot guarantee absolute protection against unauthorised attempts to access its websites and IT systems. Moreover, the risk of incidents regarding the Group's websites and IT systems may be increased as a result of the failure by the Group to properly and adequately maintain its IT infrastructure and systems. Viruses, worms and other malicious software programmes could, among other things, jeopardise the security of information stored in a user's computer or in the Group's computer systems or attempt to change the internet experience of customers by interfering with the Group's ability to connect with its customers. If any compromise in the Group's security measures were to occur and the Group's efforts to combat this breach were unsuccessful, the Group's reputation could be harmed leading to an adverse effect on the Group's results of operations, financial condition and future prospects. Further, the Group's insurance coverage might not adequately compensate it for material losses that could occur due to disruptions to its service as a result of failure of its websites or IT systems. The Group may also be subject to attempts to unlawfully obtain its data and other proprietary information through hacking, security attacks and other means. Any loss of data or information in this way may damage the reputation of the Group and lead to a material adverse effect on the Group's results of operations, financial condition and prospects. In addition, any such loss of data or information may lead to the imposition of sanctions, including fines and censure, against the Group, as further described in Risk Factor 1.35 below.

#### **1.20 The Group's brands, reputation and goodwill are central to its customer and market perception and may be affected by a number of factors**

The Group's brands and reputation are central to its customer and market perception (including by the general public in the UK). The Group operates in an industry where integrity, trust and confidence are paramount and is consequently exposed to risks, many of which are outside the control of the Group, including: failures or delays in the delivery of items to customers and other operational failures, including as a result of severe weather; failure or default by suppliers and sub-contractors; employee misconduct; adverse regulatory investigations, enquiries and actions; negative publicity; and press speculation (including widespread adverse social media commentary). Such eventualities could impact the Group's brands or reputation causing loss of consumer confidence and customers, which could in turn have a material adverse effect on the Group's results of operations, financial condition and prospects.

#### **1.21 The Group may not be permitted to continue to use certain associations with the British Monarchy in the future**

The Group is currently permitted to use the Royal Cypher (the *EIIR* symbol) and the Royal Crown emblem (together, the "**Royal Associations**"), which are associations connected with HM The Queen, pursuant to the terms of the Royal Associations Agreement. There can be no certainty that the Group will be able to use the Royal Associations indefinitely as consent to use them may be withdrawn in the circumstances set out in the Royal Associations Agreement. If the Group is required to cease using the Royal Associations in the future, it will incur significant costs as a result of the rebranding exercise it would be required to undertake to remove the Royal Associations from its branding. This may have a material adverse effect on the Group's financial condition and results of operations. Any such rebranding could also adversely impact the reputation and goodwill of the Group as a result of public and customer perception of the removal of the Royal Associations. Investors should also note that the rights granted to the Group under the Royal Associations Agreement will be reviewed upon the accession of a new Sovereign. See section 16.4(B) of Part XI (*Additional Information*) for further details of the Royal Associations Agreement.



### **1.22 The Group may not have adequate protection for its IP rights**

The Group maintains a substantial portfolio of IP that is important to the operation of its business, including brand names and logos. The Group has taken steps to prevent its IP from being exploited by third parties without the Group's permission, including by seeking to register certain of its IP, but there can be no assurance that all of the Group's IP capable of registration has been registered. There can also be no assurance that all the IP registrations obtained by the Group could be successfully enforced to prevent the unauthorised exploitation of that IP by third parties. In addition, certain of the Group's significant intangible assets are protected only by non-registrable IP rights, such as database rights, copyright and confidentiality arrangements. Costly and time-consuming litigation could be necessary to determine the scope of, and enforce, the Group's IP rights and the outcome of such litigation cannot be guaranteed. Failure to define, protect or enforce the Group's IP adequately could have a material adverse effect on the Group's competitive business position, results of operations, financial condition and prospects, and may adversely affect the brand and reputation of the Group.

### **1.23 The Group relies on a large number of operational sites in the UK and Europe and disruptions to the efficient operation of these sites may adversely affect the Group**

The Group relies on a large number of operational sites in the UK and Europe (including mail centres, depots and delivery offices), some of which are fundamental to its business operations. Disruption to the efficient operation of the Group's sites may affect its ability to deliver letters and parcels to certain customers, or to do so economically. Disruptions may arise for a number of reasons including strike action and other industrial relations actions, power or equipment failures, fires, floods, terrorist incidents, extreme weather events and other natural disasters and other unforeseen events that may not be covered by insurance. Any such disruptions or failures could have a material adverse effect on the Group's financial condition, results of operations, prospects and reputation. They could also have a material adverse effect on the Group's ability to comply with its regulatory obligations, including quality of service targets. Any breaches of regulatory obligations could lead to fines and other regulatory enforcement action. In addition, if there were to be a significant disruption of operations at one or more of the Group's key facilities and operations could not be transferred or could only be transferred at very high cost to other locations, the results of operations, financial condition and prospects of the Group may be adversely affected.

### **1.24 The loss of key customers (who are not generally bound by long-term contracts or to send minimum volumes) could have a significant impact on the Group's results of operations, financial condition and prospects**

The Group has a very broad customer base, with few instances where single customers account for a significant part of the Group's revenue of any business or product areas. However, in order to retain existing customers, the Group is required to satisfy customer requirements and remain competitive in the market, and a failure to do so may lead to a loss of customers and/or a reduction in the volume of items they choose to send through the Group's networks.

A uniform decrease in UKPIL letter and parcel volumes of one per cent. in a financial year is estimated to result in a decrease in revenue of approximately £75 million (see section 5.7 of Part VII (*Operating and Financial Review*) for more detail). In FYE 2013, UKPIL's top parcel customer accounted for approximately six per cent. of UKPIL's total parcel revenue. Accordingly, a loss of this customer, or a material reduction in the number of items which it chooses to send through the Group's networks, could have a material adverse effect on the Group's results of operations, financial condition and prospects.

With some exceptions, the Group's contracts do not generally commit significant customers to send minimum volumes through the Group's delivery networks (although pricing discounts do apply depending on the volume of items a customer despatches through the networks) and so there can be no certainty that historical volumes will be maintained. Moreover, many of the Group's most significant contracts, by volume, with commercial or governmental entities for the delivery of letters and parcels can be terminated by the customer on less than six months' (and, in some cases, by less than one month's) notice without cause. While termination rights of this sort are considered to be customary in the postal services industry, there remains a risk that contracts with key customers can be terminated by customers without cause at relatively short notice. The aggregate impact of termination of significant contracts by a number of key customers (or a material reduction in the volumes of letters or parcels sent by them) at or around the same time could have a material adverse effect on the Group's results of operations, financial condition and prospects.



**1.25 The Group could be adversely affected by the loss of, or an inability to recruit and retain, key personnel**

The Group depends on the continued contributions of its senior management and other key employees. The loss of service of one or more of the Group's key employees could adversely affect its business. In addition, the Group may need to temporarily fill certain key roles with interim employees while recruitment of permanent staff remains ongoing. Any failure by the Group to attract and retain directors and highly skilled personnel could have a material adverse effect on its competitive position, which in turn could result in a material adverse effect on its results of operations, financial conditions and prospects.

**1.26 The Group may incur certain pensions and employment-related costs and liabilities in the future arising out of the joint venture arrangements it has entered into in relation to Romec and Quadrant. The termination of arrangements under which these joint ventures provide services to the Group would require the Group to find alternative service providers at potentially greater cost**

The Group faces certain risks arising out of the joint venture arrangements it has entered into with third parties in relation to Romec and Quadrant, which are key suppliers to the Group. Romec is a joint venture between RMG and Balfour Beatty Workplace Limited, 51 per cent. of which is held by RMG. Romec largely provides facilities management services to the Group. Quadrant is a joint venture between RMG and Compass Food Services Limited, 51 per cent. of which is held by RMG. Quadrant undertakes catering and associated cleaning activities for the Group. The Group may become liable for certain pensions and employment (including redundancy) costs in relation to these joint ventures, including liabilities triggered as a result of the expiry or termination in the future of contracts that the joint venture entities have with members of the Group and/or third parties (including POL). The termination of such contracts in the future may require the Group to make certain payments to joint venture partners and/or third parties. Furthermore, the termination of any of the arrangements under which the Group's joint ventures provide services to the Group would require the Group to obtain equivalent services from other providers at potentially greater cost.

**1.27 The Group may decide to exit certain businesses or markets in the future**

The Group may choose to change its strategy and either fully or partially exit certain businesses or markets, for example, due to changes in strategic focus, market conditions or the actions of competitors, subject to the Group's regulatory obligations and RMG's designation as universal service provider. A full or partial exit could affect the Group's revenue and its financial condition due to additional and exceptional costs incurred as a result of the closure of operations, the impairment of goodwill and other contractual liabilities.

**1.28 The Group relies on third parties for the provision of a number of key services and the loss of, or failure by, key suppliers and sub-contractors of the Group could have a significant impact on the Group's operations**

In addition to its relationship with POL and its suppliers of IT services, the Group is dependent on relations with a number of third parties, including suppliers, sub-contractors and landlords. This is, in part, a consequence of the Group's use of third parties for the provision of certain services to the Group. For example, the Group is dependent on the manufacturers, suppliers and maintenance providers of its operational machinery, including the machinery for the automated sorting and sequencing of letters in its mail centres and delivery offices in the UK and the operation of systems that underpin the Group's use of "track and trace" technology in the UK.

A reduction in the availability or level of service offered by, or the failure or insolvency of, the Group's third party suppliers and sub-contractors could restrict the ability of the Group to conduct its business and thereby have a material adverse impact on its results of operations, financial condition and prospects. This could lead to the Group failing to meet its regulatory obligations, including quality of service targets. Such breaches could lead to fines and other regulatory enforcement action.

Due to current weak economic growth in the UK and Europe, there is an increased risk that third party suppliers may face financial difficulties, become insolvent and/or cease trading, which may result in disruption to the provision of products or services by them to the Group. The economic slowdown over the past several years has severely impacted the availability of credit and the terms on which credit is available, including to suppliers to the Group. If there is any disruption to the products or services provided by third parties, the business of the Group may be adversely affected and the Group may be unable to find adequate replacement products or services acceptable to the Group or its customers on a timely basis, or at all. Financial difficulties,

whether experienced by the Group's suppliers or sub-contractors, may have a material adverse effect on the Group's results of operations, financial condition and prospects. In addition, to the extent that such suppliers are joint venture companies of the Group, the Group's ability to recover losses will be limited by its shareholding in the joint venture.

In a number of the areas in which the Group uses third party service providers, the number of potential third parties with the capability and experience to provide the services required by the Group is limited and, as a result, the Group has a relatively small pool of potential suppliers from which it can choose. Consequently, the terms on which the Group has entered into arrangements with these third party service providers may not be as favourable to the Group as they might otherwise have been had the Group had more potential suppliers with whom to negotiate. For example, in relation to certain plant and machinery used by the Group in its UK letter and parcel operations, the Group currently faces certain contractual limitations on its ability to use intellectual property rights in order to procure maintenance and support services, service enhancements and parts from third parties other than the third parties that provided the original services. Restrictions of this type further limit the ability of the Group to diversify its pool of service providers and may make it more dependent on those third parties with whom it has pre-existing contractual arrangements.

The Group is required to manage and control its service providers effectively. Any failure of the Group to exercise the necessary level of management and control may result in failures by service providers going undetected, which could lead to operational disruption and other commercial and legal consequences for the Group, as well as consequences under the regime for the regulation of postal services in the UK to which the Group is subject. The failure by the Group to detect any material failures by suppliers, and any enforcement action that may arise as a result (including any such action taken by Ofcom), may have a material adverse effect on the Group's results of operations, financial condition and prospects.

**1.29 The GLS Group relies on sub-contractors for the performance of parcel collection and delivery services and faces increased sub-contractor costs in certain countries in which it operates (in particular in Germany) as a result of the strength of the employment markets in those countries**

The employment markets in certain of the countries in which the GLS Group operates have been strong in recent years, in particular in Germany (the country in which the GLS Group generates most revenue). As a result, GLS has had to incur higher costs in order to attract and retain the employees and sub-contractors it requires for the operation of its business. Any continuation of this trend, or the occurrence of other similar issues in countries in which the GLS Group operates, could have a material adverse effect on the Group's results of operations, financial condition and prospects.

In the future, a statutory minimum wage may be introduced in Germany. This would be expected to have an impact on operators within the transportation and service industries in Germany, including the GLS Group and its competitors. The GLS Group may suffer an increase in employment and sub-contractor costs as a result of the introduction of such a statutory minimum wage. Depending on the level at which it is set, the introduction of a statutory minimum wage in Germany would be expected to increase the GLS Group's direct employment costs in Germany and may lead to increases in the costs of its sub-contractors in Germany who would be bound to pay the statutory minimum wage to their own employees. The GLS Group's costs could rise if the statutory minimum wage in Germany is set at a level that is higher than the wages currently paid to the Group's employees (or employees of the GLS Group's sub-contractors) in Germany, and the GLS Group may not be able to recover all or any of these increased costs. The introduction of a statutory minimum wage (and increases in the level of that minimum wage in the future) may have a material adverse effect on the Group's results of operations, financial condition and prospects.

The GLS Group relies on sub-contractors for the collection of parcels from, and the delivery of parcels to, customers in the countries in which it operates. In the past, the GLS Group has experienced some difficulties in guaranteeing the quality of service provided by its sub-contractors. For example, there have been instances in the past where the GLS Group has been required to incur additional expenditure to ensure the delivery of parcels when sub-contractors have not been available.

In recent years, there has been adverse media coverage in certain countries in which the GLS Group operates, in particular Germany, following allegations that the level of remuneration paid to sub-contractors and the sub-contractors' employees in the performance of collection and delivery services in the European parcel market has historically been, and continues to be, relatively low. If this adverse coverage continues in the future, it may have a material adverse effect on the GLS Group's reputation and brand. In turn, this could lead customers of the GLS Group to cease trading with the GLS Group. In addition, if the continuation of

adverse coverage leads to the emergence of political pressure for change, there is the potential that legislation in relation to sub-contractor remuneration may be passed in one or more countries. Any of these outcomes could have a material adverse effect on the Group's results of operations, financial condition and prospects.

### **1.30 The Group may not be able to collect or deliver letters and parcels in a timely manner due to disruption in the transportation network**

The business of the Group is subject to risks associated with its ability to provide services for the collection and delivery of letters and parcels. The Group relies on the transportation of items by road and, to a lesser extent, by rail and air networks. In addition, the Group relies on the ability of its employees and sub-contractors to get to their place of work. This leaves the Group exposed to traffic congestion, road works and inclement weather, particularly snow and ice, all of which could render collections and deliveries difficult or even impossible. For example, the heavy snow experienced in large parts of the UK in early 2013 caused some deliveries during that period to be delayed.

The Group is also subject to regulations governing the number of hours that its road drivers can work on consecutive days and, as a result, the Group may not have enough drivers available to work during periods of high demand or adverse weather conditions.

The Group is subject to risks associated with its use of air transport for the conveyance of letters and parcels. The availability of the air network used by the Group may be affected by a number of factors including terrorist activity (and other security breaches), health pandemics, industrial action in the airline industry, supplier or operative failure, weather and other events (such as the presence of volcanic ash clouds).

Outbreaks of contagious diseases and other adverse public health developments could affect the Group's operations. They could impact the Group's ability to deliver letters and parcels on a cross-border basis. Such outbreaks could also cause the temporary closure of the Group's own operational sites leading to severe disruption to the Group's business which could have a material adverse effect on the Group's results of operations, financial condition and prospects.

The occurrence of the incidents outlined above could lead to the Group failing to meet its regulatory obligations, including quality of service targets. Such breaches could lead to fines and other regulatory enforcement action.

### **1.31 The Group operates a sizeable fleet of road vehicles and incidents involving vehicles in the fleet, including those involving fatalities, may affect the Group's reputation and profitability**

The Group's operations depend on road transport and the Group operates a significant fleet of road vehicles in the UK and is reliant on such vehicles operated by sub-contractors in Europe. These vehicles, and their drivers, could be involved in accidents causing fatalities, injuries and property damage. Adverse weather conditions and increased road traffic volumes may contribute to increases in the number of accidents involving the Group's vehicle fleet in the future. The Group may suffer civil and criminal liability (including fines and other financial penalties) arising from accidents involving its vehicles and the reputation and brand of the Group may be affected. The Group's external insurance costs may also increase following a rise in the number of accidents. In the event of a major road traffic accident involving the Group's fleet of vehicles, the Group may be exposed to significant financial liability.

### **1.32 Incidents resulting from the delivery of confidential and sensitive items could adversely affect the operations, reputation and profitability of the Group**

The Group collects, sorts and delivers a range of confidential and sensitive letters and parcels for a variety of customers, including individuals, government departments, local authorities, examination boards and businesses. The Group is not always aware of the confidential nature of the items it delivers as customers may choose to enter consignments into the Group's networks without registering the consignment, meaning it cannot be tracked or traced. If confidential consignments were to be misplaced, the reputation and brand of the Group may be adversely affected. Following a high-profile incident of this nature, existing or potential customers may be unwilling to use the Group for the delivery of confidential or sensitive items, which could have a material adverse effect on the Group's results of operations, financial condition and prospects.

### **1.33 The Group is subject to the risk of fraud and theft**

The Group is exposed to actual and attempted activity relating to fraud and theft, both internally and externally from a range of sources including suppliers, customers, employees, sub-contractors and other third parties, including in relation to the printing and distribution of postage stamps within the UK. Although the Group deploys security and fraud detection processes to help monitor and combat instances of fraud and theft (including payment security risks), it is at risk particularly in times of financial stress.

The Group is also at risk from employees and staff members who fail to follow, or avoid, procedures designed to prevent fraudulent and criminal activities. The Group could incur fines and penalties imposed by regulatory and governmental bodies and enforcement agencies. The occurrence or persistence of fraud, criminal activity or other misconduct in any part of the Group's business, or the perception thereof, or the failure of the Group to monitor and detect such conduct and activity, could damage its brand and reputation and could have a material adverse effect on its business, results of operations, financial condition and prospects.

### **1.34 The Group is exposed to payment processing risks, including actions taken by third parties that disrupt the Group's operations**

The Group is subject to payment card association operating rules, certification requirements, Payment Card Industry Data Security Standards in the UK and rules governing electronic funds transfers which could change or be reinterpreted to make them difficult or impossible to comply with. The Group is not yet fully compliant with the Payment Card Industry Data Security Standards in the UK (for example, in relation to standards concerning the transmission of card data in web-based payments and the requirement to prevent recording of card details during the telephone sales process). The Group believes that non-compliance with these standards is common to a range of business sectors, including the financial services sector. The Group is in the process of developing plans to become fully compliant with these rules, and currently aims to achieve full compliance during 2014. No assurance can be given that such plans will be successful or will complete on schedule. Until such time as the Group is fully compliant, or if in future the Group fails to comply with these rules or requirements, the Group may be subject to fines and/or higher transaction fees and in extreme cases may lose its ability to accept credit or debit card payments from customers, process electronic funds transfers or facilitate other types of online payments. Should a security breach occur and customer data be accessed or stolen, then the Group could be liable for losses associated with the breach.

### **1.35 Any failure in the Group's data processing systems, or its compliance with confidentiality obligations or data protection and privacy laws and standards, could affect the Group and its reputation, results of operations and financial condition, and may adversely affect the reputation and brand of the Group**

The Group collects, retains and processes confidential information regarding its business dealings, as well as personal data of its customers, business contacts, employees and other third parties. The Group must therefore comply with confidentiality obligations and data protection and privacy laws, as well as industry standards, in the UK and other countries in which it operates. Those obligations, laws and standards impose certain requirements on the Group in respect of the collection, use, storage, disclosure and disposal of such confidential information and personal data. If personal data are not processed by the Group accurately and in accordance with those obligations, laws and standards, including in accordance with notifications made to, or obligations imposed by, data subjects, regulators, other counterparties or applicable law, the Group faces the risk of regulatory censure, fines and other costs, and the reputation and brand of the Group may be adversely affected. Remedial action, and changes to its processes and operations, which the Group may be required to take to ensure compliant data processing, could also adversely affect the Group's results of operations, financial condition and prospects. A security breach of the Group's computer or other systems could damage its reputation and/or result in liability. The Group might be required to spend significant capital and other resources to protect against or remedy such breaches or to alleviate problems caused by such breaches. In addition, the Group is exposed to risks resulting from the inadequacy or failure of internal processes or controls, including operational errors, such as clerical or record keeping errors or deficiencies and errors resulting from faulty IT systems, which may have a material adverse effect on the results of operations, financial condition, prospects, brand and reputation of the Group.

### **1.36 Sub-contractors of the Group might be treated under applicable law as employees of the Group**

In a number of the countries in which the Group operates, in common with many other UK and European postal operators, it uses sub-contractors to perform aspects of its operations (including in relation to the collection, sorting and delivery of letters and parcels), in many cases acting alongside employees of the

Group. It is possible that in certain of those countries the relationship between the Group and the sub-contractors could be regarded, under applicable law (whether at present or in future), as one of employment. While there remains uncertainty in this regard, if individuals are properly regarded under applicable law as being, or are alleged to be, employees of the Group, the Group may incur additional costs such as legal costs, national insurance and other social security contributions, wages and employment taxes and overtime payments (and associated costs) in respect of such individuals. This could adversely affect the results of operations, financial condition and prospects of the Group.

**1.37 The ability of the GLS Group to further develop its B2C parcel delivery capability may be restricted if it is not able to improve the rate of successful first-time delivery attempts when delivering to residential or domestic addresses**

Historically, the GLS Group has served predominantly B2B customers. Recently, however, such customers have also required B2C delivery services, and there is a risk that the GLS Group could lose customers if it is not able to provide high-quality B2C services alongside its established B2B capabilities. As such, a key part of the GLS Group's strategy is to further develop its B2C parcel delivery capability. However, changes may need to be made to GLS's existing business model and the products and services it offers in order to enable it to handle increased B2C parcel volumes. Where deliveries are made to domestic or residential addresses, there is an increased likelihood (when compared with deliveries to business or commercial premises) that no one will be at home to take delivery of the item(s). This requires the item to be delivered to either a neighbour or a GLS parcel shop (where such options are available), or the item to be returned to the relevant depot, with one or more additional attempts made to deliver the item(s). Currently, in a number of countries in which the GLS Group or its network or service partners operate, flexible delivery services (such as the notification of delivery times to the end-recipient by email with the possibility for the end-recipient to choose between different delivery options before the first delivery attempt is made) are not offered, reducing the likelihood that a successful delivery to a domestic or residential address can be made first time. If GLS is unable, or it becomes uneconomic, to introduce, or if it suffers a delay in the introduction of, such flexible delivery services across the countries covered by the GLS Network, it is likely to face difficulties in providing the quality of B2C service demanded by customers (leading to the possible loss of existing B2B and/or mixed B2B/B2C customers).

**1.38 There is uncertainty in relation to the impact that Scottish independence may have on the Group**

RMG is currently the UK's designated universal provider of postal services, and its obligations as the designated provider include Scotland. As part of the universal postal service in the UK, the Group has the capability to deliver letters and parcels six days a week (excluding UK public holidays) to more than 29 million business and residential addresses across the UK, of which approximately 2.5 million are in Scotland. On 18 September 2014, a referendum is due to be held in Scotland in which Scottish voters will be asked whether Scotland should be an independent country. It is not clear what the impact on the Group (including its business, employees, operations and assets) will be if, following the referendum, Scotland becomes an independent country with responsibility for the oversight and regulation of postal services in Scotland transferring away from HM Government to a new Scottish government, but such a change may have an adverse effect on the results of operations, financial condition and prospects of the Group. It has been suggested that there would be some uncertainty over the status of an independent Scotland as a Member State of the EU and, accordingly, there is uncertainty over the extent to which it would be required to implement the EU postal directives. In addition, on 19 September 2013, the Scottish First Minister committed to bringing Royal Mail back into public ownership in the event that Scotland were to become an independent country. It is possible that, in the future, following Scottish independence, a Scottish government led by the Scottish National Party will seek to return the assets, business and/or operations of the Group in Scotland to public ownership. At the present time, it is not clear how, or whether, any such action might be implemented, and the Company is unable to quantify the potential impact, whether financial or otherwise, that it might have on the Group.



## **2. RISKS RELATING TO THE LEGAL AND REGULATORY ENVIRONMENT WITHIN WHICH THE GROUP OPERATES**

### **2.1 The Group is subject to wide-ranging legal and regulatory requirements, changes to which may result in additional compliance costs and management time and resources. Failure to comply with such requirements may result in investigations, prosecution, disciplinary action, fines and reputational damage**

The conduct of the Group's business is subject to significant legal and regulatory requirements (including procedures and requirements relating to customs, security, and the domestic and cross-border transportation of goods), and their interpretation, application, enforcement and development could have a material adverse effect on the Group, its results of operations, financial condition and prospects. Failure by the Group to comply with applicable laws and/or regulations could lead to investigation of the Group by, and/or onerous requests for information from, relevant regulators and national and supranational government bodies, disciplinary action, prosecution, claims by third parties, the imposition of fines or the revocation of licences or authorisations that the Group requires to conduct its business. This could have a material adverse effect on the Group and its results of operations, financial condition and prospects and could also harm its reputation.

Laws, regulations, rules, policies and practices (and their enforcement, application and interpretation) currently affecting the Group may change at any time, including as a result of investigation and regulatory activity by one or more governmental, supervisory and/or enforcement agencies, in ways which may have a material adverse effect on the Group's results of operations or financial condition and could lead to litigation. In addition to any changes impacting the business of the Group, the Group may face increased compliance costs due to the need to set up additional compliance controls or the direct cost of such compliance because of changes to applicable laws or regulations (and their enforcement, application and interpretation). This may also require management to divert significant time and attention to the implementation of such changes and/or transitional arrangements, potentially to the detriment of the day-to-day running of the Group. The Group cannot predict the impact on the Group's business, prospects, results of operations and financial condition of future legislation or regulation or changes in the enforcement, application, interpretation or operation of existing legislation or regulation. Changes in government policy, legislation, regulation or changes in the enforcement or interpretation of legislation and regulation (at a national, EU and/or international level) may be applied retrospectively and may adversely affect the Group and its results of operations, financial condition and prospects. Further, inconsistent application of directives (including the Postal Services Directive) across the European Union may place the Group's business at a competitive disadvantage to other European postal operators with competing businesses in the UK and other countries in which the Group operates. In some of the countries in which the Group operates or into which it might seek to expand, the legal systems are in varying stages of development. This can create an uncertain business and commercial environment and associated risks. Should any of these risks materialise, this might affect the Group's ability to implement its strategies and might have a material adverse effect on its results of operations, financial conditions and prospects.

The Group requires licences, consents, permissions and authorisations from various regulators and authorities in the countries in which it operates. The failure to renew a licence, consent, permission or authorisation or the amendment, suspension or revocation of a licence, consent, permission or authorisation, or dispute of a licence, consent, permission or authorisation, could materially limit or prevent the Group's continued operations, or limit the Group's ability to expand its operations, which could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

### **2.2 As the UK's designated universal postal service provider, RMG is subject to a relatively new regulatory regime overseen by Ofcom**

RMG is the UK's designated universal postal service provider and is, accordingly, subject on an ongoing basis to regulation by Ofcom pursuant to the PSA and various regulatory conditions made pursuant to the PSA. The new regulatory regime introduced by Ofcom with effect from 27 March 2012 is relatively untested and the future development of the regime is uncertain. Third parties, including other postal operators and lobby or user groups, as well as the Group, are seeking to influence how the regime is implemented and develops in the future. The Group does not believe this to be a unique feature of the UK's postal services regulatory regime; it is common to other UK regulatory regimes. In addition, the Group is continuing to develop its relationship, and is in frequent dialogue, with Ofcom. The parameters of the regulatory framework and its interpretation may only become clear when they are tested in practice and/or through further discussion with, and thus interpretation by, Ofcom. Ofcom has some discretion to reopen the regulatory framework and there

is a risk that it may alter the framework by imposing new and more burdensome requirements upon the Group. This risk may be increased if, for example, the Group (i) were not to meet its projected efficiency targets, (ii) implemented price rises regarded as unjustifiable by Ofcom, or (iii) failed to meet the regulatory quality of service standards to which it is subject. Further details regarding the new regulatory regime are set out in section 2 of part A of Part X (*Regulation, State Aid and Procurement*).

*Ofcom may review, and make changes to, the scope of the USO*

Subject to the special administration regime set out in the PSA (as described in section 2.12 of part A of Part X (*Regulation, State Aid and Procurement*)), RMG's designation as the provider of the universal postal service in the UK is not time-limited. However, it is possible, at least in theory, for Ofcom to decide that it is not necessary to designate any postal operator as a universal postal service provider in order to secure the adequate provision of the services described in the universal postal service order, in which case RMG's designation would cease to have effect. Also, from 1 October 2021, if Ofcom has determined that it would be unfair for RMG to bear the whole or part of the financial burden of its universal service obligations, and the Secretary of State has directed Ofcom to do so, Ofcom may appoint either one or more further designated universal postal service providers in addition to RMG (splitting universal service obligations between them) or as a replacement to RMG.

While RMG's designation as the provider of the universal postal service in the UK is not time-limited, Ofcom may review, and make changes to, aspects of the scope of the USO not explicitly required by the existing framework of the PSA. Among other things, Ofcom could amend the USO by removing certain products and services from its scope or by introducing additional constraints on the Group's ability to increase prices. The redesignation of services as being outside the scope of the USO (and therefore subject to VAT) may lead to a loss of revenue earned from customers that are unable to recover part or all of the VAT on their expenditure (including financial services providers and charities).

If the scope of the USO is reduced in the future, the Group may not be able to achieve corresponding reductions in the costs it incurs in operating and maintaining the Royal Mail Core Network. In order to maintain its competitive advantage, the Group may need to retain the existing capabilities and features of the Royal Mail Core Network. For example, even if the Group were not required by the USO to deliver letters on Saturdays it may still choose to deliver parcels through the Royal Mail Core Network on Saturdays in order to meet customer requirements and to match the services offered by competitors. If the scope of the USO is increased in the future, this may lead to further costs for the Group. In addition, Ofcom could raise or otherwise alter the service standards with which Royal Mail is required to comply when performing USO services. The Group may need to incur additional costs in order to comply with any such service standards which may have a material adverse effect on the Group's financial condition or results of operations. Any major change to the scope of the USO might disrupt the progress and completion of the Transformation Programme.

*The basis on which the Group is mandated to provide network access may change*

Currently, the Group is mandated to provide network access in relation only to certain second class letter and large letter products. There is a risk that Ofcom may reopen the regulatory regime to impose requirements on the Group to offer network access in relation to a wider range of products than it currently offers, such as parcels or premium services. Such requirements (and any associated requirements, such as a requirement for pricing and non-pricing terms to be "fair and reasonable") could be onerous and uneconomical for the Group. A requirement for the Group to provide network access in relation to a broader range of products and services on onerous or uneconomic terms could have a material adverse effect on the Group's results of operations, financial condition and prospects.

*The Group is subject to monitoring by Ofcom and may in the future be subject to enforcement action by Ofcom*

Ofcom has powers to monitor and enforce the regulatory conditions to which RMG is subject as the UK's designated universal postal service provider, which powers include directing RMG to take such steps to comply with the relevant condition and/or to take such steps to remedy the consequences of the breach as Ofcom may specify, if Ofcom finds that there are reasonable grounds for believing that a condition is being, or has been, breached. In addition, Ofcom has the power to impose certain financial penalties or, in certain limited instances, to give a direction suspending or restricting the entitlement of RMG to provide postal services. Such a suspension or restriction could have a material adverse effect on the business of the Group

and the Group's results of operations, financial condition, prospects and reputation. Ofcom may take an interventionist approach towards monitoring and enforcement practice in the future.

Ofcom has wide powers to require RMG, as the UK's designated universal postal service provider, to provide information under the PSA and RMG is required to provide detailed and regular financial and other information to Ofcom under the terms of the regulatory conditions to which it is subject. A failure by RMG to provide information to Ofcom could lead to the imposition of financial and other penalties and damage the reputation and brand of the Group.

Ofcom has imposed regular monitoring obligations on the Group and may, from time to time, make enquiries of RMG, as the UK's designated universal postal service provider, regarding its compliance with particular regulatory requirements (including following complaints by third parties, such as customers and other postal operators). Detailed investigations or enquiries by Ofcom could result in financial penalties and adverse publicity for, or negative perceptions regarding, the Group. Such enquiries or investigations could also affect the Group's relations with current and potential customers, as well as divert management's attention away from the day-to-day management of the Group.

### **2.3 The Group faces a number of risks associated with the future provision of universal postal services in the UK**

As the UK's designated universal postal service provider, RMG is required to comply with strict requirements as to service levels and operate a core network that is capable of delivering letters (Monday to Saturday excluding UK public holidays) and parcels (Monday to Friday excluding UK public holidays) to every address in the UK on a next-day basis. The provision of this network and the associated universal postal service give rise to high fixed costs (including as a result of the need to employ a large workforce, and maintain a large operational real estate portfolio and a large vehicle fleet, in each case across the UK) that other postal operators in the UK are not required to incur. In particular, the number of UK addresses to which the Group is required to deliver letters and parcels as part of the USO has grown in recent years and is expected to continue growing, which will increase further the fixed costs incurred by the Group in maintaining the necessary delivery network and capability. Although there has been growth in the number of addresses to which deliveries need to be made, the volume of letters delivered through the USO is nevertheless declining and is expected to continue to decline. Because of the Group's obligation to deliver the universal postal service and maintain the associated UK network, the Group may not be able to reduce the high fixed costs it incurs in operating that network if demand for USO services provided by the Group continues to decline, as is expected, which may have a material adverse effect on the Group's results of operations, financial condition and prospects. Furthermore, if demand for USO services provided by the Group continues to decline, as is expected, there is a risk that a significant amount of time passes before Ofcom takes steps to support the universal postal service, or that such steps are not of immediate financial benefit to RMG, or that Ofcom may not take any such steps, with the result that the Group is required to continue providing USO services in circumstances where it is not profitable or economical to do so.

Ofcom has stated that an indicative earnings before interest and taxation ("**EBIT**") benchmark margin range of five to 10 per cent. on the activities undertaken by the Group for the purpose of, or in connection with, the provision of the universal postal service would be appropriate and consistent with the need for the Group to earn a reasonable commercial rate of return commensurate with the level of risk within the business. In broad terms, this means the profit in relation to such activities should account for between five and 10 per cent. of the revenue generated by such activities. Ofcom have also stated that such a range represents neither a cap on earnings nor a floor, which would need to be considered over the duration of the regulatory framework. There can be no assurance that the Group will achieve a margin within that range in relation to the relevant part of its business. In the future, there can be no certainty that Ofcom will not change its stated view as to the indicative EBIT margin range which it regards as appropriate or commensurate with the level of risk within the relevant part of the Group's business and, accordingly, Ofcom may determine that a lower range and/or a benchmark EBIT margin cap with respect to the relevant part of the Group's business is appropriate.

### **2.4 A failure to meet regulatory quality of service targets in the UK may have adverse consequences for the Group**

RMG's universal service provider condition requires it to meet certain quality of service targets in relation to universal service products. These relate, for example, to the completion of delivery routes, collections from access points, a variety of domestic "end to end" services in differing geographic areas, and USO incoming and outgoing European Union services. The regulatory quality of service standard specifications to which Royal Mail is subject are among the highest of any postal operator in any major European country. Ofcom

actively uses its general monitoring and enforcement powers to monitor and enforce the Group's performance against these quality standards. In FYE 2013, RMG did not meet all of the regulatory quality of service targets to which it was subject, including for First Class stamped and meter mail, Special Delivery and Next Day Delivery at the Postcode Area level. Ofcom has since written to RMG outlining the importance it attaches to the requirement for RMG to meet these targets, which it regards as an essential element of the overall regulatory framework to which RMG is subject. The Group considers it likely that Ofcom will continue to actively monitor RMG's performance in this area. Recently, Ofcom has been in discussions and correspondence with the Group regarding RMG's plans for ensuring compliance with its obligations in this area. Any failure by the Group to meet regulatory quality of service targets to which it is subject may result in the imposition of fines and other regulatory enforcement action which could have a material adverse effect on the reputation, financial condition, results of operations or prospects of the Group.

## **2.5 Royal Mail is required to ensure that it ring-fences its network access services and does not unduly discriminate against access operators, failing which Royal Mail could be subject to regulatory investigations and intervention**

Royal Mail is required by regulation to ensure that it does not unduly discriminate against other postal operators who make use of network access services provided by Royal Mail. Royal Mail is also required to use all reasonable endeavours to secure that no information in its possession as a result of giving access to its postal network under any regulatory condition to other persons is either disclosed for the benefit of or used for the purpose of any trading business conducted by it or any trading business conducted by any related person of Royal Mail. To ensure that the regulatory requirements are met, Royal Mail has put in place ring-fencing rules and manages its commercial retail and access business units separately. The restrictions in this area in the regulatory conditions are expressed in a "high-level" and principles-based way (in particular in comparison to ring-fencing arrangements in other analogous regulatory circumstances) which may lead to a greater risk that the Group is considered not to be acting in a compliant manner. Any failure by the Group to comply with the relevant requirements could lead to regulatory action and investigations which may have a material adverse effect on the Group's reputation, relationships with customers, business, financial conditions and prospects. Furthermore, there is a risk that any non-compliance by the Group in this area could lead to a reopening of the regulatory regime, including regulatory action by Ofcom, such as new or revised regulatory conditions imposing a greater separation between Royal Mail's wholesale and retail divisions, or of the Royal Mail Core Network. Ofcom continues to monitor the approach taken by Royal Mail to ensure that it meets the relevant regulatory requirements in relation to the ring-fencing arrangements.

## **2.6 As a universal postal service provider in the UK, RMG is subject to a special administration regime under the PSA**

The PSA provides for a special administration regime for designated universal postal service providers. RMG is currently the only designated universal postal service provider in the UK. The regime provides for the making of postal administration orders by the UK court. Further details on the regime are set out in section 2.12 of part A of Part X (*Regulation, State Aid and Procurement*).

In the context of the Group, it is RMG that is currently the UK's only designated universal postal service provider and would therefore be subject to any postal administration order and not the Company. Where the rescue of RMG as a going concern is not reasonably practicable, a postal administration order could result in one or more transfers of so much of RMG's business and assets as it is appropriate to transfer to achieve the objective of the postal administration. There is considerable uncertainty as to the impact that a postal administration order may have on RMG, particularly given that the business and assets of RMG include assets which are not used, directly or indirectly, for the provision of the universal postal service and that the Royal Mail Core Network is used for the delivery of both services under the USO and services that fall outside the USO. However, potential impacts may include the transfer of a substantial part of the business and assets of RMG to one or more companies outside the Group (potentially including assets that are used by RMG in the provision of letter and parcel delivery services that fall outside the USO), the winding up of RMG and the loss of considerable value in the Ordinary Shares. Further, the PSA makes no express provision for the payment of compensation to Shareholders due to a postal administration order in relation to RMG.

As RMG is a significant operating company within the Group (holding assets in addition to assets used to discharge its functions as the designated universal postal service provider in the UK), a postal administration order, and any actions or measures taken under or in connection with that order, may have a material adverse effect on the business, operations, financial condition and prospects of the Group and would be likely to cause significant disruption to, and uncertainty for, the business and operations of the Group. In addition, the



making of a postal administration order in relation to RMG could adversely affect the reputation and brand of the Group and lead to the loss of considerable value in the Ordinary Shares.

## **2.7 The Group faces risks associated with its new costing methodology**

The Group faces risks associated with its Long Run Average Incremental Cost (“**LRAIC**”) methodology. The Group has recently developed a LRAIC model which it uses to inform pricing for some retail and access products. The pricing of services provided to retail and access customers on the basis of the LRAIC metric is important, as LRAIC is the cost measure most likely to be used by a regulator in this context to assess compliance of such pricing with general competition law (as discussed further in Part X (*Regulation, State Aid and Procurement*)).

While the Group continues to develop and enhance its LRAIC model, it is essentially untested by Ofcom. The Group has begun discussions with Ofcom on the LRAIC model. There is a risk that a complaint may be made that the Group’s pricing of retail and access services is inappropriate and/or based on incorrect or inaccurate cost benchmarks. Ofcom could launch a regulatory or competition law investigation and such investigation could, in turn, result in a requirement for the Group to change its LRAIC model, which could have an impact on the prices set for retail and access products, potentially leading to the loss of retail volumes, financial penalties and/or adverse publicity for the Group.

In addition to competition law, Royal Mail must also ensure compliance with the regulatory margin squeeze control (discussed further in Part X (*Regulation, State Aid and Procurement*)). The regulatory margin squeeze control is based on the Group’s fully allocated costs (“**FAC**”) and not LRAIC. Ofcom adopted a FAC approach as a short-term measure in the absence of an agreed set of LRAIC estimates but indicated (in its March 2012 “Securing the Universal Postal Service” decision document) that they may move to a LRAIC based metric at some point in the future.

## **2.8 European legislators may adopt a new data protection Regulation which could have a material adverse effect on the operations of the Group**

A draft data protection Regulation is being considered by European legislative bodies. The latest draft includes more stringent operational requirements for organisations than currently apply and significant penalties for non-compliance. As currently drafted, the Regulation creates considerable uncertainty in relation to what additional obligations the Group will have to meet in order to provide the universal postal service in the UK and the associated costs of such compliance. It may also impose restrictions on the commercial behaviour of the Group and its customers in a number of areas, and may include a requirement that consent for the processing of personal data be given explicitly in all cases and for such consent to be evidenced by a statement or other clear affirmative action. The Group may incur additional costs if the Regulation is adopted, which may include costs resulting from: amending relevant contractual terms and conditions; recruiting and training additional staff to monitor and ensure compliance by the Group with its obligations under the Regulation; responding to any increase in the exercise of statutory rights by individuals; and amending existing business practices and infrastructure so that the Group is able to comply with the Regulation. If addressees are required to consent explicitly to the use of personal data, or the use of personal data in marketing becomes more restricted, the Group may experience a significant decline in advertising mail volumes and revenue, as senders of advertising mail may curtail their direct mail activities. The extent of any impact on the Group in any of these areas cannot be predicted with any certainty at this stage but any measures introduced by the Regulation, or any other new data protection legislation, may adversely affect the Group and its results of operations, financial condition and prospects. The timing for the implementation of the Regulation is also uncertain.

## **2.9 RMG is subject to a variety of risks in connection with the State Aid restructuring plan**

As set out in section 2 of part B of Part X (*Regulation, State Aid and Procurement*), in March 2012, the European Commission: (i) approved the Pensions Transfer, mostly as “legacy pension costs” and the remainder as restructuring aid; and (ii) approved the write-off of certain debt owed by RMG to HM Government (the “**Debt Write-off**”) as restructuring aid. The European Commission gave approval for HM Government to grant up to £1,089 million of restructuring aid to RMG. The approval of the restructuring aid was conditional on: (i) implementation in full of the restructuring plan that was notified to the European Commission (the “**Restructuring Plan**”); and (ii) HM Government reporting annually to the European Commission on RMG’s implementation of the Restructuring Plan until the end of the Restructuring Plan period in 2015. The Pensions Transfer was implemented on 1 April 2012; HM Government immediately used £124 million of restructuring aid to relieve the historic RMPP pension deficit in full (as further explained in



section 2 of part B of Part X (*Regulation, State Aid and Procurement*)). No Debt Write-off has been implemented to date.

Pursuant to the Restructuring Plan, RMG has committed to a series of restructuring measures to be implemented over the five-year period of the Restructuring Plan from 2010 to 2015, including labour and capacity restructuring measures. In addition, RMG has committed to support the restructuring costs from its own resources by divesting assets through sale, or sale and leaseback. As at the end of Q1 FYE 2014, the Group has raised nearly 96 per cent. of the financing to be funded through the sale or sale and leaseback of assets, resulting in proceeds of approximately £842 million. As a result, the Group has a remaining commitment under the Restructuring Plan to the sale or sale and leaseback of assets of approximately £40 million in order to reach the total level of contribution from own resources required by the European Commission.

In order to implement the Restructuring Plan, various businesses and assets within RMG have been and are in the process of being re-organised, transferred or sold, or potentially merged with other businesses and divisions within the Group. As part of this process, personnel may be reallocated, where permissible, across the Group, new technology may be implemented, and new policies and procedures may be established in order to accommodate the new structure of the Group. As a result, the Group may experience periods of business interruption, restructuring charges, delays in implementation of the Restructuring Plan and strain on management, employee, operational and financial resources.

The implementation of the Restructuring Plan is contingent upon a range of factors, including the general business environment in which RMG operates and the activities of its competitors and customers. Those and other factors may impact the ability of RMG to implement the restructuring measures and/or sell the assets in the manner, with the results and/or according to the timeline, envisaged in the Restructuring Plan.

Failing to comply with the conditions imposed by the European Commission in the 2012 State Aid Decision (including failing to implement the Restructuring Plan in full and/or implementing unapproved changes to the Restructuring Plan) may constitute a misuse of aid. If the European Commission doubts that RMG is complying with the terms of the 2012 State Aid Decision, it may reopen the decision. A reopening of the decision would, at a minimum, create uncertainty as to the Group's business, financial condition and results of operations. The European Commission's investigation would form the basis for a new decision which could result in the European Commission (i) re-approving the aid on the same terms; (ii) re-approving the aid but imposing more onerous conditions on RMG (e.g. sale of additional assets); (iii) reducing the level of aid that RMG is permitted to receive; or (iv) declaring the aid measure incompatible, i.e. taking a negative decision. A negative decision would give the European Commission the power to order HM Government to recover from RMG the amount of the aid that has been received by RMG at the relevant time (together with interest thereon). This could have a material adverse impact on the Group's business, financial condition, results of operations and prospects. The total amount of restructuring aid that RMG has received to date is £124 million. HM Government does not intend to apply any additional restructuring aid in the form of Debt Write-off to the Company before the Transaction and cannot do so after the Transaction as the Group's existing debt owed to HM Government will be fully repaid at Admission using a combination of the Group's cash resources and by drawing down on the New Facilities.

As at the date of this document, RMG understands that HM Government has submitted two reports to the European Commission, one on 2 October 2012 (covering the financial year ending on 25 March 2012) and the other on 22 July 2013 (covering the financial year ending on 31 March 2013) in which HM Government provided details of the Group's progress in implementing the Restructuring Plan as described above.

The reports submitted to the European Commission by HM Government include information that RMG has provided to HM Government in connection with the preparation of each report. They detail the fact that RMG has made good progress with the implementation of the Restructuring Plan, and is making significant progress towards returning to long-term viability (as further described in section 2.2 of part B of Part X (*Regulation, State Aid and Procurement*)). While the reports acknowledge that there are some variations from the specific targets set out in the Restructuring Plan, HM Government states in the 2013 report that, in light of its strong intention not to apply any further restructuring aid to the Company on the basis of its sooner than anticipated return to long-term viability, it does not consider that the variations to the restructuring plan described in the report provide a cause for concern regarding RMG's long-term viability. RMG also understands that the European Commission's Directorate General for Competition has confirmed to HM Government that, based on submitted information, it does not consider that RMG's implementation of the Restructuring Plan gives rise to competition concerns at this stage.

In addition it should be noted that one of the conditions for European Commission approval of restructuring aid is that the aid beneficiary must not have received restructuring aid in the last 10 years (the “one time, last time” rule). Exceptions are permitted only in a limited number of cases (in particular in exceptional and unforeseeable circumstances for which the Company is not responsible). This effectively means that scope for further restructuring aid in favour of the Group in the foreseeable future is limited. If the Group were to experience difficulties, this could have a material adverse impact on the Group’s business, financial condition, results of operation and prospects.

## **2.10 The Group is subject to the general provisions of UK and EU competition law and EU State Aid rules**

### *Article 101 TFEU/Chapter I and Article 102 TFEU/Chapter II*

The OFT and the European Commission have jurisdiction to enforce competition law in the UK, regardless of the sector. However, in a number of regulated sectors, including post, the relevant sectoral regulator also has jurisdiction to apply competition law, and benefits from concurrent enforcement powers, including the power to impose fines for infringements. Ofcom benefits from such concurrent powers and has made clear that it will consider carefully whether to proceed in any given circumstances using its postal regulatory powers, or its mainstream competition law powers. In comparison with a non-sector specific competition regulator, and particularly given Royal Mail’s information provision obligations in the regulatory conditions, Ofcom has a greater level of information in relation to Royal Mail’s activities, which may mean that Royal Mail’s activities are subject to a higher level of scrutiny.

The Group is subject to the general provisions of UK and EU competition law, including Article 101 TFEU/Chapter I of the UK Competition Act 1998, which prohibits agreements, decisions or concerted practices having the object or effect of preventing, restricting or distorting competition, and Article 102 TFEU and Chapter II of the UK Competition Act 1998, which prohibit the abuse of a dominant position, as well as equivalent laws in other jurisdictions in which the Group operates. Further information regarding these provisions is set out in section 2.15 of part A of Part X (*Regulation, State Aid and Procurement*). The application of general provisions of competition law to the Group is considered to be of greater significance to the Group’s operations in the UK following the introduction of the new regulatory regime by Ofcom with effect from March 2012 and the Group’s training and compliance policy reflects the need for competition law compliance.

Failure by the Group to comply with competition law could lead to investigation of the Group by, and/or onerous requests for information from, Ofcom, the OFT, the European Commission and/or relevant regulatory bodies in any other jurisdiction in which the Group operates. It could lead to the imposition of fines (including fines based on a proportion of turnover of the Group), voidness of agreements, disqualification orders against directors, and third party claims, including for damages. This could have a material adverse effect on the Group and its results of operations, financial condition and prospects and could also harm its reputation.

There is a risk that a complaint may be made to a regulator in relation to Royal Mail, Parcelforce Worldwide or GLS’s compliance with competition law, and in particular Chapter II/Article 102 TFEU. Such complaints are particularly likely in response to the imposition of a price rise by the Group, including a price rise for network access services. Any infringement finding in relation to a complaint under Chapter II/Article 102 TFEU would, among other things, require a regulator to consider the Group to be dominant for competition law purposes on the relevant market to which the complaint relates.

Competition law assessments are made after the event and often involve complex legal and economic analysis and therefore before such an assessment is made there may be uncertainty around whether conduct may infringe competition law, which may have an effect on the Group’s willingness to exploit its commercial freedom in some circumstances. There is also uncertainty around relevant market definitions and the assessment of market power, which forms the basis of any assessment of whether there has been a competition law infringement. In 2010 and 2011, Postcomm consulted on market definitions in the UK and international postal services sector. Postcomm’s conclusions are in certain cases provisional and, in any event, do not bind Ofcom, but the 2010 and 2011 definitions may be used as a starting point by Ofcom or another regulator in any regulatory or competition law investigation or regulatory dispute. There is a risk that Ofcom may adopt market definitions, including the Postcomm market definitions, which are inconsistent with Royal Mail’s own analysis, and, in particular, that the time lag in obtaining relevant data and evidence may mean that Ofcom defines markets more narrowly than Royal Mail considers actually reflects the commercial constraints that it faces.

## Article 107 TFEU

The Group is subject to the EU State Aid rules. As discussed below (at section 1 of part B of Part X (*Regulation, State Aid and Procurement*)), State Aid is defined as an economic advantage in any form whatsoever given on a selective basis to businesses by the state or through state resources which distorts, or threatens to distort, competition and affects trade between Member States. State Aid is prohibited under Article 107(1) TFEU unless it falls within the scope of one of the exemptions set out in the TFEU.

As also indicated below, the European Commission has exclusive competence to investigate and adjudicate upon the compatibility of State Aid measures with the TFEU. Member States have an obligation to notify the European Commission of any plans to grant State Aid (unless an exemption from the notification applies) and may not implement such State Aid prior to receiving authorisation from the European Commission. The European Commission has extensive investigative and decision-making powers, including the power to order the state to recover from the recipient of such aid (with interest) State Aid which is found to be incompatible with the TFEU. In addition, the European Commission also has the power to order the state to recover authorised aid that has been misused after the granting of the aid. Misuse of aid can include non-compliance with terms of the arrangements or any conditions imposed by the European Commission in connection with the approval of State Aid.

Failure to comply with the State Aid rules by the Group and/or by HM Government in relation to the Group could (either following a complaint or on its own initiative) lead to investigation by, and/or onerous requests for information from, the European Commission. It could result in the European Commission ordering HM Government to recover from the Group any aid (with interest) received in breach of these rules. This could have a material adverse effect on the Group and its results of operations, financial condition and prospects.

### **2.11 The Group is subject to regulations in the UK and Europe in relation to the transportation of dangerous, hazardous and other restricted goods and aviation security and is exposed to legal and operational risks arising out of the conveyance of those goods**

The Group is subject to UK, European and international regulatory requirements in relation to the transportation of dangerous goods and aviation security. The Group benefits from certain exemptions and derogations to permit it to carry certain restricted items through its networks. The Group has been granted exemptions to enable consumers and businesses to send small quantities of certain items classified as dangerous goods by post, including certain aerosols, certain alcoholic beverages and lithium batteries sent connected to equipment or with equipment. In order to comply with the terms of the exemption, the Group has implemented various processes to control dangerous goods at the point of access into the Royal Mail network, including screening (prior to the domestic and international carriage of items by air), and the conduct of audits to check for compliance with the quantity, volume, packing and labelling requirements set out in the exemptions. The relevant exemptions came into effect in January 2013 for international and domestic business customers and for domestic consumers in July 2013.

While the Group's public postal schemes (which set out the terms and conditions for businesses and consumers who do not hold an individual contract with the Group) and other terms and conditions list prohibited items which it cannot carry through its networks, as well as a list of restricted items which it cannot carry unless the item complies with specific requirements as to packaging, labelling and requirements as to quantity and volume, it is possible that the Group may transport and sort hazardous, dangerous or prohibited goods without notification to it of the nature of the goods being transported or sorted. The Group faces a number of risks arising from the transportation of hazardous, dangerous or otherwise prohibited goods, including personal injury or, in extreme cases, loss of life, severe damage to and destruction of property and equipment and environmental damage. Incidents involving these types of materials could arise from a variety of causes including sabotage, terrorism and other criminal activity, accidents, the introduction of items into the Group's delivery networks in breach of applicable law and/or the Group's schemes or terms and conditions, or the improper packaging or handling of items. In addition, dangerous, hazardous or otherwise restricted items may enter one of the Group's networks following a failure by the Group's employees, agents, partners or sub-contractors (including employees and agents of POL receiving items for delivery by the Group at a Post Office branch) to undertake the necessary checks and assessments in accordance with applicable systems and procedures. Items of this nature may also enter the Group's networks from overseas as a result of the failure of an overseas postal administration to conduct the necessary checks and assessments.

If a significant incident occurred involving the handling of hazardous or dangerous goods, the Group's operations could be disrupted and the Group could be subject to a wide range of additional measures,

including potentially significant criminal and/or civil liability such as fines and damages claims. Such an incident could also result in adverse publicity for, or negative perceptions regarding, the Group or affect the Group's relations with current and potential customers. Incidents of this nature could have a material adverse effect on the business of the Group and its results of operations, financial condition and prospects. It is possible that laws and regulations to which the Group is subject in relation to the transportation of hazardous and dangerous goods may change (including as to their enforcement and interpretation), which could have a material adverse effect on the Group's business, its results of operations, financial condition and prospects.

The Group may face disruption to its operations as a result of incidents caused by the transportation of dangerous, hazardous or otherwise restricted goods in the control, or on behalf, of third parties alongside items being transported on behalf of the Group, for example, in aeroplanes transporting items for both the Group and third parties. The occurrence of incidents relating to dangerous, hazardous or otherwise restricted goods more generally in any of the countries within which the Group operates may lead to the introduction of more onerous regulatory requirements in relation to such goods and compliance with those requirements may have a material adverse effect on the business, financial condition, results of operations and prospects of the Group.

In addition, the Group provides delivery services to many different industry sectors and jurisdictions, some of which may be subject to specific export or import controls, customs, sanctions and other disclosure regulations. The Group is occasionally required to provide information requested by relevant authorities that are investigating the transportation of certain restricted or regulated consignments to and from certain restricted parties. The controls applied by the Group in this regard may be inadequate to ensure that all consignments comply with applicable regulations in all jurisdictions. This may lead to investigations and enquiries and, in the event of any breaches of applicable laws or regulations, enforcement action may be taken against the Group which may result in fines and other penalties. Such investigations and enquiries may have an adverse effect on the results of operations, financial condition and prospects of the Group and could also harm its reputation.

## **2.12 The Group's profitability may be adversely affected by historical and prospective liabilities in relation to industrial diseases (including asbestosis)**

The Group has significant liability in respect of occupationally caused health problems developed by its current and former employees. The Group's liability in respect of a category of former employees arose in 2010 as a result of a Court of Appeal judgment that held the Group liable for diseases claims brought by individuals who were employed in the General Post Office telecommunications division and whose employment ceased prior to October 1981. As at 31 March 2013, a provision of £67 million for potential industrial disease claims (on a discounted basis) was recorded in the annual accounts of RMG and this provision relates to both current and former employees of the Group. Previously, as at 31 March 2012, a provision of £39 million had been recorded in the annual accounts of the Selling Shareholder. There is a risk that the amount of the Group's provision in relation to industrial disease claims could increase significantly in the future. The Group does not hold insurance in relation to industrial disease claims, and any liabilities incurred by the Group in relation to such claims will be borne by the Group out of its own resources.

The Group employs independent professional advisers to assess actuarially the potential gross liability of the Group relating to potential asbestosis claims. Factors which could cause actual claims to differ from the Group's provisions and estimates in this regard include: (i) increases in the number of, or adverse trends in, asbestos claims made against the Group; (ii) increases in the cost of resolving current and future asbestos claims as a result of adverse trends relating to settlement costs, legal fees and/or judgment sizes; (iii) the emergence of new trends or legal theories that enlarge the scope of potential claimants and/or new procedural mechanisms that facilitate their claims; (iv) the nature of the illnesses giving rise to claims against the Group; (v) the legal jurisdiction in which claims are made against the Group; (vi) the impact of bankruptcies of other companies whose share of liability may be imposed on the Group; (vii) unpredictable aspects of litigation processes; (viii) potential legislative and regulatory changes; (ix) changes in the discount rate used to determine the discounted liability; and (x) the quality of assessments made by the specialist advisers used by the Group. The Group has based its current provisions on certain estimates and assumptions using the factors listed above. If any one or more of such estimates or assumptions should prove to be incorrect in any material way, it could have a material adverse effect on the level of provisions set aside for these purposes.

In addition to the claims described above, the Group's property portfolio includes sites and offices where materials containing asbestos are present. Pursuant to applicable law and regulations relating to asbestos,



the Group is subject to duties to manage the risks of asbestos in its premises, which include ensuring that so far as reasonably practicable no person can come to harm from the presence of asbestos on the premises. This may involve isolating, encapsulating or removing asbestos that is found to be in a poor condition. The Group has an asbestos management plan in place that incorporates a set of policies and procedures to assist it to manage the asbestos risks in its properties. The ongoing management of asbestos by the Group will involve additional expenditure in the future and may in certain circumstances require full or partial closure of properties. Any failure to manage the asbestos in its properties could result in the Group incurring fines or other liabilities, adversely affect its reputation and/or cause the full or partial closure of such properties, each of which could have a material adverse effect on its results of operations, financial condition and prospects. In addition, the costs of managing the presence of asbestos in sites used or owned by the Group may be material and such costs could have a material adverse effect on the results of operations, financial condition and prospects of the Group.

Under the terms of a transfer scheme made by the Selling Shareholder under the PSA, POL was granted leases in respect of 137 properties owned by the Group but parts of which POL occupies for the purposes of its business. The leases contain an indemnity in favour of POL (as the tenant) in respect of any contravention of environmental laws (including those relating to asbestos) prior to the date of the granting of the leases (i.e., 1 April 2013). The aggregate liability of the Group under these indemnities in all of the leases is £20 million (subject to annual increases in line with the RPI). As the landlord with responsibility for the common parts and the structure of the relevant properties, the Group will also have ongoing responsibilities in relation to asbestos under the terms of the leases and applicable regulations. The Group may be required to make payments under these indemnities in the future.

### **2.13 Litigation and other proceedings may have a material adverse effect on the Group**

In addition to the risk of regulatory investigations, enquiries and actions, the Group faces significant risk of litigation and equivalent proceedings in the conduct of its business, including litigation arising out of commercial disputes with customers, competitors and other third parties, as well as such matters as employment and pensions. It is inherently difficult to predict the outcome of any adversarial proceedings affecting the Group. Any adverse judgments or settlements in any litigation or other proceedings to which the Group is, or may in the future be, subject could have a material adverse effect on the Group's results of operations, financial condition, prospects and reputation.

The Group faces the risk of investigations and claims by, and disputes with, tax authorities in the jurisdictions in which it operates. Any adverse outcome to any such investigations, claims or disputes involving the Group could have a material adverse effect on the Group's results of operations, financial condition, prospects and reputation. Gruppo Executive Società Consortile ("**GESC**"), a member of the GLS Group, is currently party to litigation brought in Italy by the Italian tax authorities who allege that GESC improperly claimed input VAT and corporate tax deductions. The total amount of the claim against GESC is approximately €10.4 million, including penalties and interest. At the first hearing, judgment in the matter was given against GESC, and GESC is currently in the process of appealing. The appeal is currently expected to be heard during the spring of 2014.

### **2.14 The Group is required to comply with health and safety laws and regulations and is exposed to risks from the occurrence of health and safety incidents**

The Group is required to comply with laws and regulations relating to health and safety. The nature of the Group's operations exposes it to certain risks arising out of the performance of operational activities by the Group's employees. In particular, a large proportion of the Group's employees are involved in the performance of labour-intensive manual tasks (including the lifting and handling of parcels), the use of complex machinery for the sorting and movement of letters and parcels, the use of road vehicles and the collection and delivery of mail in potentially adverse weather conditions. Among other things, the Group's frontline delivery staff are at risk of attacks by dogs at premises to which deliveries of letters or parcels are made or attempted. A violation of health and safety laws or regulations relating to the Group's operations, a failure to comply with the instructions of the relevant health and safety authorities and/or the occurrence of incidents involving the safety of the Group's employees in the workplace could lead to, among other things, negative publicity and reputational damage, litigation and damages claims, fines, costly compliance procedures and, *in extremis*, a temporary shutdown of part of the Group's business. Such violations, failures and incidents could therefore have a material adverse effect on the Group's results of operations, financial condition and prospects.



### **2.15 The Group may face increased environmental costs**

Environmental sustainability is likely to be of continuing importance to governments, regulators and other interested or influential bodies and, in recent years, measures have been adopted at national and EU level aimed at reducing greenhouse gas emissions, reducing energy usage and ensuring that greater use is made of energy from renewable sources. There may be changes to existing legislation or regulation or the introduction of new legislation, regulation or government policies or practice (whether at national or EU level), which could adversely affect the Group's operations and conduct of its business, particularly in relation to its use of energy and the management of its vehicles or buildings, in particular in relation to the level of carbon emissions from its vehicles and buildings. If there is a change to environmental legislation there may be a decrease in demand for the Group's products and services (for example as a result of restrictions imposed on the use of paper-based communications that lead to a decline in the number of letters sent by post), or an increase in the Group's costs, which may adversely affect the Group's results of operations, financial condition and prospects.

### **2.16 European legislators may adopt legislation providing for the creation of an integrated parcel market within the EU which could have implications for the business and operations of the Group**

At EU level, there is a risk that the Group may in the future be subject to some form of further regulatory intervention (over and above the Universal Service Obligation) in relation to the delivery of parcels. The European Commission published a Green Paper consultation on 29 November 2012 looking at the creation of an integrated EU parcel market, which placed special emphasis on cross-border issues and e-commerce needs. Although European Commission officials have indicated that the European Commission has no plans to follow up the Green Paper with formal legislation, given that a Green Paper has been published specifically in relation to this issue, there is a risk that it may ask postal operators to adopt a range of practical measures to assist in market integration which may have adverse implications for the Group. Further information regarding the Green Paper is set out in section 3.1 of part A of Part X (*Regulation, State Aid and Procurement*).

## IMPORTANT NOTICES

### STABILISATION

In connection with the Offer, UBS Limited (as Stabilising Manager), or any of its agents, may (but will be under no obligation to), to the extent permitted by applicable law and for stabilisation purposes, over-allot Ordinary Shares up to a total of 15 per cent. of the final Offer Size or effect other transactions with a view to supporting the market price of the Ordinary Shares at a higher level than that which might otherwise prevail in the open market. The Stabilising Manager is not required to enter into such transactions and such transactions may be effected on any securities market, over-the-counter market, stock exchange or otherwise and may be undertaken at any time during the period commencing on the date of the conditional dealings of the Ordinary Shares on the London Stock Exchange and ending no later than 30 calendar days thereafter. Such stabilisation, if commenced, may be discontinued at any time without prior notice. In no event will measures be taken to stabilise the market price of the Ordinary Shares above the Offer Price. Except as required by law or regulation, neither the Stabilising Manager nor any of its agents intends to disclose the extent of any over-allotments made and/or stabilisation transactions conducted in relation to the Offer.

For the purposes of allowing the Stabilising Manager to cover short positions resulting from any such over-allotment and/or from sales of Ordinary Shares effected by it during the stabilising period, it has entered into the Over-allotment Option with the Selling Shareholder pursuant to which it may purchase (or nominate purchasers of) additional Ordinary Shares representing up to 15 per cent. of the final Offer Size (before any utilisation of the Over-allotment Arrangements) (the “**Over-allotment Shares**”) at the Offer Price. The Over-allotment Option may be exercised in whole or in part upon notice by the Stabilising Manager at any time on or before the 30th calendar day after the commencement of conditional dealings of the Ordinary Shares on the London Stock Exchange. Any Over-allotment Shares made available pursuant to the Over-allotment Option will be sold on the same terms and conditions as Ordinary Shares being offered pursuant to the Offer and will rank *pari passu* in all respects with, and form a single class with, the other Ordinary Shares (including for all dividends and other distributions declared, made or paid on the Ordinary Shares).

### THE UNDERWRITERS

Each of the Underwriters is authorised by the Prudential Regulation Authority and regulated by the FCA and the Prudential Regulation Authority in the UK and is acting exclusively for the Secretary of State, the Selling Shareholder and the Company and for no other person in connection with the Offer and Admission and will not regard any other person (whether or not a recipient of this document, the Securities Note and/or the Summary) as its client in relation to the Offer or Admission and will not be responsible to anyone other than the Secretary of State, the Selling Shareholder and the Company for providing the protections afforded to its clients or for providing advice in relation to the Offer, Admission or any transaction or arrangement referred to in the Prospectus.

The Underwriters and any of their respective affiliates may have engaged in transactions with, and provided various investment banking, financial advisory, lending and commercial banking, and other services to the Secretary of State, the Selling Shareholder and the Company, for which they would have received customary fees. The Underwriters and any of their respective affiliates may provide such services to the Secretary of State, the Selling Shareholder and the Company and any of their respective affiliates in the future.

In connection with the Offer, each of the Underwriters and any of their respective affiliates acting as an investor for its or their own account(s) may purchase Ordinary Shares and, in that capacity, may retain, purchase, sell, offer to sell or otherwise deal for its or their own account(s) in the Ordinary Shares, any other securities of the Company or other related investments in connection with the Offer or otherwise. Accordingly, references in the Prospectus to the Ordinary Shares being issued, offered, subscribed for or otherwise dealt with should be read as including any issue or offer to, or subscription or dealing by, the Underwriters or any of them and any of their respective affiliates acting as an investor for its or their own account(s). The Underwriters do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so. In addition, in connection with the Offer, certain of the Underwriters may enter into financing arrangements with investors, such as share swap arrangements or lending arrangements where Ordinary Shares are used as collateral, that could result in such Underwriters acquiring shareholdings in the Company.

Apart from the responsibilities and liabilities, if any, which may be imposed on the Underwriters by FSMA, or the regulatory regime established thereunder, or under the regulatory regime of any other jurisdiction where exclusion of liability under the relevant regulatory regime would be illegal, void or unenforceable, none of the Underwriters accepts any responsibility whatsoever or makes any representation or warranty, express or implied, for the contents of the Prospectus, including its accuracy or completeness, or for any other statement made or purported to be made by any of them, or on behalf of them, the Company or any other person in connection with the Secretary of State, the Selling Shareholder, the Company, the Ordinary Shares or the Offer and nothing contained in the Prospectus is or shall be relied upon as a promise or representation in this respect, whether as to the past or future. Each of the Underwriters accordingly disclaims all and any responsibility or liability whether arising in tort, contract or otherwise (save as referred to above) which any of them might otherwise have in respect of the Prospectus or any such statement.

## **NOTICE TO INVESTORS**

Prospective investors should rely only on the information in the Prospectus (and any supplementary prospectus required to be published by the Company pursuant to section 87G of FSMA and paragraph 3.4 of the Prospectus Rules) when making a decision as to whether to invest in Ordinary Shares. No person has been authorised to give any information or make any representations in connection with Admission or the Offer other than those contained in the Prospectus and, if given or made, such information or representations must not be relied upon as having been authorised by the Secretary of State, the Selling Shareholder, the Company, the Directors or any of the Underwriters.

In making an investment decision, each investor must rely on their own examination, analysis and enquiry of the Company and the terms of the Offer, including the merits and risks involved.

Without prejudice to any obligation of the Company to publish a supplementary prospectus pursuant to section 87G of FSMA and paragraph 3.4 of the Prospectus Rules, neither the delivery nor the publication of the Prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Company or the Group taken as a whole since the date of the Prospectus or that the information contained herein is correct as at any time after the date of the Prospectus.

In the event the Company is required to publish a supplementary prospectus pursuant to section 87G of FSMA and paragraph 3.4 of the Prospectus Rules, prospective investors will have a statutory right to withdraw their offer to purchase Ordinary Shares in the Offer before the end of a period of two Business Days commencing on the first Business Day after the date on which the supplementary prospectus is published pursuant to section 87Q of FSMA. In addition, if the Offer Price is set by the Secretary of State above the Price Range and/or the number of Ordinary Shares to be sold by the Selling Shareholder is set by the Secretary of State above or below the Offer Size Range (subject to the minimum free float requirements of the UK Listing Authority), then prospective investors would have a statutory right to withdraw their offer to purchase Ordinary Shares in the Offer pursuant to section 87Q of FSMA before the end of a period of two Business Days commencing on the first Business Day after the date on which an announcement of this is published by the Secretary of State via a Regulatory Information Service announcement. Prospective investors would have a statutory right to withdraw their offer to purchase Ordinary Shares.

None of the Secretary of State, the Selling Shareholder, the Company, the Directors or any of the Underwriters, or any of their respective representatives, is making any representation to any offeree or purchaser of the Ordinary Shares regarding the legality of an investment in the Ordinary Shares by such offeree or purchaser under the laws applicable to such offeree or purchaser.

The contents of the Prospectus are not to be construed as legal, financial or tax advice. Each prospective investor should consult his, her or its own legal adviser, financial adviser or tax adviser for legal, financial or tax advice and related aspects of a purchase of Ordinary Shares.

Investors also acknowledge that: (i) they have not relied on the Underwriters or any person affiliated with the Underwriters in connection with any investigation of the accuracy of any information contained in the Prospectus or their investment decision; and (ii) they have relied only on the information contained in the Prospectus, and that no person has been authorised to give any information or to make any representation concerning the Group or the Ordinary Shares (other than as contained in the Prospectus) and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Secretary of State, the Selling Shareholder, the Company or any of the Underwriters.

Any reproduction or distribution of the Prospectus, in whole or in part, and any disclosure of its contents or use of any information contained in the Prospectus for any purpose other than considering an investment in the Ordinary Shares, is prohibited.

#### **NO INCORPORATION OF WEBSITES**

The contents of the websites of the Group and the Offer Website do not form part of the Prospectus, and prospective investors should not rely on them.

#### **NO INCORPORATION OF REGULATORY ACCOUNTS**

The regulatory financial statements filed by RMG with Ofcom do not form part of the Prospectus, and prospective investors should not rely on them.

#### **PRESENTATION OF FINANCIAL INFORMATION**

Prospective investors should consult their own professional advisers to gain an understanding of the financial information contained in the Prospectus. An overview of the basis for presentation of financial information in the Prospectus is set out below.

The Company was incorporated on 6 September 2013 and acquired its current shareholding in Royal Mail Group Limited (and became the holding company for the Group) on 12 September 2013. As a consequence, there is no historical consolidated audited financial information relating to the Company. Accordingly, Schedule III (*Historical Financial Information*) presents the financial information on Royal Mail Group Limited and its subsidiaries for the 52 weeks ended 27 March 2011 and 25 March 2012, the 53 weeks ended 31 March 2013 and the 13 weeks ended 30 June 2013 and 24 June 2012. The financial information has been prepared in accordance with International Financial Reporting Standards (“IFRS”), except for the non-consolidation of POL, which was transferred to the Selling Shareholder on 1 April 2012. This is explained in further detail in Note 1 to the financial information set out in Schedule III (*Historical Financial Information*).

The financial information contained in Schedule III (*Historical Financial Information*) for Royal Mail Group Limited for the 52 weeks ended 27 March 2011 and 25 March 2012, the 53 weeks ended 31 March 2013 and the 13 weeks ended 30 June 2013 has been audited, while the financial information for the 13 weeks ended 24 June 2012 is unaudited.

The underlying financial information stated in Euro has been translated into Pounds Sterling on the basis set out under the heading “Foreign Currencies” in Note 28 to the financial information set out in Schedule III (*Historical Financial Information*). All unaudited financial information in the Prospectus has been extracted without material adjustment from the Group’s accounting records.

The financial and volume information in the Prospectus, including in a number of tables, has been rounded to the nearest whole number or the nearest decimal place. The sum of the numbers in a column in a table may not conform exactly to the total figure given for that column. In addition, certain percentages presented in the tables in the Prospectus reflect calculations based on the underlying information prior to rounding, and, accordingly, may not conform exactly to the percentages that would be derived if the relevant calculations were based upon the rounded numbers.

#### **PRO FORMA WORDING**

In this document, any reference to “pro forma” financial information is to information which has been extracted without material adjustment from the unaudited pro forma financial information contained in Part VIII (*Unaudited Pro Forma Financial Information*). The unaudited pro forma statement of financial position of the Group contained in Part VIII (*Unaudited Pro Forma Financial Information*) is based on the audited historical financial information of Royal Mail Group Limited for the 13 weeks ended 30 June 2013 contained in Schedule III (*Historical Financial Information*). The unaudited pro forma statement of financial position has been prepared to illustrate the effect of the Corporate Reorganisation, the expenses of the Offer incurred by the Group and the refinancing of certain Group debt on the financial position of RMG and its subsidiaries as if each of the foregoing had taken place or, in the case of the expenses of the Offer, been incurred on 30 June 2013.

The unaudited pro forma financial information is for illustrative purposes only. By its nature, the pro forma financial information addresses a hypothetical situation and, therefore, does not represent the Group’s actual financial position.

Accordingly, the unaudited pro forma financial information is not necessarily indicative of what the financial position of the Group would have been if the events described above had occurred on 30 June 2013.

## **PRESENTATION OF OPERATING DATA**

Unless otherwise specified or unless the context otherwise requires, in this document all operating data and figures relating to the business and operations of the Group are given as at 31 March 2013.

## **FORWARD-LOOKING STATEMENTS**

Certain statements contained in the Prospectus, including any information as to the Group's strategy, plans or future financial or operating performance constitute "forward-looking statements". In some cases, these forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "forecasts", "plans", "projects", "predicts", "prepares", "anticipates", "expects", "intends", "may", "will", "should", "target" or "objective" or, in each case, their negative or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout the Prospectus and include statements regarding the intentions, belief or current expectations of the Directors concerning, among other things: the Company's results of operations, financial condition, prospects, growth, strategies and the industry in which the Group operates. Examples of forward-looking statements include financial targets which are contained in this document specifically with respect to single digit growth, net operating costs (operating costs and transformation costs) and operating profit margin after costs, each of which are described in further detail in the section entitled "Risk Factors" in this document, Part II (*The Business*) and Part VII (*Operating and Financial Review*). Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of the Group or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future or are beyond the Group's control. Forward-looking statements are not guarantees of future performance. The forward-looking statements in the Prospectus are made based upon the Directors' expectations and beliefs concerning future events impacting the Group and therefore involve a number of known and unknown risks and uncertainties. Such forward-looking statements are based on numerous assumptions regarding the Group's present and future business strategies and the environment in which it will operate, which may prove to be inaccurate. The Company's actual results of operations, financial condition and the development of the business sectors in which the Group operates may differ materially from those suggested by the forward-looking statements contained in the Prospectus due to certain factors including, but not limited to, UK and EU domestic and global economic business conditions, market-related risks such as fluctuations in interest rates and exchange rates, the policies and actions of regulatory authorities, market developments regarding volumes of letters and parcels handled by the Group or delivered in the UK and the other core markets of the Group, the impact of competition, currency changes, inflation, deflation, the timing impact and other uncertainties of future acquisitions or combinations within relevant industries, as well as the impact of tax and other legislation and other regulations in the jurisdictions in which the Group and its affiliates operate. In addition, even if the Company's actual results of operations, financial condition and the development of the business sectors in which the Group operates are consistent with the forward-looking statements contained in the Prospectus, those results or developments may not be indicative of results or developments in subsequent periods.

It is strongly recommended that prospective investors read the sections entitled "Risk Factors" set out on pages 8 to 43 of this document and on pages 8 to 11 of the Securities Note for a more complete discussion of the factors that could affect the Group's future performance and the industry in which it operates. In light of these risks, uncertainties and assumptions, the forward-looking events described in the Prospectus may not occur. The forward-looking statements referred to above speak only as at the date of the Prospectus. Subject to any obligations under applicable law, including the Prospectus Rules, the Listing Rules and the Disclosure and Transparency Rules, the Company undertakes no obligation to release publicly any revisions or updates to these forward-looking statements to reflect events, circumstances or unanticipated events occurring after the date of the Prospectus. All subsequent written and oral forward-looking statements attributable to the Group or individuals acting on behalf of the Group are expressly qualified in their entirety by this paragraph.



## **SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES**

The Company has been incorporated under the laws of England and Wales. Substantially all of the assets of the Company are located in the UK. Except for Jan Babiak, none of the Directors or officers is a citizen or resident of the United States. As a result, it may not be possible for Investors to effect service of process within the United States upon the Company or such persons or to enforce outside the United States judgments obtained against the Company or such persons in US courts, including, without limitation, judgments based upon the civil liability provisions of the US federal securities laws or the laws of any state or territory within the United States. In addition, awards of punitive damages in actions brought in the United States or elsewhere may be unenforceable in the UK. Investors may also have difficulties enforcing, in original actions brought in courts in jurisdictions outside the United States, liabilities under the US securities laws.

## DIRECTORS, COMPANY SECRETARY, REGISTERED OFFICE AND ADVISERS

<b>Directors</b>	<b>Donald Brydon CBE</b> ( <i>Chairman</i> ) <b>Orna Ni-Chionna</b> ( <i>Senior Independent Non-Executive Director</i> ) <b>Moya Greene</b> ( <i>Chief Executive Officer</i> ) <b>Matthew Lester</b> ( <i>Chief Finance Officer</i> ) <b>Mark Higson</b> ( <i>Executive Director</i> ) <b>John Allan CBE</b> ( <i>Non-Executive Director</i> ) <b>Jan Babiak</b> ( <i>Non-Executive Director</i> ) <b>Nick Horler</b> ( <i>Non-Executive Director</i> ) <b>Cath Keers</b> ( <i>Non-Executive Director</i> ) <b>Paul Murray</b> ( <i>Non-Executive Director</i> ) <b>Les Owen</b> ( <i>Non-Executive Director</i> )
<b>Company Secretary</b>	<b>Jon Millidge</b>
<b>Registered Office</b>	100 Victoria Embankment, London EC4Y 0HQ, United Kingdom
<b>Joint Global Co-ordinator and Joint Bookrunner</b>	<b>Goldman Sachs International</b> Peterborough Court, 133 Fleet Street, London EC4A 2BB, United Kingdom
<b>Joint Global Co-ordinator and Joint Bookrunner</b>	<b>UBS Limited</b> 1 Finsbury Avenue, London EC2M 2PP, United Kingdom
<b>Joint Bookrunner and Sponsor</b>	<b>Barclays Bank PLC</b> 5 The North Colonnade, Canary Wharf, London E14 4BB, United Kingdom
<b>Joint Bookrunner</b>	<b>BofA Merrill Lynch International</b> 2 King Edward Street, London EC1A 1HQ, United Kingdom
<b>Co-Lead Manager</b>	<b>Investec Bank plc</b> 2 Gresham Street, London EC2V 7QP, United Kingdom
<b>Co-Lead Manager</b>	<b>Nomura International plc</b> 1 Angel Lane, London EC4R 3AB, United Kingdom
<b>Co-Lead Manager</b>	<b>RBC Europe Limited</b> Riverbank House, 2 Swan Lane, London EC4R 3BF, United Kingdom
<b>Financial Adviser to HM Government</b>	<b>Lazard &amp; Co., Limited</b> 50 Stratton Street, London W1J 8LL, United Kingdom
<b>Reporting Accountants and Auditors</b>	<b>Ernst &amp; Young LLP</b> 1 More London Place, London SE1 2AF, United Kingdom
<b>Legal Advisers to the Company as to English law</b>	<b>Slaughter and May</b> One Bunhill Row, London EC1Y 8YY, United Kingdom
<b>Legal Advisers to the Company as to US law</b>	<b>Davis Polk &amp; Wardwell London LLP</b> 99 Gresham Street, London EC2V 7NG, United Kingdom
<b>Legal Advisers to the Secretary of State and the Selling Shareholder as to English and US law</b>	<b>Freshfields Bruckhaus Deringer LLP</b> 65 Fleet Street, London EC4Y 1HS, United Kingdom
<b>Legal Advisers to the Underwriters and Sponsor as to English and US law</b>	<b>Linklaters LLP</b> One Silk Street, London EC2Y 8HQ, United Kingdom
<b>Retail Offer Adviser to the Secretary of State</b>	<b>Solid Solutions Associates (UK) Limited</b> 5 St John's Lane, London EC1M 4BH, United Kingdom
<b>Registrar and Receiving Agent</b>	<b>Equiniti Limited</b> Aspect House, Spencer Road, Lancing, West Sussex BN9 6DA, United Kingdom

## PART I

### MARKET OVERVIEW

The Group operates through two core divisions: UKPIL and GLS. UKPIL operates in the UK collecting and delivering parcels and letters through two main networks, the Royal Mail Core Network and Parcelforce Worldwide, under the “Royal Mail” and “Parcelforce Worldwide” brands. GLS operates in continental Europe and the Republic of Ireland, delivering parcels through the GLS Network, one of the largest ground-based deferred parcel delivery networks in Europe.

Set out below is an overview of the key markets in which the Group operates.

#### 1. KEY UK MARKET DRIVERS

There are a number of factors which drive the UK parcel and letter markets. These factors include:

- economic growth;
- growth of the internet;
- e-substitution of both communications and retail products;
- other technological developments, such as digital tablets and smart phones;
- changes in demographics and the number of households;
- consumer preferences;
- effectiveness and value of media and pricing elasticities;
- quality of service provided by postal operators; and
- regulatory developments at both a national and a European level.

A description of the impact of certain of these factors is set out below.

##### *Economic growth*

Historically, parcel and letter volumes have been closely correlated to changes in economic activity and the level of economic growth in the wider UK economy. In general terms, higher levels of economic activity and growth lead to increases in the number of goods purchased by both businesses and consumers, and increases in transactional and advertising communications, driving up parcel and letter volumes.

##### *Growth of the internet*

As internet adoption has increased, consumers have used it as a significant retail channel. This growth has come from:

- “pureplay” online retailers such as Amazon and ASOS;
- traditional “high-street” retail stores adopting multi-channel strategies, such as Marks and Spencer and John Lewis; and
- marketplace and auction websites for both new and second-hand goods, such as Amazon and eBay.

These online sales have contributed to growth in parcel volumes at a faster rate than GDP growth as online retail spending has grown as a proportion of total retail spending. Online retailing was already approximately 10 per cent. of the UK’s total retail sales in August 2013 (Source: Office for National Statistics) and is expected to continue to grow. However, not every online retail transaction leads to the requirement for a parcel delivery and, in certain segments such as books and music, volume growth has been negatively impacted by digital substitution. Nevertheless, online retailing is expected to continue to drive above GDP growth in parcel volumes.

##### *E-substitution of letters*

In common with most other developed countries, following a period of sustained growth, the volume of letters being sent in the UK has declined. The UK letter market continues to undergo this structural decline as

individuals and businesses move from letters as a communication medium to other forms of communication, including email and other digital media. The main driver of this decline has been the speed and low cost of digital communication. For example, financial institutions, such as banks and insurance companies, have increased their use of electronic communication with customers as an alternative to traditional paper statements. However, in FYE 2013 Royal Mail's revenue from business letters, including statements, bills and invoices, was still substantial at approximately £2.3 billion, and in recent studies 62.1 per cent. of consumers said they prefer paper based statements and 60 per cent. said they pay more attention to paper statements than email statements (Source: 2012 TGI Postscript).

#### *Technological developments*

Other technological developments are expected to have an impact on the UK parcel and letter markets. For example, the use of tablet devices is expected to grow and help increase growth in online retailing, though it may also lead to more magazines switching to digital delivery. Additionally, in July 2013, Royal Mail announced a major initiative to add barcodes to letters to allow tracking of bulk mail letter consignments through the Royal Mail Core Network. This service, which Royal Mail aims to launch in early 2014, will enable businesses to improve efficiency and customer service, more accurately link communications activities with the delivery of letters and better monitor the success of marketing mail campaigns.

#### *Demographic changes*

Social and demographic factors continue to impact the UK market. The anticipated growth in the number of households is expected to lead to a corresponding growth in parcel and letter volumes. In the longer term, demographic change will have a gradual increasing effect on the reduction of letter volumes as today's older persons who, as a group, make less use of the internet, make up a smaller proportion of the population.

#### *Regulatory developments*

Regulatory developments also have the potential to drive changes in the UK market. Please refer to Part X (*Regulation, State Aid and Procurement*) for further details.

## **2. OVERVIEW OF UK MAIL MARKET**

### **2.1 Introduction**

As shown in the sections below of this Part, the mix of items within the UK's notional mailbag of parcels and letters has changed over time and is expected to continue to evolve. The contents of the notional UK mailbag can be categorised into the following five segments, with example applications within each of those segments:

- **business mail:** bank statements, utility bills, government communications, payments/cheques, other bills/invoices, receipts, insurance and legal documents, and orders for goods and services;
- **marketing mail:** unaddressed marketing mail (for example, advertising leaflets) and addressed marketing mail (also known as "direct mail") containing advertising material and catalogues. This segment covers marketing items that the recipient has and has not requested;
- **publishing mail:** magazines, journals and newsletters;
- **social mail:** greetings cards, Christmas and birthday cards, social correspondence and postcards; and
- **parcels:** goods sent between businesses, consumer goods purchased online, goods returned to retailers and presents sent between consumers (for example, at Christmas).

In a 2013 report, PricewaterhouseCoopers LLP ("**PwC**") set out certain estimates as to how the composition of the UK's notional mailbag of letters and parcels sent within the UK by post has evolved since 2005, and forecasts as to how it might evolve in the future (Source: PwC Strategy & Economics – The Outlook for UK Mail Volumes to 2023, 15 July 2013; base information partly sourced from the Group).

### **2.2 UK mailbag in 2005, 2012 and 2018**

The table below shows the composition of the UK's notional mailbag in 2005 and 2012 and an estimate of how it might be comprised in 2018, in each case for letters and parcels sent within the UK and by reference to the five segments outlined in section 2.1 above. It should be noted that such estimates are subject to a variety of variables and, as such, may not be accurate.

Mail segment (By item; unweighted)	Portion of mailbag in 2005	Portion of mailbag in 2012	Portion of mailbag in 2018
Business mail	51%	50%	44%
Direct mail <sup>(1)</sup>	30%	29%	29%
Publishing mail	8%	5%	5%
Social mail	5%	5%	5%
Parcels	6%	11%	17%

(Source: PwC Strategy & Economics – The Outlook for UK Mail Volumes to 2023, 15 July 2013; base information partly sourced from the Group)

**Note:**

(1) Direct mail, as referred to by PwC, is equivalent to the “marketing mail” segment described in section 2.1 above and includes addressed and unaddressed marketing mail.

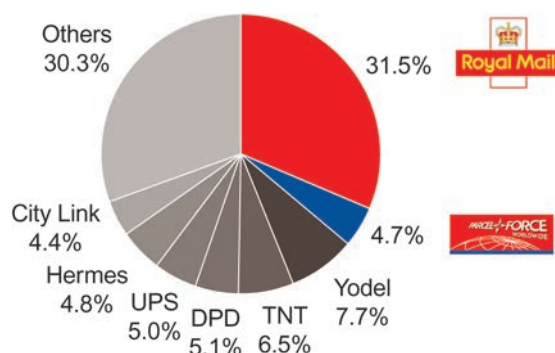
### 3. UK PARCELS AND LETTERS

The Group delivers parcels in the UK through Royal Mail and Parcelforce Worldwide and delivers letters (in the business mail, marketing mail (both unaddressed and addressed), publishing mail and social mail segments described above) through Royal Mail.

#### 3.1 UK parcels

Over recent years, the increase in e-commerce has driven substantial growth in the number of parcels sent in the UK, leading to a structural shift within the UK parcel market. In FYE 2013, the Group handled more than 1 billion parcels in the UK. It is estimated that in FYE 2013 the Group had a share of approximately 36.2 per cent. of the overall UK parcel market on a revenue basis, compared with 34.3 per cent. in FYE 2012 and 33.3 per cent. in FYE 2011 (Source: Triangle Management Services/Royal Mail Group Fulfilment Market Measure, 2013).

The chart below shows the Group's leading position in UK parcels (based on revenue):



Source: Triangle Management Services/Royal Mail Group Fulfilment Market Measure, 2013

#### (A) Market segments

##### Domestic parcels

The delivery of parcels in the UK can be broken down by reference to the type of customers sending and receiving items, the three main classifications in this area being:

- B2B: this segment includes items sent between different businesses, and made up an estimated 38 per cent. of the total UK parcel market by volume in 2012;
- B2C: this segment is made up of items sent by businesses (including traditional and online retailers) to consumers and items returned to businesses by consumers, and made up an estimated 56 per cent. of the total UK parcel market by volume in 2012; and
- C2X: this segment is made up of items sent by consumers to a range of different recipients, including parcels sent socially between individuals (such as presents and items bought and sold using online auction sites) as well as items sent by consumers to businesses (excluding items returned to business retailers by consumers). This segment made up an estimated six per cent. of UK parcels by volume in 2012.



In addition to the three segments set out above, it is possible to categorise the total UK parcel market by reference to delivery speed and time. Applying this classification, UK parcel delivery services can be separated into three broad categories:

- deferred services: this is the least time-sensitive type of delivery and would include delivery on a “second class” basis, usually within three working days of sending. The Group provides deferred parcel services in the UK through Royal Mail. The Group’s key competitors in relation to deferred parcel services are Hermes and Yodel, which operate low-cost delivery models;
- express services: within this segment, deliveries are made on a time-certain or day-definite basis, including for delivery on the day following despatch. The Group provides express parcel services in the UK through Royal Mail and Parcelforce Worldwide. The Group’s key competitors in this segment are DPD and City Link; and
- courier services: these are the most time-sensitive deliveries, often with a same-day requirement or delivery within a specified number of hours. This is a highly fragmented segment with many owner-operators. Currently, the provision of courier services represents a relatively small portion of the Group’s parcel volumes and revenue, with deliveries in this segment made through Royal Mail’s “Sameday” network. The Group’s largest competitor in this area is CitySprint.

The Group, through Royal Mail and Parcelforce Worldwide, delivers parcels in each of these six overlapping customer segments.

#### *International parcels to and from the UK*

The export of parcels from the UK has grown in recent years as a result of the growth in cross-border online retailing and in FYE 2013 UKPIL’s revenue from international parcels (including parcels for export and import, but excluding Parcelforce Worldwide) represented 21 per cent. of UKPIL’s parcel revenue (excluding Parcelforce Worldwide). Over the last few years there has been an increased rate of expansion by UK-based online retailers in overseas countries and increased demand for the delivery of products originating in the UK to consumers and businesses. E-commerce exports are expected to continue to grow strongly, particularly with regard to exports to Europe and Asia (Source: “Britain’s retail empire” (Google and OC&C Strategy Consultants, May 2013)). The Directors estimate that, in 2012, the Group (through Royal Mail and Parcelforce Worldwide) had a share of approximately 27 per cent. of the revenue generated by parcel exports from the UK (Source: Triangle Management Services/Royal Mail Group Fulfilment Market Measure, 2013). The Group’s main competitors in this area are DHL, UPS and TNT Express.

In relation to parcel imports, Royal Mail and Parcelforce Worldwide deliver parcels to addresses in the UK that originate overseas pursuant to arrangements with overseas postal administrations and international parcel delivery companies. This includes parcels sent by consumers and business customers to a range of individual consumers and other business customers in the UK.

#### **(B) Market trends**

Between 2009 and 2012, B2C and C2X parcel volumes in the UK, in aggregate, grew at a rate of approximately 5.2 per cent. per annum and B2B parcels at approximately 2.9 per cent. per annum (Source: Triangle Management Services/Royal Mail Group Fulfilment Market Measure, 2013). The Group forecasts that e-commerce will drive B2C parcel volumes growth of five to six per cent. per annum in the UK in the three financial years ending with FYE 2016. With the distinction between the B2C and C2X segments becoming increasingly blurred, the Group forecasts that parcel volumes within these segments in the UK, when aggregated, will grow at approximately 4.5 to 5.5 per cent. per annum in the three financial years ending with FYE 2016. The Group forecasts that parcel volumes within the UK’s B2B segment will grow at slightly above UK GDP per annum in the three financial years ending with FYE 2016.

The Group believes there are capacity limitations in the UK parcel market and estimates that, in the run-up to Christmas 2013, the available excess capacity in the UK parcel market will only be between approximately six million and nine million items per month.

#### *Growth in online retailing*

B2C and C2X, when aggregated, represent the largest segments of the UK parcel market by volume and are growing faster than the B2B segment. Return volumes (i.e. items returned by consumers to online and other retailers) are growing significantly, largely as a result of high growth rates in sales of clothing and shoes online.

In recent years, the growth in the B2C segment has been driven in the UK by the increase in online retailing and this growth is expected to continue. Growth in this segment is expected to be helped by a number of factors, including:

- the UK has one of the highest rates of internet and smart phone penetration in Western Europe. These rates are expected to increase further in coming years and, in relation to smart phone penetration, overtake the US by 2016 (Source: eMarketer, January 2013);
- the subdued economy in the UK since 2008 has driven greater sensitivity among consumers as to the prices they pay for goods and this has, in turn, contributed to a structural shift away from traditional high-street shopping to online retailing;
- the UK has a competitive parcel market with parcel carriers providing a range of convenient services. These carriers have also introduced innovative delivery options, such as text messaging delivery times and “click and collect” solutions (see below); and
- parcel carriers have also introduced more convenient returns services, removing a key barrier for purchase of clothing and shoes online.

The Group is well placed to benefit from further growth in the B2C segment. The scale and configuration of the Group’s Royal Mail Core Network in the UK enables lower-cost delivery of smaller parcels delivered on foot. While the Group already has the capability to deliver to every address in the UK, it is more difficult for competitors who have been focused on the B2B market to adapt their networks to compete across the whole of the B2C segment of the UK’s parcel market.

#### *Click and collect*

In recent years, the number of retailers offering a “click and collect” service for customers has grown alongside the increase in online retailing in the UK. “Click and collect” enables customers to collect parcels from a nominated collection point rather than having them delivered to a home address. The nominated collection point can be either in a retailer’s store (such as Argos or Marks and Spencer) or an alternative third party delivery point (such as a Post Office, Collect+ or myHermes ParcelShop).

In May 2013, Royal Mail announced that, working with the Post Office, it will be launching the UK’s largest “click and collect” network which will give online retailers the option to have parcels delivered using the Royal Mail Core Network to one of approximately 10,500 participating Post Office branches across the UK for collection by the end-customer.

#### *Cross-border delivery of parcels*

The export segment for parcels originating from the UK is less mature than the UK’s domestic parcel segment and is generating growth in the export of parcels originating from the UK in the B2C segment. This growth represents an opportunity for the Group, which has a particular focus on export parcels sent by UK SMEs. In FYE 2013, approximately 66 per cent. of Royal Mail’s export parcel revenue came from consumers and small businesses.

### **3.2 UK letters**

In FYE 2013, Royal Mail handled approximately 17.4 billion letters in the UK. Approximately 14.1 billion of these letters were addressed and approximately 3.3 billion were unaddressed. In FYE 2013, the Group delivered approximately 99 per cent. of letter volumes in the UK.

#### **(A) Market segments**

The UK letter market can be broken down into three broad segments: (i) “end to end” delivery; (ii) network access; and (iii) international letters. Royal Mail delivers letters in all three segments.

##### *“End to end”*

“End to end” delivery involves the collection, transporting, sorting and delivery of letters by a single postal operator. Royal Mail currently faces relatively little actual competition in relation to “end to end” delivery of letters in the UK. Only TNT Post UK Limited (“**TNT**”) (part of the PostNL Group) and Document Exchange currently operate “end to end” services and handle very small volumes. TNT is currently operating a direct delivery service in four London postcodes (SW, W, WC and EC), handling an average of almost one million “end to end” items per week (Source: PostNL Q2 and HY 2013 Results Press Release, 5 August 2013).

### *Network access*

As the UK's designated universal postal service provider, RMG is required to provide customers and other postal operators with access to a specified portion of the Royal Mail Core Network in relation to certain second class letter and large letter products. This service allows the third parties to collect, transport and sort letters (the "**Upstream Market**") before handing them over into the Royal Mail Core Network at inward mail centres for final delivery to end-recipients (the "**Downstream Market**").

Access volumes passing through the Royal Mail Core Network were approximately 7.3 billion items in FYE 2013, or approximately 42 per cent. (by volume) of all letters handled by Royal Mail. Access mail predominantly comprises business mail (including statements, invoices and bills) and addressed marketing mail. Approximately 57 per cent. of Royal Mail's access mail volume comes from national or regional postal operators, with the remaining 43 per cent. from posting customers such as banks and other financial services providers (including agency customers).

RMG's key competitors in the Upstream Market are TNT, UK Mail and Secured Mail, each of whom access the Downstream Market by using the Royal Mail Core Network (except for TNT's limited "end to end" operations referred to above).

### *International letters*

Royal Mail has relationships with postal administrations around the world which facilitate the export and import of letters from and to the UK. In FYE 2013, Royal Mail exported overseas approximately 300 million letters for onward delivery and received approximately 400 million letters from overseas for delivery in the UK (including through sales agents).

There is significant competition in the export letter market from other postal operators with subsidiaries in the UK, such as Asendia (a joint venture between La Poste and Swiss Post) and Air Business (a wholly-owned subsidiary of An Post).

Royal Mail also faces competition in relation to the import of letters into the UK from overseas customers who use alternative means to transport letters into the UK and access the delivery network through network access.

### *Uses of letters*

In addition to the segments set out above, it is possible to segment letters by what customers use them for:

- **business mail:** most business mail is sent by financial service companies, government organisations and utilities. Physical letters compete against electronic alternatives such as email and self-service websites, for example, online banking systems.
- **addressed marketing mail:** addressed marketing mail is typically sent to targeted customers and to solicit repeat purchases, for example mail order catalogues. Physical letters compete against other advertising channels such as television, outdoor and the internet. The advertising market and marketing mail are highly geared to economic recovery and are price-sensitive.<sup>1</sup>
- **unaddressed marketing mail:** important growth areas in UK unaddressed marketing mail include retail, entertainment and leisure, and charities. Unaddressed advertising is used for low-cost customer awareness and acquisition in targeted geographic areas. Royal Mail competes against independent delivery companies, free newspapers and inserts in magazines and newspapers in this segment.<sup>1</sup>
- **publishing mail:** publishing mail now primarily comprises magazines as most newsletters have moved online. Most magazines are either consumer magazines or brand magazines used as a customer retention tool.
- **social mail:** social mail is predominantly greetings cards which continue to be resistant to e-substitution.

### **(B) Market trends**

Addressed letter volumes in the UK declined by 26 per cent. in the period between 2007 and 2012. In FYE 2013, total addressed letter volumes in the UK declined by approximately eight per cent. compared with FYE 2012. The decline seen in FYE 2013 was broadly consistent with the Group's forecast for that period, given

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<sup>1</sup> Addressed marketing mail and unaddressed marketing mail, when combined, are equivalent to "direct mail" as referred to in section 2.2 above.

the Group's assumptions for letter prices, GDP and e-substitution growth. The Group forecasts that addressed letter volumes in the UK (including inland and international letters but excluding election materials) will decline by approximately four to six per cent. per year over the three financial years ending FYE 2016.

#### *Electronic substitution*

Technology has exerted an overall negative impact on letter volumes from around 2002 onwards. Initially, these negative technology impacts reduced the rate of letter volume growth, but from around 2005 onwards they led to a decline in the level of letter volumes. In addition, from around 2002 onwards, online advertising in the UK is estimated to have had a negative impact on addressed marketing mail volumes, which partly explains the relatively high rate of UK volume decline noted in this section 3.2.

There is also a connection between the imposition of above-inflation price increases and a decline in letter volumes as customers may choose not to send communications at all or send them by alternative electronic media if letters are too expensive.

Further e-substitution is expected to occur. However, the rates of e-substitution are expected to vary by mail segment as some customers have already moved their communications to other electronic channels and the maximum likely level of e-substitution will also vary between segments depending on both recipients' and senders' attitudes to electronic communication. This latter factor is itself affected by a range of factors such as internet access, age of the recipient and cost to the sender.

Studies have shown that the penetration and the effects of e-substitution follow an "s-curve", whereby a rate of change is initially less pronounced, subsequently undergoes a period of steep acceleration, and lastly flattens again as underlying effects reach diminishing returns. For example, PwC (Source: PwC Strategy & Economics – The Outlook for UK Mail Volumes to 2023, 15 July 2013; base information partly sourced from the Group) have suggested that:

- international letters, publishing, marketing and social letters are approaching a baseline and that the rate of decline will decelerate as remaining users have stronger preferences for using physical letters;
- business mail (excluding government mail) is in the main phase of decline and letter volumes will switch to other channels that are becoming increasingly popular. This is evidenced, for example, by certain media companies charging for paper statements and by banks encouraging movement of statements online and/or reducing frequency of statements; and
- government business mail is at the early stage of e-substitution and has yet to experience significant decline in the UK.

#### *Use of physical marketing mail*

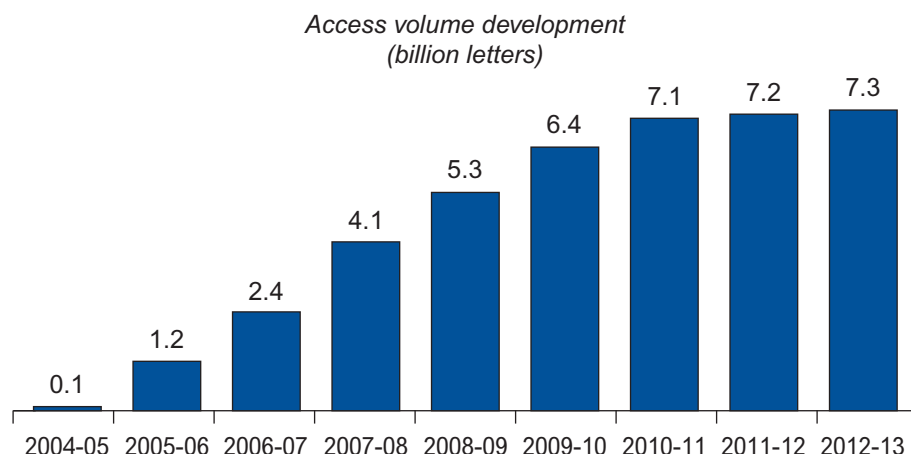
Physical marketing mail continues to be valued by both senders and recipients. In relation to communications to a sender's existing customers, on average 82 per cent. of consumer direct mail sent to the sender's existing customers is opened (Source: Ebiquity Rapport H1 2012/13; survey sample size of 3,469), whereas only 22 per cent. of emails sent for the purpose of retaining existing customers are opened (Source: April 2013 DMA National Email Benchmarking Report, data quoted relates to the first half of 2012/13). In relation to communications to new or potential customers, 78 per cent. of consumer direct mail sent to new or potential customers is opened (Source: Ebiquity Rapport H1 2012/13; survey sample size of 3,469), whereas only 12 per cent. of emails sent for the purpose of acquiring a new customer are opened (Source: April 2013 DMA National Email Benchmarking Report, data quoted relates to the first half of 2012).

#### *Gearing to economic recovery*

Marketing mail appears to have a much higher gearing to economic recovery and GDP growth than other letter segments. This is linked to the highly cyclical nature of the overall advertising market.

### Direct competition in the UK

As the chart below shows, the growth of network access volume has decelerated since FYE 2011 and appears to have now stabilised.



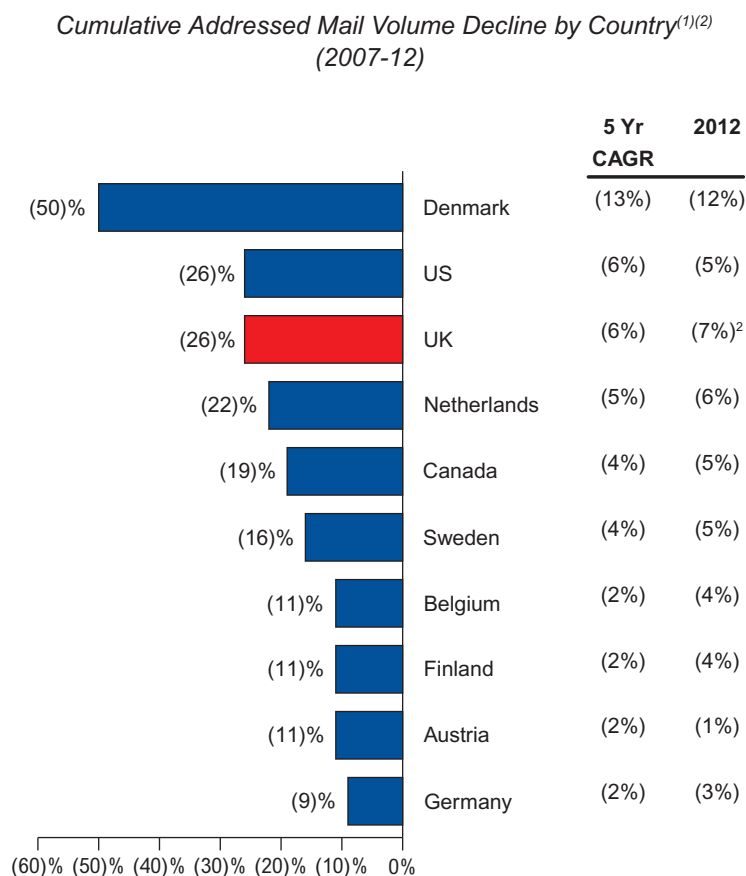
(Source: regulatory financial statements filed by RMG with Ofcom)

The Directors believe there is potential for other postal operators to seek to provide “end to end” letter delivery services in the UK although they consider it likely that, as with TNT, at least initially, they may focus on urban areas with a higher population density. Further detail in relation to the potential expansion of “end to end” letter delivery services in the UK can be found in section 1.12 of the section of this document entitled “Risk Factors”.

### International comparisons of letter market trends

#### Volume trends

As the graph below illustrates, other developed countries have also seen declines in volumes but at widely varying rates which reflect different initial mail bags, cultural factors and government policies.





#### Notes:

- (1) Source: IPC and company estimates May 2013. Belgian data taken from bpost annual reports (2007-2011) and IPC MarketFlash (2012, no 461). UK growth rates working-days adjusted and represent five-year period ending March 2013. Growth rates for other countries for five-year period ending December 2012, not adjusted for the number of working days.
- (2) Volume decline excluding international letter volumes.

Addressed letter volumes in the UK declined by 26 per cent. in the period between 2007 and 2012. The compound annual rate of decline in the UK over this period was six per cent. per annum, compared with a rate of decline of between two and 13 per cent. per annum for the other countries included in the graph above. At one end of the spectrum, Denmark has seen one of the fastest declines in physical letter volumes of any developed country with its mailbag volume halving overall between 2007 and 2012. This decline has largely been driven by the continued push by the Danish government to move significant volumes of communications, and all government communications, online. By contrast, Germany has experienced one of the slowest rates of letter volume decline among developed countries, with its mail bag shrinking by less than 10 per cent. overall between 2007 and 2012. This slower rate of decline appears to be linked to physical business mail being preferred in Germany and the German government giving a comparatively low priority to date to the digitisation of government mail.

However, despite the relatively steep decline in addressed letter volumes in the UK over the last five years, compared with other universal postal operators in advanced economies, Royal Mail is one of the least exposed to letter market decline from a Group revenue perspective. During FYE 2013, 52 per cent. of the Group's revenue was derived from letters which compared favourably with Austria Post (approximately 64 per cent.), bpost (approximately 79 per cent.) and PostNL (approximately 80 per cent.) (Source: Royal Mail data and analysis of publicly reported peer results for 2012).

#### Pricing

Following the price increases implemented by Royal Mail in 2012, Royal Mail's average inland stamp price (for letters up to 100g) is now closer to, but still below, the European average. Royal Mail's average inland stamp price (for letters up to 100g) is 55 pence, which compares favourably with equivalent prices in Germany (57 pence) and Italy (87 pence) (Source: Royal Mail). The comparable price in France is 54 pence, while the European average is 57 pence. Further information on the magnitude and impact of the price increases of Royal Mail's stamp prices and recent price increases can be found in section 4.6(B) of Part VII (*Operating and Financial Review*). In March 2013, Ofcom concluded that, based on evidence it had collected, universal postal services in the UK are affordable for both residential customers (including low income and other vulnerable consumers) and businesses (including small and medium businesses) at current prices.

## 4. EUROPEAN PARCELS

### (A) Market segments

GLS operates in what is known as European domestic, cross-border and international "courier-express-parcels" ("CEP"). Each of these segments may be summarised as follows:

- "Courier" services typically concentrate on single item consignments which are usually transported directly on the shortest and fastest route from sender to end-recipient;
- "Express" comprises the guaranteed delivery of parcels within a certain time-definite period on a next-day basis or sooner; and
- "Parcels" covers the delivery of parcels on a deferred basis and is the least time-sensitive basis on which delivery can be made.

"Express" and "parcels" services tend to be transported along with other items rather than on a single consignment basis (as is the case with "courier" services). The price charged for sending items within these segments also reflects the time-sensitivity of the item, with "courier" services generally being the most expensive and "parcels" the cheapest. The segmentation of the European CEP is blurred and there are many instances of overlap between "courier", "express" and "parcels" services.

While GLS offers services in the "courier" and "express" segments, it is mainly active in the "parcels" segment of European CEP, delivering parcels on a deferred basis. In FYE 2013, 93 per cent. of GLS's revenue came from deferred parcels and two per cent. came from "express" parcels. Unlike some competitors active in European CEP, the GLS Group does not own an air cargo fleet and predominantly uses ground-based transportation within the GLS Network.

As with UK parcels, CEP can be broken down by reference to the type of customers sending and receiving items, the three main classifications in this area being: B2B; B2C; and C2X.

In FYE 2013 on a volume basis, it is estimated that approximately 73 per cent. of the parcels handled by GLS were within the B2B segment, and approximately 27 per cent. in the B2C segment. Increased use of the internet and online retailing are expected to contribute to growth in European domestic and cross-border parcels over the next few years.

GLS is one of the largest ground-based deferred parcel delivery providers in Europe and in FYE 2013 generated 71 per cent. of its total revenue in three countries (Germany, France and Italy).

The competitive environment faced by GLS across Europe can be broadly characterised as comprising: (i) a core of solid, well-funded multi-nationals and international integrators who have varying degrees of presence in individual segments and individual national geographies, including DPD, DHL, TNT and UPS; (ii) national postal companies who have strong positions in their own domestic markets and varying levels of activity outside their own domestic markets; and (iii) local competitors who are focused mainly on domestic markets. In Germany, GLS's leading competitors are DHL, DPD and UPS. In France its main competitors are La Poste and TNT Express, while in Italy its leading competitors are Bartolini, TNT Express, Poste Italiane and DHL.

### **(B) Market trends**

The Eurozone crisis and soft macroeconomic environment is having a structural impact on the CEP market in Europe. Compared with 2011, many carriers have reported reduced revenue and volumes as poor market conditions across France and Southern Europe place pressure on margins (Source: Transport Intelligence "The State of the European Road Freight Industry 2013"). GLS, with its ground-based, flexible business model and deferred shipping solutions, has seen slightly above GDP growth in revenue in spite of these economic headwinds.

The size, and projected growth, in European deferred parcels provide opportunities for GLS to improve performance and expand into new markets. This market is being driven by three main factors:

- a trend for transportation of items within the B2B segment in small parcels-based consignments rather than through palletised freight. This is expected to lead to further increases in B2B parcel volumes across Europe;
- strong growth in e-commerce across Europe leading to increased parcel volumes within the B2C segment; and
- customers trading down to more affordable ground-based delivery options compared with premium air-based transport and from express to deferred parcel delivery services.

The GLS Group's focus on a ground-based network for the delivery of deferred parcels, predominantly within the B2B and B2C segments (with the latter segment being fuelled by ongoing growth in online retailing), should provide scope for continued growth. The ability of the GLS Group to identify and expand into new markets and territories within Europe, including countries in Eastern and Central Europe, should present further opportunities to expand and develop the business of the GLS Group.

## PART II

### THE BUSINESS

#### 1. OVERVIEW OF THE BUSINESS

The Group is the leading provider of postal and delivery services in the UK, with significant operations in continental Europe.

Royal Mail's origins date back nearly 500 years to the time of King Henry VIII. Today, the Group's core business is the collection, sorting, transportation and delivery of parcels and letters in the UK, leveraging its unique networks and powerful brands, which underpin leading positions in the UK's parcel and letter delivery markets. It is the UK's designated universal postal service provider and delivers a "one price goes anywhere" service on a range of parcel and letter products in the UK. The Group's UK business is complemented by its ownership of GLS, which operates one of the largest ground-based deferred parcel delivery networks in Europe. In FYE 2013, the Group handled approximately 17.4 billion letters and approximately 1.4 billion parcels across all of its networks.

The Group operates through two core divisions, UKPIL and GLS.

UKPIL collects and delivers parcels and letters predominantly through two networks: the Royal Mail Core Network and Parcelforce Worldwide. It provides collection and delivery services under the "Royal Mail" and "Parcelforce Worldwide" brands. The functions of RMG as the UK's designated universal postal service provider are discharged through UKPIL. Through the Royal Mail Core Network, Royal Mail delivers parcels and letters, and has the capability to deliver to more than 29 million business and residential addresses in the UK six days a week (excluding UK public holidays). Parcelforce Worldwide is a separate UK network, which collects and delivers express parcels. UKPIL also generates revenue from international parcels and letters exported from, and imported into, the UK. At the end of Q1 FYE 2014, UKPIL employed approximately 150,000 employees.

GLS comprises the Group's European parcel business and is focused on the deferred parcel segment. GLS operates in 22 European countries and nation states through wholly-owned members of the GLS Group and franchisees, and covers an additional 15 European countries and nation states through network and service partners of the GLS Group, which include Parcelforce Worldwide in the UK. The GLS Network is one of the largest ground-based deferred parcel delivery networks in Europe. GLS's main markets are Germany, Italy and France, and in FYE 2013 revenue generated in these markets contributed 71 per cent. of GLS's total revenue. The Group's ownership of GLS delivers a number of strategic benefits for the Group, including geographic earnings diversification, its ability to generate cash which can be used to fund investment in other parts of the Group's business, a means to capture growth in cross-border parcels and opportunities for sharing operational excellence within the Group. At the end of Q1 FYE 2014, the GLS Group employed approximately 14,000 employees.

"Royal Mail" is a household name in the UK that customers rely on for the delivery of parcels and letters. The Group is a trusted partner for consumers and businesses across the UK and Europe.

In FYE 2013, the Group generated revenue of £9,279 million and operating profit after transformation costs of £440 million. In FYE 2013, UKPIL accounted for 83 per cent. (£7,633 million) of the Group's revenue and 73 per cent. (£294 million) of its operating profit after transformation costs, in each case on an adjusted 52-week basis. In the same period, GLS accounted for 16 per cent. (£1,498 million) of the Group's revenue and 25 per cent. (£101 million) of its operating profit after transformation costs, in each case on an adjusted 52-week basis. In FYE 2013, 48 per cent. of the Group's revenue (£4,477 million) was generated from parcels.

In Q1 FYE 2014, the Group generated revenue of £2,304 million and operating profit after transformation costs of £164 million. In Q1 FYE 2014, UKPIL accounted for 82 per cent. (£1,898 million) of the Group's revenue and 80 per cent. (£132 million) of its operating profit after transformation costs. In the same period, GLS accounted for 17 per cent. (£402 million) of the Group's revenue and 19 per cent. (£31 million) of its operating profit after transformation costs.

Since FYE 2008, Royal Mail has been undergoing a major transformation programme which has covered each phase of its operations in the Royal Mail Core Network, namely: collection, processing, logistics, sorting and delivery. The Transformation Programme has focused on enabling Royal Mail to deliver letters and

parcels more efficiently and adapting the Royal Mail Core Network so that it can carry more parcels. The Group has improved the productivity and effectiveness of the Royal Mail Core Network, which has traditionally been focused on the delivery of letters, and is now well positioned to benefit further from predicted levels of growth in the overall UK parcel market, while continuing to deliver high levels of service as the UK's universal postal service provider.

In recent years, the operating environment for the Group has changed following the transition to a new and more supportive regulatory framework in the UK, the development of improved relationships with trade unions representing the Group's employees in the UK and the transfer to HM Government of the Group's pre-1 April 2012 pension liabilities (based on service and pay up to that date) and certain pension assets relating to the Royal Mail Pension Plan.

In April 2012 RMG transferred Post Office Limited to the Selling Shareholder. POL operates the UK's network of more than 11,500 Post Office branches. The Group and POL have entered into the Mails Distribution Agreement, a long-term distribution agreement, under which POL sells Royal Mail postage stamps and the Group's retail products (under the "Royal Mail" and "Parcelforce Worldwide" brands) to customers across the UK's Post Office branch network. POL sells Royal Mail postage stamps and the Group's retail products as agent of RMG and customers contract with RMG through the agency of POL. Upon RMG and POL ceasing to be members of the same VAT group, POL will, except in certain circumstances, sell Royal Mail postage stamps as principal. Under the agreement POL receives separate remuneration from RMG for each postage stamp or product sold plus an additional fee payable periodically. In FYE 2013, approximately £1.7 billion of the Group's revenue was generated through the sale of the Group's postage stamps and products by POL on the Group's behalf. In FYE 2013, the Group made payments of £371 million to POL, including the annual fee and other remuneration payable under the Mails Distribution Agreement as well as payments in respect of other operational items. Following Admission, POL will, subject to the PSA, remain in the ownership of HM Government.

## **2. KEY STRENGTHS AND STRATEGIES**

The Group has a number of key strengths and strategies which underpin its parcel and letter delivery businesses and mean that it is well placed to manage, and benefit from, structural changes under way in the markets in which it operates. These key strengths and strategies support the Group's vision to be recognised as the best delivery company in the UK and across Europe. The Group intends to assess its progress towards this vision by reference to its customers' perception of dealing with the Group, the quality of service the Group delivers for its customers, and future margin growth.

### **2.1 The Group has unique networks, powerful brands and strong market positions**

The overall scope and scale of the Group's networks in the UK is unique. The Group's Royal Mail Core Network is unrivalled in the UK in terms of its size, coverage and geographical reach. The Royal Mail Core Network has the scale and capability to deliver both parcels and letters to more than 29 million addresses in the UK six days a week (excluding UK public holidays), including tracked and guaranteed next-day delivery services. The Group is also able to flex the capacity of the Royal Mail Core Network during periods of peak demand. The Royal Mail Core Network is complemented in the UK by Parcelforce Worldwide, which provides express parcel delivery services, and the Group's specialist services networks, which deliver express, higher value, high security and larger items, and provide customised delivery solutions for specific market sectors.

The Group occupies leading positions in the overall UK parcel and letter delivery markets. It is estimated that in FYE 2013 the Group had a share of approximately 36.2 per cent. of the overall UK parcel market on a revenue basis (Source: Triangle Management Services/Royal Mail Group Fulfilment Market Measure, 2013) and in FYE 2013 it handled over 1 billion parcels: approximately 1,010 million parcels through the Royal Mail Core Network and approximately 71 million parcels through Parcelforce Worldwide. In FYE 2013, the Group delivered approximately 99 per cent. of letter volumes in the UK. Royal Mail's quality of service standard specifications are among the highest of any postal operator in any major European country. The Group derives significant advantages from the Royal Mail Core Network, which is a common network capable of delivering both smaller parcels and letters.

The Royal Mail Core Network provides two key strategic advantages for Royal Mail:

- **high call frequency:** on average, each day a delivery is made by Royal Mail to approximately 75 per cent. of addresses in the UK; and

- **foot delivery:** the use of foot delivery for the delivery of letters and small parcels to the end delivery point is a lower cost and more adaptable delivery method than van delivery.

No UK competitor of Royal Mail has a network or call frequency that is comparable to the Royal Mail Core Network. Through its long-term distribution agreement with POL, the Group also has access to the UK's network of more than 11,500 Post Office branches for the sale of its postage stamps and retail products under the "Royal Mail" and "Parcelforce Worldwide" brands.

Through GLS, the Group operates a leading ground-based deferred parcel delivery network across 37 European countries and nation states through a combination of wholly-owned subsidiaries within the GLS Group and via its network and service partners. GLS handled approximately 380 million parcels in FYE 2013 with a focus on deliveries within the B2B segment but with an increasing presence in the B2C segment.

The Group has powerful brands across its main businesses. In particular, "Royal Mail" is a household name in the UK and plays an important role in the day-to-day lives of the British population as a result of Royal Mail's long history, RMG's status as the UK's designated universal postal service provider and its interactions with a majority of households and businesses in the UK six days a week. In addition, the strength of the "Royal Mail" brand encourages customers to use Royal Mail because of its association with high quality of service. The Directors believe that the Group's networks, market position, quality of service and trusted brands differentiate it from competitors in the markets in which it operates, particularly among business and social customers in the UK.

## **2.2 The Group has a clear growth strategy for parcels, leveraging the structural trends in e-commerce**

### **UKPIL**

Over recent years, the increase in e-commerce has driven growth in the number of parcels sent in the UK and has led to a structural shift within the UK parcel market. The Group has benefited from this growth with the volume of parcels handled by UKPIL growing at a CAGR of approximately five per cent. over the last two years. The Group forecasts that e-commerce will drive B2C parcel volumes growth of five to six per cent. per annum in the UK in the three financial years ending with FYE 2016. With the distinction between the B2C and C2X segments becoming increasingly blurred, the Group forecasts that parcel volumes within these segments in the UK, when aggregated, will grow at approximately 4.5 to 5.5 per cent. per annum in the three financial years ending with FYE 2016. The Group forecasts that parcel volumes within the UK's B2B segment will grow at slightly above UK GDP per annum in the three financial years ending with FYE 2016. See section 3.1(B) of Part I (*Market Overview*) for further discussion of market trends.

The Royal Mail Core Network, which handles over 90 per cent. of the Group's UK parcel volumes, provides the Group with a unique national, common network which is able to deliver smaller parcels in the B2C segment efficiently and at a cost advantage to the Group. In addition, the Group operates Parcelforce Worldwide, which complements the Royal Mail Core Network, with a focus on the delivery of express, higher-value and larger parcels. The Group is currently implementing a £160 million investment plan with respect to Parcelforce Worldwide, which started in FYE 2012. The total investment includes capital and operating expenditure; and leases. Approximately £35 million of the total had been invested as at the end of FYE 2013, with the remainder to be invested over a number of years. The investment, which will be funded by existing resources of the Group, includes spending on a new processing centre in Chorley, North West England, and the opening of 10 new, replacement or extended depots, to expand the capacity of Parcelforce Worldwide by approximately one third to approximately 93 million parcels per year.

The Group has a clear growth strategy for its parcel business in the UK which is aimed at ensuring that it benefits from the structural shift towards e-commerce, which is expected to drive expected further growth in the UK parcel market. Through these activities, the Group is well positioned to maintain and increase its share of the large and growing UK parcel market. The Group's strategy to grow its parcel business further in the UK builds on three core elements:

- **Getting the basics right:** the Group will continue to look for opportunities to add further value to its parcel product offering in the UK in both the business and the consumer segments, building on achievements made in this area in the last few years, including the streamlining of the product range, so that its offering is relevant to customer requirements. The Group also plans to take opportunities to "uptrade" a significant portion of its business customers in the UK based on value derived product attributes and pricing. The Group has already simplified the terms and conditions on which it provides parcel products in the UK for business and consumer customers and will ensure that in this area it



remains responsive to customer needs and is pricing products commercially. A key focus for the Group in the UK will continue to be investment in infrastructure and the implementation of processes to optimise its parcel networks and enable its frontline workforce to deliver more parcels.

- **Getting the technology right:** the Group's strategic aims for its parcel business in the UK are underpinned by continued improvements and investments in technology so that it can continue to offer customers the services they expect from a parcel operator. The Group is undertaking the largest technology transformation in the UK parcel market. Key areas of investment will be in relation to the IT systems and processes to support the bar-coding of all parcels and the accompanying tracking systems. Through this tracking system, believed to be the biggest in the UK's parcel market, the Group is replacing its legacy systems and building a platform for growth.
- **Expanding and automating the Group's UK parcel networks:** the Group intends to continue to evaluate options for the introduction of automation in the sorting of small parcels in the Royal Mail Core Network, as well as opportunities for the processing of larger parcels within the Royal Mail Core Network. A focus on improvements to the processes and infrastructure within the UK networks is intended to support expected levels of growth within the UK parcel market and within the B2C segment in particular. The Group is investing both to adapt the Royal Mail Core Network so that it can handle even more parcels and to expand the capacity of Parcelforce Worldwide. The Group also intends to explore ways to transform its operations for the international import and export of parcels from and into the UK.

## **GLS**

In Europe, GLS aims to be a high-quality service leader in the parcel markets and segments in which it operates. GLS is a valuable asset within the Group that has delivered leading financial performance, outperforming the peer average in markets in which it operates despite a challenging economic environment in Europe. It benefits from a strong network that has been built over the last 20 years across 37 European countries and nation states, which would require a significant investment of time and capital to replicate. GLS is well positioned to benefit from future increases in parcel volumes across Europe in both the B2B and the B2C segments as a result of its focus on the growing deferred parcel segment, its broad customer base, and the use of technology to support its operations.

GLS intends to continue investing in its systems, products and processes to enable it to capture a larger share of B2C opportunities in the geographic markets covered by GLS. In particular, it will look for opportunities to strengthen its offering of delivery options within the B2C segment. GLS will also focus on the implementation of specific action plans to protect and improve its margins in key markets, as well as continuing to expand the footprint of the GLS Network into new countries through both organic growth and strategic acquisitions of established businesses. In particular, GLS will continue to monitor and look for opportunities in emerging markets in Europe.

GLS brings a number of strategic benefits to the wider Group, including an important level of geographical earnings diversification, its ability to generate cash which can be used to fund investment in other parts of the Group's business, a means to capture growth in European cross-border parcel traffic and opportunities for sharing operational excellence within the Group.

## **2.3 The Group's operational transformation in the UK is driving margin expansion**

Since FYE 2008, Royal Mail has been transforming each phase of its operations in the Royal Mail Core Network. It has implemented extensive measures aimed at increasing profitability through an increase in productivity and efficiency, and a reduction in costs. The key elements of Royal Mail's Transformation Programme are expected to have been substantially completed by the end of FYE 2014.

The Transformation Programme has driven wide-ranging improvements across Royal Mail through a focus in two key strategic areas. First, it has improved the efficiency with which Royal Mail processes letters. This has been achieved through initiatives in a number of areas, including:

- the introduction of automation in its processes for the sorting of letters through the introduction of 995 new, refurbished or upgraded machines across the Royal Mail Core Network, with the result that by the end of FYE 2013, almost 95 per cent. of all outward letters were machine sorted and 79 per cent. of letters were automatically sequenced into final delivery point order for delivery by Royal Mail's postmen and women (compared with eight per cent. at the end of FYE 2010); and

- the rationalisation of Royal Mail's mail centre estate with 28 mail centres closed by the date of this document, four new fully modernised mail centres opened and a further five mail centres expected to be closed in FYE 2014 leaving three more to follow by the end of FYE 2016.

Secondly, Royal Mail has adapted the Royal Mail Core Network through a number of measures so that it is able to carry more parcels. These measures have included the introduction of new processes and tools to enable frontline staff to deliver parcels more efficiently, such as the introduction of approximately 50,000 handheld scanners as at the end of FYE 2013 with a target for a total of approximately 73,000 such devices to be in use by Christmas 2013, and high-capacity delivery trolleys and shared vans which reduce the need for delivery staff to return to delivery offices for replenishment.

From FYE 2007 through to the end of FYE 2013, the Group made a gross investment of £2,795 million in the Transformation Programme. As a result, the Group estimates that it now bears approximately £0.5 billion less cost per year than it would otherwise have done had it not made that investment. The improvements in this area have contributed to growth in UKPIL's operating profit margin (after transformation costs) from 0.3 per cent. in FYE 2010 to 3.9 per cent. in FYE 2013. Further details of the Transformation Programme can be found in section 4.3 of this Part.

## **2.4 The regulatory framework within which the Group operates in the UK is now focused on securing a sustainable universal postal service and allowing a commercial rate of return for Royal Mail in the delivery of the USO**

The Group now benefits from a more supportive regulatory regime in the UK, which gives it significantly greater regulatory and commercial freedom in letters and parcels, and has improved the Group's ability to manage the decline in UK letter volumes.

With effect from 27 March 2012, Ofcom introduced a new regulatory framework in relation to postal services in the UK which gave Royal Mail greater commercial freedom to set prices for its services. With the introduction of the new framework, a number of the historical constraints on the Group's business in the UK were removed. These constraints made it difficult for the Group to charge a commercial rate for many of the services it provided or to move quickly to adapt to market changes. In particular, the application of regulatory price controls across a wide range of products offered by Royal Mail in the UK has been largely replaced with a more limited approach to pricing regulation. Under the previous regime, approximately 60 per cent. of the Group's revenue was subject to direct price control by the postal regulator whereas under the new regime, direct price control affected only five per cent. of the Group's revenue in FYE 2013 although approximately 50 per cent. of the Group's revenue (including revenue subject to direct price control) is subject to Ofcom oversight relating to the USO and network access.

The central priority of postal services regulation in the UK has changed. Whereas previously the encouragement of competition lay at the heart of the regulatory framework, Ofcom is now under a duty, by law, to carry out its functions in relation to postal services in a way that it considers will secure the provision of a universal postal service in the UK. Ofcom is required to have regard to the need for the provision of the universal postal service to be financially sustainable, including the need for a reasonable commercial rate of return for any universal postal service provider on any expenditure incurred by it for the purpose of, or in connection with, the provision of the universal postal service, and the need for any universal service provider to become efficient within a reasonable time, and then remain so. Ofcom has stated that an indicative benchmark EBIT margin range of five to 10 per cent. on the activities undertaken for the purpose of, or in connection with, the provision of the universal postal service would be appropriate and consistent with the need for RMG to earn a reasonable commercial rate of return commensurate with the level of risk within the business. In broad terms, this means the profit in relation to such activities should account for between five and 10 per cent. of the revenue generated by such activities. It has also said that such a range represents neither a cap on earnings nor a floor, which would need to be considered over the duration of the regulatory framework. This range would also not restrict the Group's returns in areas outside the scope of Ofcom regulation, including Parcelforce Worldwide and GLS. Further information on the universal postal service in the UK and the obligations of RMG as the UK's designated universal postal service provider can be found in section 2.2 of part A of Part X (*Regulation, State Aid and Procurement*).

The new regulatory regime also allows the Group to introduce new and innovative services and products, and variations to its services and products, in the UK more quickly, which enables the Group to respond much more effectively to the requirements of customers and moves by competitors. Since the introduction of the new regime, Royal Mail has introduced: new customised contracts for business parcel customers; new contracts for the provision of access services, putting them on a more reasonable and commercial footing;

and new initiatives such as its successful and popular “Delivery to Neighbour” initiative, which allows parcels to be left with a neighbour if the addressee is not at home to receive them.

The new regulatory framework permitted Royal Mail to introduce significant price increases in April 2012, which enabled Royal Mail to receive a commercial return for certain of its products and services which had been restricted due to price constraints under the previous regulatory framework. While Royal Mail expects any further price rises broadly to track RPI over the remainder of the three financial years ending in FYE 2016, the new regime provides flexibility on the pricing of second class products given the difference between current prices and the existing regulatory price cap. Further information regarding the changes to the UK’s framework for the regulation of postal services can be found in sections 2 and 3 of part A of Part X (*Regulation, State Aid and Procurement*).

The Group has substantial experience in forecasting letter volumes in the UK, and the Group’s central forecast is that addressed letter volumes (including inland and international letters but excluding election materials) in the UK will decline by approximately four to six per cent. per year over the three financial years ending with FYE 2016. While the Group is less dependent on revenue from letters than most of its peers, the UK letter market will continue to be a strong source of revenue for the Group. Ofcom’s primary duty in relation to postal services is to carry out its functions in a way that it considers will secure the provision of a universal postal service in the UK. The existence of a regulatory framework that has the sustainability of the universal postal service at its core will support the ability of the Group to manage the decline in UK letter volumes. The Group will take action in a number of areas to help manage the decline in UK letter volumes through a number of growth initiatives, including:

- **A segmented approach to pricing:** Royal Mail will continue to look for opportunities to segment and differentiate its product offering for different types of business customers. The Group recognises that customers in different market sectors and industries have different requirements and priorities for the letters and other mail items that they send. The Group has a strategy in place for each letter segment in which it operates to ensure that its product offering is appropriately focused. In particular, Royal Mail will explore further opportunities to introduce pricing strategies tailored to particular market sectors and geographical regions within the UK. Activities in this area will aim to balance expansion of the Group’s revenue and margins while retaining and protecting the Group’s letter volumes.
- **Building customer relationships:** the Group will continue to build stronger relationships with its letter customers in the UK. It intends to build on the successes achieved through the introduction of new contracts for network access customers in April 2013, which have provided the Group with greater flexibility to respond to changes in the letter market. A key initiative for Royal Mail is the further development of pricing structures for business and publishing mail customers for whom Royal Mail delivers on an “end to end” basis. These pricing structures will be aimed at securing longer-term volume commitments from customers in return for pricing certainty. Activity in this area will be intended to develop further and maintain strong and productive relationships between Royal Mail and key bulk letter customers.
- **Enhancing the Group’s marketing mail offering:** marketing mail remains a significant contributor to the Group’s revenue. With a view to making marketing mail more valuable to advertisers and offering to customers a broader range of services, the Group launched its MarketReach initiative in July 2012. MarketReach provides a full range of marketing mail services to advertisers and their advertising agencies in relation to the planning, deployment, delivery and measurement of marketing mail campaigns. In particular, Royal Mail aims to benefit from its ability to provide insight in relation to the targeting of particular customers, geographic analysis and an ability to integrate the use of marketing mail with other media (including through notifying advertisers once mail items have been delivered so that other complementary follow-up communications such as text messages and telephone calls can be deployed).
- **Adding additional value to Royal Mail’s letter offering:** the Group intends to continue taking steps to add value to its letter delivery offering by demonstrating to business customers the value of letters in customer retention, particularly when used in conjunction with other media. Initiatives in this area include the introduction of bar-coding of letters enabling the tracking of letter consignments through the Royal Mail Core Network, announced by Royal Mail in July 2013. The Group aims eventually to barcode 90 per cent. of machineable letters. This initiative will provide customers with increased supply chain visibility, feedback and billing accuracy.

## **2.5 Development and implementation of a collaborative approach with the Group's people in the UK**

RMG is one of the UK's largest employers and its skilled workforce is critical to its operations. The Group's UKPIL workforce is also loyal: approximately 65 per cent. of UKPIL's current employees have worked for the Group for 10 years or more, and 62 per cent. are proud to work for the Group. The UKPIL workforce's loyalty towards and pride in the Group drives reduced employee turnover and increased commitment and engagement.

UKPIL's total headcount has been reduced from approximately 167,000 at the end of FYE 2009 to approximately 150,000 at the end of Q1 FYE 2014. This reduction has been achieved principally through voluntary redundancies and natural attrition, which have allowed the Group to manage better its cost base in the UK. In addition to the reduction in the overall size of the UKPIL workforce, the Group has added cost flexibility in its operations through the use of a part-time workforce in the Royal Mail Core Network, as well as through the use of agency personnel and overtime, although the Group has publicly expressed an intention for approximately 75 per cent. of its Royal Mail Core Network workforce to continue to be employed on a full-time basis.

The Group incentivises employees of RMG at all levels. The remuneration of frontline RMG employees includes incentive payments linked to activity that promotes productivity improvement. Similarly, managers within RMG participate in an annual performance-driven bonus scheme. Bonus payments for RMG's senior management are awarded on the basis of performance against the same KPIs against which RMG managers are measured for the purposes of their performance-driven annual bonuses. These KPIs are, in turn, closely linked to the Group's strategic objectives. In addition, the opportunity for Eligible Employees to participate in the Employee Free Shares Offer and own Ordinary Shares after Admission should mark a further cultural change in the Group and, through their position as Shareholders, provide share-owning employees with a role in the future ownership and direction of the Group.

In recent years, the Group's senior management team has successfully developed closer and more productive relationships with employees in the UK and the Trade Unions who represent them. This approach of active engagement and closer collaboration on key issues affecting UKPIL has resulted in the successful implementation to date of the Group's wide-reaching Transformation Programme. Despite the scope, size and complexity of the Transformation Programme, the Group has not been subject to national industrial action in the UK since 2009.

RMG's discussions with the CWU continue regarding a new agreement to build on the ground-breaking Business Transformation Agreement of 2010. Agreement has already been reached on a number of significant issues relating to the ongoing Transformation Programme, including the extension of existing arrangements relating to voluntary redundancy until April 2014 and a renewed commitment to the existence of a predominantly full-time workforce in the Royal Mail Core Network. Negotiations are continuing after the CWU rejected RMG's offer of an 8.6 per cent. increase to base pay over a three-year period backdated to 1 April 2013. Although the CWU has stated that the pay element will be seen as "significant", it has rejected it in the context of the overall package offered.

In recent years, the strength of the relationship between RMG, its employees and the CWU has been demonstrated through the introduction of formal links between pay increases for frontline employees and the implementation of transformation initiatives. At the same time, the Group has worked hard with the Trade Unions to manage people costs and since 2007, cumulative average pay increases for RMG employees have been below RPI for CWU-represented employees within the scope of national agreements. The Directors believe that the significant improvements seen in the relationships between the Group's senior management and the Trade Unions mean the Group is well positioned to implement the remaining stages of its Transformation Programme and the optimisation phase which will follow.

However, both the CWU and the CMA are opposed to, and the CWU, in particular, has publicly campaigned against, the privatisation of Royal Mail. In this context, Investors should read the risk factors set out in sections 1.10 and 1.11 of the part of this document entitled "Risk Factors".

## **2.6 The Group's strong customer focus is driving business strategy and responsive operations**

The Group has long-standing relationships with customers (including businesses and consumers) in the UK and Europe. The Group's strategy focuses on its customers, and responding to their needs and requirements drives its operations. The Group demonstrated its ongoing focus on its customers through the appointment,



for the first time in 2012, of a Chief Customer Officer with responsibility for overseeing and coordinating customer-facing activities of UKPIL.

The Group recognises both the sender and the recipient of a parcel or letter as customers and is focused on delivering excellent customer service. All customers are valued by the Group, from large multinational companies with which the Group has bulk contracts for the collection and delivery of large volumes of parcels and letters, to individual consumers posting single items using stamps. The Group closely monitors its performance against a number of benchmarks and gathers extensive customer feedback and other data to assess and respond to customer requirements, thereby improving customer satisfaction, reducing the number of customer complaints and improving customers' experience of dealing with the Group. Between April 2012 and March 2013, according to Royal Mail's consumer customer satisfaction index survey, Royal Mail's score for consumer customer satisfaction improved from just under 66 out of 100 to 70 out of 100<sup>1</sup>.

The Group is now benefiting from the new regulatory regime which allows Royal Mail greater commercial flexibility to introduce new and innovative services more quickly and systematically address customer concerns. This enables the Group to be more responsive to customer demands and expectations in an increasingly competitive environment, and the Group has recently won contracts from significant customers sending large volumes of business mail in both the private and the public sectors, as well as increasing its share of the UK parcel market each year between (and including) FYE 2011 and FYE 2013. In relation to product changes, under the previous regulatory framework Royal Mail typically had to give three months' notice to Postcomm for changes to the price and non-price terms and conditions of both universal service and retail non-universal service products, with the universal service product set determined by Postcomm. Under the current regulatory regime, Royal Mail is required to give one month's notice to Ofcom and Consumer Futures in relation to any price and non-price changes to universal service products only (the standard terms and conditions of which are to be "fair and reasonable"), and must also publish such changes one month in advance.

The Group has responded to customer demands through the introduction of a number of initiatives, including "click and collect" services which, working with POL, the Group announced in May 2013 it would be launching in the UK. It has also upgraded its commercial sales efforts in every sales channel in the UK. The Group is benefiting from steps taken to segment customers into relevant customer and product groupings which allow it to understand better the commercial drivers and requirements for customers within different sectors and industries.

Royal Mail has simplified and streamlined its parcel and letter product ranges. Its business parcel range has been simplified from over 40 products to only three broad categories, and similarly, its business letter product range has also been substantially simplified to three broad categories. In each case, the streamlined offering is more closely aligned to the needs of customers and, as a result, the range of products is more accessible to a wider range of customers and presents Royal Mail with opportunities to encourage "uptrading" among its business customers.

The actions taken by the Group in this area have started to deliver results, leading to improving levels of advocacy for the Group and satisfaction among its customers. The Group receives strong feedback from internal and external polling showing improving levels of customer satisfaction and loyalty. For example, a poll carried out by a leading consumer website in January 2013 voted Royal Mail the best UK parcel carrier, while Parcelforce Worldwide was in third position, out of the 10 parcel carriers featured in the survey. The Group's strong focus on its customers and their needs, and the improving levels of satisfaction and loyalty shown by the Group's customers, help differentiate the Group from many of its competitors and mean it is well placed to retain existing customers and secure new customers in the future.

## **2.7 The Group has a focused and committed management team**

The Group has a focused and committed management team which has driven the return of the Group to profitability and the successful implementation of the Transformation Programme. Working closely with key stakeholders including HM Government, Ofcom, colleagues and the Trade Unions, the management team has successfully addressed a number of the significant challenges faced by the Group in the past, including in the areas of pensions, regulation and industrial relations. The Group's senior management also has considerable experience of delivering change and growth in senior positions within listed companies.

The senior management team continues to implement cultural change throughout the Group with a clear focus on customer delivery, employee engagement and continuous performance improvements. It has

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<sup>1</sup> Customers rate their satisfaction on a seven point scale and each point on the scale is transformed into a value out of 100.



delivered results in a range of areas for the Group in recent years. The team combines depth of knowledge about the Group and the industry within which it operates, operational expertise and invaluable industry relationships, and is strongly positioned to deliver benefits for all of the Company's stakeholders through further improvements in the financial and operational performance of the Group. Biographies of the Executive Directors and senior management can be found in Part IV (*Directors, Senior Managers, Corporate Governance and Remuneration*).

### 3. DESCRIPTION OF THE GROUP'S BUSINESS

The business of the Group comprises two core divisions: UKPIL and GLS. In addition to the core divisions, three joint venture subsidiaries are managed as direct investments of the Group through a separate non-core division. Further information on UKPIL, GLS and the Group's non-core division is set out in sections 4, 5 and 6 of this Part.

### 4. UKPIL

#### 4.1 Overview of UKPIL

UKPIL comprises the Group's core UK and international parcel and letter delivery businesses under the "Royal Mail" and the "Parcelforce Worldwide" brands and through the Royal Mail Core Network and Parcelforce Worldwide. In addition, UKPIL provides specialist delivery services and carries out a number of other letter-related business activities, including marketing mail consulting services.

UKPIL has a leading position in the overall UK parcel market and, in FYE 2013, delivered approximately 99 per cent. of letter volumes in the UK. In FYE 2013, it handled approximately 17.4 billion letters and more than 1 billion parcels.

In FYE 2013, UKPIL generated revenue of £7,766 million, which, when adjusted on a 52-week basis, accounted for 83 per cent. of the Group's revenue. In Q1 FYE 2014, UKPIL generated revenue of £1,898 million, which accounted for 82 per cent. of the Group's revenue.

The table below provides certain information with respect to the revenue and operating profit of UKPIL for each of the periods indicated.

	Q1 FYE 2014	Q1 FYE 2013 (unaudited)	FYE 2013	FYE 2013 (Adjusted) <sup>(1)</sup>	FYE 2012	FYE 2011
<b>Revenue (£m)</b>	1,898	1,798	7,766	7,633	7,189	6,885
Operating profit after transformation costs (£m)	132	36	331	294	33	(110)
Operating profit margin after transformation costs (%) <sup>(2)</sup>	4.4	2.0	4.3	3.9	0.5	Not meaningful

**Notes:**

- (1) Adjusted to remove the revenue earned during the 53rd week in FYE 2013 and only the incremental costs associated with that revenue.
- (2) Operating profit margin after transformation costs for Q1 FYE 2014 is adjusted for the revenue impact of two additional working days in Q1 FYE 2014.

The table below provides certain information with respect to the parcel and letter volumes of UKPIL for each of the periods indicated.

		FYE 2013	FYE 2013 (Adjusted) <sup>(1)</sup>	FYE 2012	FYE 2011
<b>Total parcel volumes (m)</b>		1,081	1,064	1,016	973
<b>Letter volumes (m)</b>	Addressed	14,079	13,869	15,147	16,230
	Unaddressed	3,307	3,258	3,077	3,181
<b>Total letter volume (m)</b>		<u>17,386</u>	<u>17,127</u>	<u>18,224</u>	<u>19,411</u>

**Note:**

- (1) Adjusted to remove the impact of the 53rd week in FYE 2013.

## 4.2 UKPIL networks and transformation

UKPIL operates two main collection, sorting and delivery networks in the UK:

- the Royal Mail Core Network; and
- Parcelforce Worldwide.

### (A) *The Royal Mail Core Network*

The Royal Mail Core Network is extensive and supports the provision of services under the “Royal Mail” brand for the collection, sorting and delivery of parcels and letters by Royal Mail, including those services RMG provides as the UK’s designated universal postal service provider. The Royal Mail Core Network is a unique asset which has the capability to deliver parcels and letters six days a week to approximately 29 million addresses in the UK.

At the date of this document, the network comprises 45 mail centres (targeted to be reduced to 37 by the end of FYE 2016), eight regional distribution centres, a worldwide distribution centre and approximately 1,400 local delivery offices, which are supported by a road fleet of over 40,000 vehicles (including over 5,000 trucks and trailers, and nearly 35,000 vans) and access to a rail and air transport network of approximately 15 trains and 26 chartered aircraft. Approximately 140,000 employees are involved in the operations of the Royal Mail Core Network across the UK.

For its Royal Mail services, the Group uses a single common core network for the delivery of parcels and letters across the UK. Although the Royal Mail Core Network has high fixed costs associated with it due to the obligation to provide the universal service, it also provides the opportunity for considerable operational leverage once that fixed cost has been met, as the incremental cost of putting additional letters and parcels through the Royal Mail Core Network is low. The Royal Mail Core Network provides two key strategic advantages for Royal Mail:

- **high call frequency:** on average, every day a delivery is made by Royal Mail to approximately 75 per cent. of addresses in the UK; and
- **foot delivery:** the use of foot delivery for the delivery of letters and small parcels to the end delivery point is a lower cost and more adaptable delivery method than van delivery.

No UK competitor of Royal Mail has a network or call frequency that is comparable with the Royal Mail Core Network. The Group is also able to flex the capacity of the Royal Mail Core Network during periods of peak demand. For example, in FYE 2013, the Group opened an additional eight temporary dedicated parcel sortation centres staffed by an approximately 20,000 additional temporary staff to deal with Christmas demand. At the peak of this period, the Royal Mail Core Network was handling more than 2.5 times the average daily throughput of parcels.

### (B) *Journey of a parcel or letter through the Royal Mail Core Network*

The journey of a parcel or letter through the Royal Mail Core Network comprises five broad phases: collection; outward sorting; trunking; inward sorting; and delivery.

#### *Collection*

Parcels and letters enter the Royal Mail Core Network in a number of different ways, including through:

- the network of approximately 115,000 pillar boxes throughout the UK;
- more than 11,500 Post Office branches across the UK; and
- approximately 79,000 business collection points across the UK.

#### *Outward sorting*

Once parcels and letters have been collected they are transported by road to one of Royal Mail’s 45 mail centres, acting at this stage of the supply chain as an outward mail centre, at which they are sorted for the first time by class and destination. The letters handled by outward mail centres are predominantly unsorted when they first arrive at the mail centre. Almost 95 per cent. of letters handled at outward mail centres are then sorted by machine.

### *Trunking*

Once parcels and letters have been sorted at an outward mail centre, items for delivery to postcodes outside the area covered by the outward mail centre are transported by road, rail and/or air to the relevant mail centre covering the final destination to which they are to be delivered. Parcels and letters for delivery within the area covered by the outward mail centre are transported directly to local delivery offices.

In addition, Royal Mail operates eight regional distribution centres ("**RDCs**"), which are typically larger in size than mail centres and predominantly receive pre-sorted bulk letters (including unaddressed marketing mail) and certain parcels deposited by business customers. At the RDCs, letters and parcels are processed and bundled for transportation to inward mail centres for final sorting and delivery. Items can also be stored at RDCs pending their release into the Royal Mail delivery network, for example where the timing of a national or regional delivery needs to be coordinated.

From the outward mail centre or RDC, parcels and letters to be sent overseas are transported to Royal Mail's Heathrow Worldwide Distribution Centre (the "**HWDC**"). At the HWDC, parcels and letters are sorted by reference to a number of exchange points within different destination countries, based on the item's address and/or postcode. From the HWDC, parcels and letters are conveyed by road, sea and/or air to the relevant overseas exchange point, from where they become the responsibility of the relevant overseas postal authority, which will transport them to regional and local mail centres for delivery to end-recipients.

### *Inward sorting*

After trunking, parcels and letters arrive at the Royal Mail mail centre which covers the final destination to which they are to be delivered. At the Royal Mail mail centre, acting at this stage of the supply chain as an inward mail centre, items are sorted for a second time by reference to the delivery office which will be responsible for the final delivery of the item to the end-recipient. From the inward mail centre, parcels and letters are transported by road to one of Royal Mail's delivery offices.

Letters that originate with customers and other postal service providers who take advantage of the mandated requirement for Royal Mail to provide network access services are deposited into the Royal Mail Core Network at inward mail centres. Here, they are combined with other items and transported to delivery offices.

The vast majority of parcels and letters that originate overseas for final delivery to addresses in the UK are imported into the UK by overseas postal administrations. Items are handed over to Royal Mail at the HWDC or at Heathrow or Gatwick airports. They are then trunked to the relevant inward mail centre, where they are combined with other domestic items and transported to delivery offices.

### *Delivery*

Once parcels and letters reach the relevant delivery office, they are sorted into walk sequence order for delivery by Royal Mail's postmen and women to the end-recipient using high-capacity trolleys or delivery vans. Approximately 79 per cent. of all letters handled by delivery offices are sequenced by machine into delivery address order.

## **(C) Parcelforce Worldwide**

Parcelforce Worldwide is a separate UK network that supports the provision of Parcelforce Worldwide's services for the delivery, primarily, of express and larger parcels throughout the UK, Europe and the rest of the world. In FYE 2013, Parcelforce Worldwide handled approximately 71 million items in the UK using a "hub and spoke" model comprising the network's national hub in Coventry and 52 depots located around the UK which are supported by a road fleet of branded vehicles owned by the Group and vehicles owned by contracted owner-drivers who perform services for the Group.

The Group is currently implementing a £160 million investment plan with respect to Parcelforce Worldwide, which started in FYE 2012. The total investment includes capital and operating expenditure, and leases. Approximately £35 million of the total had been invested as at the end of FYE 2013, with the remainder to be invested over a number of years. The investment, which will be funded by existing resources of the Group, includes spending on a new processing centre in Chorley, North West England, and the opening of 10 new, replacement or extended depots to expand the capacity of Parcelforce Worldwide by approximately one third to approximately 93 million parcels per year. The new processing centre in Chorley opened on 20 September 2013 and is expected to be fully operational by the end of October 2013. The depot changes are expected to be completed by the end of October 2013, at which point the total number of Parcelforce Worldwide depots will increase to 54. Parcelforce Worldwide also operates a separate international hub in the UK, which handles parcels for export from, and imported into, the UK.

### *Collection*

Parcels enter the Parcelforce Worldwide delivery chain in a number of different ways, including through Post Office branches across the UK, from which collections are made by Parcelforce Worldwide, and collection by Parcelforce Worldwide directly from customers. Items can also be deposited by customers at Parcelforce Worldwide's depots around the UK.

### *Sorting*

Parcels are then transported by road to the local Parcelforce Worldwide depot, where they are combined with parcels that customers have chosen to deposit at that depot. All parcels are then sorted at the depot. Items for delivery within the area covered by that depot are retained and all other items are transported by road to either Parcelforce Worldwide's national hub at Coventry or its new processing centre in Chorley. At the hub and processing centre, items are sorted automatically by reference to the depot which will handle their final delivery to the end-recipient, except for approximately 10 per cent. of parcels that are too large, heavy or otherwise unsuitable for automated sorting. From the national hub or processing centre, items are transported by road to the relevant local depot for delivery.

Parcels that originate in the UK for export overseas are taken to Parcelforce Worldwide's international hub either directly from the relevant collecting depot or from the Coventry national hub. Once in the international hub, parcels are segregated by reference to whether they are to be transported by road (including via GLS) or by air. Items for road are loaded into trailers and despatched. Items to be flown are X-ray screened before being loaded into air-freight containers or bags for onward transport to the appropriate airport. Once they have been released by HM Border Agency, parcels that originate overseas for delivery by Parcelforce Worldwide in the UK are re-labelled and made ready for the Parcelforce Worldwide network before being transferred to the Coventry national hub for onward distribution along with domestic UK parcels.

### *Delivery*

Parcels received at local depots from the national hub are sorted into a number of routes for delivery using vans to end-recipients by employees working in Parcelforce Worldwide and contracted owner-drivers.

## **4.3 The Transformation Programme**

Since FYE 2008, Royal Mail's UK operations have been the subject of a major transformation programme. Over that period, Royal Mail has transformed each phase of its operations in the Royal Mail Core Network and the Transformation Programme is believed by the Directors to have been one of the largest industrial transformation projects undertaken in the UK in recent history. The Group has implemented extensive measures aimed at increasing profitability and managing costs, while maintaining Royal Mail's quality of service and improving employee safety. At the core of the operational transformation are actions to improve the effectiveness of Royal Mail: making it better equipped to handle the growing number of parcels being sent through the Royal Mail Core Network and enabling it to deliver parcels and letters more efficiently.

The key overarching objectives of the Transformation Programme have been:

- the implementation and embedding of an intense focus on safety and the delivery of customer service excellence;
- the adaptation of delivery methods and remodelling of the Royal Mail Core Network to meet the changing profile of the parcel and letter delivery markets in which Royal Mail operates in the UK, namely the growth in parcel volumes and the decline in letter volumes;
- the rationalisation and optimisation of Royal Mail's mail centre estate and logistics infrastructure;
- to increase productivity and reduce costs in the Royal Mail Core Network through automation, performance improvement and reduction in overhead costs;
- the introduction and embedding of flexible working practices, skills development among frontline employees, employee engagement and continuous improvement in the operation of the Royal Mail Core Network through the "World Class Mail" programme; and
- the achievement of high levels of employee engagement and strong industrial relations.

From FYE 2007 to the end of FYE 2013, the Group made a gross investment of £2,795 million in the Transformation Programme, consisting of £1,093 million of infrastructure costs, £875 million of redundancy costs (including in respect of non-frontline staff), £515 million of incentive payments and £312 million of project management costs. As a result, the Group estimates that it now bears approximately £0.5 billion less cost per year than it would otherwise have done had it not made that investment. The Group is now passing the peak of transformation investment with a shift of focus to "topline growth".

The Group has made significant progress in the implementation of the Transformation Programme to date and, towards the end of FYE 2014, the key activities forming part of the Transformation Programme are expected to have been substantially completed. However, the Group intends to implement a number of further changes and initiatives in relation to the operations of Royal Mail with a shift towards the further optimisation of the Royal Mail Core Network, the achievement of continuous improvement in the network's productivity and efficiency, and the achievement of further improvements in levels of operational safety and quality standards.

Over the past three financial years, the Transformation Programme has delivered year-on-year productivity improvements within the Royal Mail Core Network of approximately 4.4 per cent. in FYE 2011, 3.2 per cent. in FYE 2012 and 1.7 per cent. in FYE 2013. Productivity is the primary measure for the ability of Royal Mail to efficiently process and deliver mail, and is measured by reference to the weighted items (workload) that the Royal Mail Core Network handles per gross hour. In the future, the Group is targeting productivity improvements within the Royal Mail Core Network of approximately two to three per cent. per year. Further information on the Group's productivity improvements, including how productivity is measured by the Group, can be found in section 4.7 of Part VII (*Operating and Financial Review*).

Since the implementation of the Transformation Programme, the Royal Mail Core Network has been significantly transformed and now provides the Group with a common core parcel and letter network in the UK which can be used as a base for delivering further operational improvements and efficiencies and supporting the Group's wider strategic priorities for commercial growth.

#### **(A) Transformation activities and achievements since FYE 2008**

Each of the four main phases of Royal Mail's Core Network has been improved by the Transformation Programme.

##### *Collections*

Royal Mail has modernised its processes and systems for the collection of letters and parcels from thousands of designated collection points throughout the UK. The aim of changes in this area has been to optimise Royal Mail's UK collection network so that it is appropriate for the current and anticipated mix of parcel and letter volumes passing through the Royal Mail Core Network in order to achieve efficiency and productivity improvements. Changes in this area have included the introduction of new handheld scanners for scanning collected items and the migration away from the use of bags in the collection of letters to trays. The use of trays reduces the amount of time needed to manually sort letters before they can be fed into sorting machines at outward mail centres.

##### *Sorting*

At the heart of the changes introduced by the Transformation Programme in this area has been the introduction of increased automation in Royal Mail's letters sorting processes and the rationalisation of Royal Mail's mail centre estate. The changes have reduced processing costs and improved reliability and productivity. In this area, the Transformation Programme has included:

- the introduction of new machines and the upgrading of existing machines at mail centres and delivery offices for the automated sorting and ordering of letters. In total, 995 new, refurbished or upgraded sorting machines have been introduced across the network and the transformation in this area is complete for the time being; and
- the rationalisation and consolidation of the Group's mail centres through the reduction of the number of mail centres from 69 pre-Transformation Programme to 45 as at the date of this document, with operations moved from the closed mail centres to other sites with extra capacity. The closed mail centres have now been put to new uses within the Group, including becoming larger delivery offices, or have been disposed of. Since FYE 2010, Royal Mail has opened four new mail centres. The use of new, or substantially reconfigured, premises for mail centre operations means that sites can be designed specifically to handle parcels and letters rather than older and less suitable sites which evolved into use as mail centres, thereby increasing productivity and efficiency.

##### *Logistics*

Royal Mail has taken steps to improve its capability to operate a safe and efficient logistics network for the transportation of parcels and letters around the UK. The decline in UK letter volumes over recent years has presented Royal Mail with an opportunity to make changes to its logistics systems and processes and thereby deliver efficiency improvements and cost savings. Changes in this area have been designed to ensure that



the logistics function of Royal Mail is aligned to the needs of Royal Mail's operational and commercial functions. Improvements have reduced the total number of miles covered during trunking activities on the Royal Mail Core Network between FYE 2009 and FYE 2013 from approximately 119 million miles to approximately 107 million miles. The Transformation Programme has included changes in a number of areas:

- the introduction of annual transport reviews which aim to ensure that Royal Mail operates an efficient logistics network which properly and efficiently supports the changing product and services mix it offers;
- changes to the composition of the Royal Mail vehicle fleet, including the use of more efficient vehicles to transport parcels and letters around the country, including the introduction of double-decker trailers enabling Royal Mail to carry more parcels and letters in fewer journeys;
- improvements to the way in which Royal Mail procures and maintains its vehicle fleet and the development of steps to optimise the number of vehicles in the fleet and reduce the associated mileage and fuel costs; and
- amendments to Royal Mail's fuel strategy which resulted in 93 per cent. of its diesel fuel and 92 per cent. of its jet fuel usage being hedged for FYE 2014 (compared with 91 per cent. and 90 per cent., respectively, for FYE 2013).

### *Delivery*

Royal Mail has modernised its systems and processes for the delivery of parcels and letters throughout the Royal Mail Core Network so that it handles items more efficiently and safely through to final delivery to the end-recipient. Changes to Royal Mail's delivery operations have been focused on four key elements: enabling the safe delivery of parcels and letters in an integrated common network; reducing the number of hours involved in the manual preparation of parcels and letters for delivery, and improving efficiency; increasing the number of hours spent by frontline staff delivering parcels and letters; and introducing staffing flexibility in Royal Mail's operations to enable it to respond to seasonal variations in parcel and letter volumes. The Transformation Programme has included initiatives in the following areas:

- the introduction of automated walk sequencing machines to sort letters into address order ready for final delivery by postmen and women. Transformation in this area is complete for the time being following the introduction of 574 walk sequencing machines, with 79 per cent. of letters machine-sequenced to delivery point;
- greater use of high capacity trolleys and shared vans for the delivery of parcels and letters by postmen and women, leading to greater efficiencies and productivity (as parcels and letters can now be carried on the same delivery route and in greater numbers, reducing the need for delivery staff to return to the delivery office for replenishment) and a reduction in reported health and safety incidents compared with the use of "over the shoulder" delivery bags. As at FYE 2013, approximately 11,500 shared vans had been deployed across the Royal Mail Core Network;
- the introduction, as at the end of FYE 2013, of approximately 50,000 handheld scanners, enabling the delivery of items to be tracked and recorded using electronic customer signatures;
- the introduction of different working hours and delivery spans for delivery staff, reflecting the reduction in time spent on sorting and processing parcels and letters indoors. In addition, a large number of postmen and women's delivery walks have been rationalised and equalised; and
- the conversion of delivery offices across the UK, with the introduction of improved indoor working methods and practices, including improvements to the indoor layout of delivery offices aimed at increasing productivity and efficiency. At the end of FYE 2013, 860 delivery offices, representing 63 per cent. of the total number were undergoing modernisation.

The modernisation of Royal Mail's estate of delivery offices has led to significant reductions in the total number of gross hours spent in the processing and ordering of letters and parcels by delivery office staff. Since FYE 2011, there has been a cumulative reduction in the number of gross hours worked by delivery office staff of 5.9 per cent. in those delivery offices that were modernised more than two years ago. This reduction has been achieved through the initiatives described above which have reduced costs, optimised resources and increased operational flexibility within Royal Mail's delivery offices.

### Engagement with frontline staff

A key feature of the Transformation Programme has been the engagement of Royal Mail's frontline staff in the rationale for, and implementation of, the Transformation Programme.

A key part of the transformation of Royal Mail's operations has been the introduction of Royal Mail's "World Class Mail" ("WCM") programme in the UK in August 2008. WCM is a comprehensive system for the continuous improvement of efficiency, safety and quality in the workplace through root cause analysis, use of counter measures, and employee involvement and engagement. It has now been introduced in all of the Group's UK mail centres which are not scheduled for closure and is currently being embedded within all of Royal Mail's delivery sectors during the current financial year. WCM is a process to drive world class performance in the delivery of mail services using established methods. At the heart of WCM is the embedding of certain common values across Royal Mail's operations, including the treatment of high performance as standard, opportunities for enhancing employees' training and skills, and the generation of a sense of pride and opportunity in the workplace.

During implementation of the Transformation Programme, approximately 21,000 employees have left the operations of the Royal Mail Core Network, principally through voluntary redundancies and natural attrition. During implementation of the Transformation Programme and despite the scale of the changes made to its core operations in the UK, Royal Mail has broadly maintained, and in some areas improved, its service levels.

Royal Mail has implemented significant change among staff within its operational management grades, which has contributed to the effective implementation of the Transformation Programme to date. In FYE 2012, the number of operational managers within Royal Mail reduced by more than 1,000. Royal Mail has also improved its internal systems for the implementation of change programmes. Royal Mail has introduced programmes for the recruitment of staff at graduate and apprentice level which have led to the injection of new and talented staff at many levels of the business.

Royal Mail has taken opportunities to streamline its management structure across the UK through the restructuring of the UK into five geographical areas. This change has increased resources overall and allowed expert support to be focused where it is most needed across Royal Mail's operations.

### Progress in implementing the Transformation Programme

As demonstrated by the data below, since FYE 2008 significant progress has been made in modernising the Royal Mail Core Network through the Transformation Programme while delivering exceptionally high levels of customer service and employee safety.

	FYE 2008	FYE 2009	FYE 2010	FYE 2011	FYE 2012	FYE 2013	Target	By When
Safety: lost time accidents per 100,000 work hours	nm <sup>(1)</sup>	nm <sup>(1)</sup>	2.37	1.84	1.49	1.15	Ongoing	Ongoing
First class retail quality of service <sup>(2)</sup>	92.8%	93.0%	93.4%	92.6%	92.8%	92.5%	93.0%	Ongoing
Number of mail centres	69	68	64	59	57	48 <sup>(4)</sup>	40	FYE 2014
							37	FYE 2016
New, refurbished or upgraded machines	40	215	374	669	904	995	Complete	–
Letters sequenced to delivery point	1%	1%	8%	34%	75%	79%	Complete	–
Delivery offices undergoing modernisation	–	–	1	110	408	860	c.1,400	FYE 2014
Number of handheld scanners	–	27k	27k	34k	44k	50k	73k	FYE 2014
Operations people employed	158.9k	154.5k	148.0k	143.8k	139.6k	137.7k	Reduction of c.3k per annum	–
WCM sites launched – mail centres <sup>(3)</sup>	–	4%	19%	41%	79%	100%	Complete	–
WCM sites launched – delivery offices	–	0%	0%	5%	14%	40%	100%	FYE 2014

#### Notes:

- (1) "nm" represents data not measured.
- (2) Adjusted for *force majeure*, including external events such as snow, volcanic ash clouds and the 2012 London Olympics.
- (3) Percentage of end-state mail centres starting WCM journey.
- (4) Since the end of FYE 2013 a further three mail centres have been closed, taking the total number of mail centres, as at the date of this document, to 45.
- (5) Figures presented in the table above are for the Royal Mail Core Network and exclude international.

## **(B) Future transformation plans**

### *Transformation activities in the remainder of FYE 2014*

The implementation of the Transformation Programme continues although, by the end of 2014, the key elements of the programme are expected to have been substantially completed. By Christmas 2013 all postmen and women working in the Royal Mail Core Network are expected to have access to a handheld scanner for the completion of their delivery rounds, bringing the total number of scanners in use in the network to approximately 73,000. By the end of FYE 2014, the Group aims to have completed the modernisation of 100 per cent. of its delivery offices. The Group expects to complete the closure of a further five Royal Mail mail centres identified for closure as part of the Transformation Programme by the end of FYE 2014 with three more to follow by the end of FYE 2016, bringing the total number of Royal Mail mail centres to 37 (down from 69 pre-Transformation Programme). During FYE 2014, Royal Mail also plans to take further steps to optimise all aspects of its operational performance while continuing to improve safety levels, productivity and customer satisfaction in the Royal Mail Core Network.

### *Transformation activities from FYE 2015*

From FYE 2015, the focus of the Transformation Programme is expected to shift to activities in four main areas with an overall focus on actions aimed at continuing the optimisation and growth of the Royal Mail Core Network:

- **ongoing network optimisation:** the Group intends to conduct periodic reviews of the network to identify ways in which it can be further upgraded and improved. A focus on continuous improvement and optimisation will include updating the network's footprint and delivery routes to reflect the changing volume and mix of parcels and letters passing through the network;
- **upgrading and renewing the vehicle fleet that supports the network:** the Group will take steps to selectively renew and upgrade parts of its vehicle fleet, with plans to procure approximately 13,500 new vehicles in the next three financial years;
- **investment in technology to drive growth:** starting in the current financial year, the Group intends to invest further in the IT that underpins the Royal Mail Core Network, including through the development and implementation of new technology to support additional "track and trace" services and bar-coding. Investment in this area is also aimed at delivering enhanced information for Royal Mail management in relation to the letters and parcels passing through the Royal Mail Core Network; and
- **automation evaluation:** evaluation of opportunities to introduce automation in Royal Mail's handling of parcels across the Royal Mail Core Network.

## **4.4 Parcels**

UKPIL collects, sorts, transports and delivers parcels in the UK through two principal business units:

- Royal Mail Core Network Parcels, which delivers parcels through the Royal Mail Core Network under the "Royal Mail" brand; and
- Parcelforce Worldwide, which delivers parcels under the "Parcelforce Worldwide" brand,

further details on which are set out in sections 4.4(A) and (B) below.

In FYE 2013, UKPIL handled approximately 1 billion parcels through the Royal Mail Core Network and approximately 71 million parcels through Parcelforce Worldwide. In FYE 2013, parcels handled by UKPIL accounted for 32 per cent. of the Group's revenue.

In Q1 FYE 2014, parcels handled by UKPIL accounted for 33 per cent. of the Group's revenue.

Royal Mail Core Network parcels and Parcelforce Worldwide each operate within the B2B, B2C and C2X parcels segments in the UK and, as a whole, UKPIL holds a leading position, by revenue, across these segments. UKPIL's parcel customer base is diverse and in FYE 2013 its largest customer represented approximately six per cent. of UKPIL's parcels revenue.

The table below provides information with respect to the revenue of the parcel business of UKPIL for each of the periods indicated.

	Q1 FYE 2014	Q1 FYE 2013 (unaudited)	FYE 2013	FYE 2013 (Adjusted) <sup>(1)</sup>	FYE 2012	FYE 2011
Revenue (£m)	752	657	2,979	2,933	2,604	2,348

**Note:**

(1) Adjusted to remove the revenue earned during the 53rd week in FYE 2013.

The table below sets out certain information with respect to volumes handled by the parcel business of UKPIL for each of the periods indicated.

	FYE 2013	FYE 2013 (Adjusted) <sup>(1)</sup>	FYE 2012	FYE 2011
<b>Volumes (m)</b>				
Royal Mail Core Network Parcels	1,010	994	950	910
Parcelforce Worldwide	71	70	66	63
<b>Total volumes (m)</b>	<u>1,081</u>	<u>1,064</u>	<u>1,016</u>	<u>973</u>

**Note:**

(1) Adjusted to remove the impact of the 53rd week in FYE 2013.

The presence of Royal Mail Core Network Parcels and Parcelforce Worldwide within UKPIL drive considerable competitive advantages for the Group:

- the scale and configuration of the common Royal Mail Core Network, used by Royal Mail for the delivery of parcels and letters, facilitates lower cost delivery on foot of smaller parcels, enabling Royal Mail to be highly competitive with comparable services offered by competitors, particularly within the B2C segment of the UK's parcel market. The Royal Mail Core Network is especially well-suited to delivering smaller parcels for customers;
- Parcelforce Worldwide's streamlined "hub and spoke" model focused on delivery by van enables high-quality, time-specific and express parcel delivery services; and
- both Royal Mail Core Network Parcels and Parcelforce Worldwide provide international connectivity and diversification through services for the delivery of parcels which originate outside the UK to final destinations in the UK and for the export of parcels which originate in the UK for delivery to final destinations overseas.

UKPIL also handles parcels imported into the UK from destinations overseas as well as parcels that originate in the UK for export overseas. Further details on the international aspects of UKPIL's parcel business are described in section 4.4(C) below.

As well as Royal Mail Core Network Parcels and Parcelforce Worldwide, UKPIL provides specialist services in the UK trading as Royal Mail Specialist Services under the Royal Mail Courier Services and Royal Mail Relay brands and through separate networks, further details on which are set out in section 4.4(D) below.

**(A) Royal Mail Core Network Parcels**

Royal Mail offers a range of parcel products for consumers and business customers, including those which RMG is required to provide as part of the USO as the UK's designated universal postal service provider. Parcels are collected, sorted and delivered by Royal Mail alongside letters in the Royal Mail Core Network. Over the past several years, Royal Mail has consistently increased its share of the UK's parcel market on both a volume and a revenue basis. Between FYE 2011 and FYE 2013, Royal Mail's parcel volumes grew at a CAGR of five per cent.

**Customers**

Royal Mail operates in the B2B, B2C and C2X segments of the UK's parcel market and has a large and diverse customer base, with, in FYE 2013, its largest customer representing approximately six per cent. of UKPIL's parcel revenue in FYE 2013 and its top 100 parcel customers (including the largest customer) representing 16 per cent. of Royal Mail's domestic parcel revenue in the same period. Royal Mail categorises customers into four broad segments and offers a tailored sales approach to each category. The four categories are:

- **Large corporates:** approximately 100 of Royal Mail's parcel customers fall within this category and they represent high-spending business customers of strategic importance to Royal Mail. A dedicated

account management service is provided for these customers who are also offered sector pricing. Customers within this category include large online retailers, high-street retailers and media and utility companies. In FYE 2013, large corporates accounted for 16 per cent. of Royal Mail's domestic parcel revenue.

- **Medium-sized companies:** approximately 1,600 of Royal Mail's parcel customers are within this category. Customers within this category include medium-sized retailers, telecom companies, clothing and footwear companies and online retailers. These customers are offered sector pricing. Customers in this category purchase Royal Mail's business parcel products. In FYE 2013, medium-sized companies within this category generated 10 per cent. of Royal Mail's domestic parcel revenue.
- **SMEs:** this category includes approximately 20,000 customers, comprising a wide range of small and medium-sized businesses and enterprises (including those selling goods through online auction sites). Customers in this segment are not provided with account management services but have access to a range of additional support tools including online assistance and call centre or field-based staff. In FYE 2013, SME customers accounted for 20 per cent. of Royal Mail's domestic parcel revenue.
- **Consumers and micro-SMEs:** this category includes a highly diverse group of customers, including individual social customers sending presents as well as micro-SMEs sending individual, or a small number of, parcels. In FYE 2013, consumers and micro-SMEs accounted for 54 per cent. of Royal Mail's domestic parcel revenue.

In recent years, Royal Mail has taken advantage of reduced regulation in relation to its parcel offering, particularly for the services it offers to business customers. It has expanded its use of bespoke pricing in order to secure long-term contracts with business customers and has used pricing to incentivise customers, including through the use of pricing discounts based around volumes. Royal Mail has also introduced new pricing systems for its account customers based on the overall size, weight and volumetric profile of the parcels they are sending.

## **Products**

In April 2013, Royal Mail simplified its parcel product ranges for both business and consumer customers and aligned its consumer parcel product range with the product offering of Parcelforce Worldwide. Royal Mail focuses on parcels capable of delivery on foot or by van and typically only delivers parcels weighing up to 20 kilograms, whereas Parcelforce Worldwide delivers parcels weighing up to 30 kilograms. The alignment between the product ranges of Royal Mail Core Network Parcels and Parcelforce Worldwide allows items to be placed into the Royal Mail Core Network or Parcelforce Worldwide depending on which is the most appropriate and effective network to carry the item by reference to its size and weight.

### *Business parcels product range*

Royal Mail offers parcel services to business customers across three product categories:

- **Guaranteed:** this includes "Special Delivery Guaranteed by 9.00 a.m. or 1.00 p.m." branded services which offer next-day delivery by either 9.00 a.m. or 1.00 p.m. (subject to certain restrictions) or returns. 9.00 a.m. and 1.00 p.m. guaranteed services are offered with "end to end" tracking, signature on delivery and proof of posting as standard. These products include compensation up to specified levels and text message or email notification (subject to certain restrictions). The guaranteed services are the only services that can be used to send money and valuables. Restricted items (small quantities of perfume, nail varnish and alcohol, which are classified as dangerous goods) for which Royal Mail has an exemption, can be sent using these products. Items weighing up to 2 kilograms can be sent in this category for delivery by 9.00 a.m. and items weighing up to 10 kilograms can be sent for delivery by 1.00 p.m.. In FYE 2013, the Group estimates that less than 10 per cent. of parcels sent by account-managed business customers used guaranteed products.
- **Tracked:** this includes "Royal Mail Tracked 24 or 48" and "Royal Mail Tracked Returns 24 or 48" branded services which offer 24- or 48-hour delivery aims or returns, with "end to end" tracking. This product includes compensation up to specified levels and text message or email notification as an option for an additional fee (subject to certain restrictions) in addition to proof of delivery. Small quantities of restricted items, for which Royal Mail holds an exemption, may be sent using these products. Items weighing up to 20 kilograms can be sent in this category, depending on the exact product chosen by the customer. In FYE 2013, the Group estimates that approximately 10 per cent. of parcels sent by account-managed business customers used "Tracked" products.



- **Standard:** this comprises “Royal Mail 24” and “Royal Mail 48” branded products which offer 24- or 48-hour delivery aims. A “signed for” option (requiring a signature on delivery) can be purchased by customers for an additional fee. Items weighing up to 20 kilograms can be sent in this category. In FYE 2013, the Group estimates that approximately 80 per cent. of parcels sent by account-managed business customers used standard products.

For business contract customers, Royal Mail handles some large letter items as parcels within its operations. These include large letters used for certain fulfilment goods such as DVDs and books.

Key actions taken by Royal Mail in April 2013 in relation to its business parcels product range included the reduction in the price differential between its standard and tracked products. This change was made in response to customer feedback and aligns Royal Mail's offering with the requirements of customers. It encourages business and commercial customers to “uptrade” to tracked parcel products from standard parcel products. In addition, Royal Mail has simplified its pricing for parcels weighing less than one kilogram sent by business customers with which it has a contract, bringing Royal Mail into line with key competitors in the UK. Royal Mail has also introduced pricing surcharges in relation to certain products to encourage and incentivise customer behaviour in certain areas.

#### *Network access for parcels*

Although it is not mandated to do so by Ofcom, Royal Mail also offers large business customers and other postal operators access to the Royal Mail Core Network for the final delivery of parcels weighing up to two kilograms from one of Royal Mail's inward mail centres (“**Access Parcels**”). This service is provided on a similar basis to that on which access customers are provided with access to Royal Mail's final delivery network for the delivery of letters, as discussed further in section 4.5 of this Part. The Directors estimate that, in 2012, Access Parcels accounted for three per cent. of the overall UK parcel market, on a volume basis (Source: Triangle Management Services/Royal Mail Group UK Fulfilment Market Measure, 2013). Royal Mail provides network access services for parcels under separate contracts from those under which it provides network access services for letters and large letters, which enables a greater degree of bespoke parcel pricing.

#### *Consumer parcel product range*

Royal Mail offers parcel services to consumers across three product categories, paid for using stamps, postage purchased online, franking meters or customer accounts:

- **Guaranteed:** this includes “Special Delivery Guaranteed” branded products which offer next-day delivery by 9.00 a.m. or 1.00 p.m. with both “end to end” tracking and proof of delivery with a signature on delivery from the recipient. Items weighing up to 20 kilograms can be sent in this category for delivery by 1.00 p.m. and items weighing up to 2 kilograms can be sent for delivery by 9.00 a.m.. This product includes compensation up to specified levels.
- **Confirmed:** this includes “Royal Mail Signed For 1st Class or 2nd Class” branded products which offer next-day or three-day delivery aims and proof of delivery with a signature on delivery from the recipient. This product includes compensation of up to £50 and an online delivery notification service.
- **Standard:** this includes “Royal Mail 1st Class” and “Royal Mail 2nd Class” branded products which offer next-day or three-day delivery aims. This product includes standard compensation of up to £20.

Within these categories, for pricing purposes Royal Mail divides parcels into two size formats, small and medium, based on their dimensions and weight. Items larger than the medium parcel size or over 20 kilograms in weight are typically no longer delivered through the Royal Mail Core Network and, instead, customers have the option of using Parcelforce Worldwide for the delivery of relevant items. In September 2013 in response to customer feedback, Royal Mail launched a consultation to extend the dimensions of its small parcel format up to the size of a large shoe box for consumers, and small non-contract business and franking customers. If, following the consultation, the change is introduced, the Group estimates that more than 80 per cent. of parcels delivered by Royal Mail will be classed as small parcels.

#### ***Royal Mail's parcel obligations under the USO***

As the UK's designated universal service provider, RMG is required to provide the universal postal service to specified standards. The services which RMG is required to provide include a range of services for the collection and delivery of parcels. These services are summarised in section 8.1(B) of this Part and in section 2.2 of part A of Part X (*Regulation, State Aid and Procurement*).

### ***Parcels – customer-focused service improvements***

Through innovation and enhancement of the service and delivery options it provides to end-recipients over the past few years, Royal Mail has ensured that it continues to provide value to its customers. It intends to assess further ways in which it can improve the range of products and services it offers across its parcel business.

#### ***Getting the technology right: transforming Royal Mail's parcel technology***

Royal Mail's commercial strategies for parcels are underpinned by investments in technology systems. It intends to invest in the introduction of new delivery methods and processes to improve the efficiency of its parcel handling and delivery. Key areas of investment will be in relation to IT systems and processes to support the bar-coding of all parcels and the accompanying tracking systems. Royal Mail plans to introduce tracking for all parcels in the UK, which will allow customers to track parcels and the Group's customer service teams to respond to queries regarding the location of individual parcels in "real time". Improvements in this area are supported by Royal Mail's plan for all postmen and women working in the Royal Mail Core Network to have access to a handheld scanner by the end of FYE 2014. These scanners enable tracked small parcels to be delivered on foot, rather than only by van. The use by Royal Mail of the next generation of handheld scanners will allow it to rollout new service features in the future.

The Group also plans to invest in new IT systems within the Royal Mail Core Network to promote the integration of the Group's systems with those of large business customers. The alignment of ordering and shipping systems in this way is intended to make the Group a better partner to transact with. Royal Mail will continue to evaluate options for the introduction of automation to its parcel sorting processes.

Overall, technological improvements are expected to drive efficiencies and support the Group's revenue protection activities, and are designed to make Royal Mail easier to do business with.

#### ***Convenient delivery, collection and return services***

While Royal Mail recognises that the most popular delivery option for UK consumers is delivery to them at home, in recent years it has implemented new initiatives and services to increase the range of delivery options for consumers, including the introduction of "Delivery to Neighbour".

In May 2013, Royal Mail announced that it, together with POL, would be working to provide the UK's largest "click and collect" network. Under the initiative, Royal Mail will be working with a number of large online retailers to provide a service whereby online shoppers can choose to collect the products they have purchased from approximately 10,500 Post Office branches across the UK (and to which the products will be delivered using the Royal Mail Core Network). This "click and collect" service will provide a convenient alternative delivery option for online shoppers in the UK.

In April 2013, Royal Mail launched a tracked returns service which enables consumers to track the delivery status of goods they return to suppliers (including online and high-street retailers). It also advises suppliers when items are returned by customers before they are delivered to the suppliers.

Other steps taken by Royal Mail to make it easier for customers to send and receive parcels using Royal Mail have included enabling redelivery arrangements to be made online and standardising the period of time for which items are held at delivery offices for collection to 18 days.

#### ***Enhancing network efficiency and improving parcel processing***

The Group will take opportunities to reduce its unit cost for the delivery of smaller parcels in the UK by optimising the use and efficiency of the Royal Mail Core Network, which focuses on the delivery of items on foot. It aims to achieve this by continuing to introduce more parcel-focused delivery methods across the UK. The introduction of handheld scanners across Royal Mail's delivery network, together with bar-coding and tracking of all parcels delivered in the UK, will enable a larger number of smaller parcels to be delivered on foot using high-capacity delivery trolleys at the same time that letters are delivered, rather than using separate delivery vans. Efficiencies in this area will be assisted by the continued use of initiatives such as "Delivery to Neighbour" and "click and collect".

In the future, the Group will continue to take steps to ensure that parcels are delivered through the most appropriate of the Group's UK networks according to the size, value and urgency of the item concerned, including through the use of size-based pricing. Building on the simplification and rationalisation of delivery options for parcels within the Royal Mail Core Network in 2012, the Group will seek to ensure that larger

parcels less suited to the Royal Mail Core Network are instead delivered through Parcelforce Worldwide, which is able to handle and deliver them more efficiently.

Parcel automation presents a number of potential opportunities and benefits for Royal Mail. Parcel automation has the potential, over time, to contribute to the productivity improvements through operational efficiencies as well as to provide tracking capability and enhanced customer and operational information management. Royal Mail will continue to evaluate options for the introduction of automated sorting of small parcels in the Royal Mail Core Network, which would be expected to reduce processing costs and “mis-sort” levels. Royal Mail is currently undertaking a detailed assessment covering a number of areas. Scoping work is expected to be completed over the next 18 months and the Group would only seek to implement changes once it is confident of the commercial case, the solution design and the operational impact and benefits. In these areas, the Group intends to draw on the relevant experience of Parcelforce Worldwide and GLS when selecting the appropriate automation technology, although the requirements of the Royal Mail Core Network are likely to be different due to the mix of traffic carried. The proportion of parcels in the Royal Mail Core Network that would be suitable for automation will be dependent on the solution chosen. However, as a broad guide, approximately 80 per cent. of parcels handled by Royal Mail are deliverable on foot and would be expected to be suitable for small parcel sorting solutions.

#### **(B) *Parcelforce Worldwide***

Parcelforce Worldwide is an important part of UKPIL and forms an important part of the Group’s wider strategy. In FYE 2013, Parcelforce Worldwide contributed 16 per cent. (£469 million) of UKPIL’s total parcel revenue. Parcelforce Worldwide has grown in recent years and its parcel volumes grew at a CAGR of five per cent. in the period between FYE 2011 and FYE 2013.

Parcelforce Worldwide offers a range of parcels products for consumers and business customers which fall outside the scope of the USO and regulation by Ofcom. Compared with the parcels delivered by Royal Mail, Parcelforce Worldwide focuses predominantly on the delivery of larger and/or higher-value items on an express basis. It offers delivery services for items weighing up to 30 kilograms across a range of time-specific (including delivery by 9.00 a.m., 10.00 a.m. and 12 noon) and 24- and 48-hour delivery services. In addition, Parcelforce Worldwide offers a number of value-added services including item tracking, proof of delivery and compensation of up to £2,500.

The services offered by Parcelforce Worldwide are available through a number of sales channels, further details of which are summarised in section 4.6 of this Part. It provides services for a range of customers, including business customers sending parcels in the B2B and B2C segments and individuals. Business customers of Parcelforce Worldwide come from a range of market sectors and include online and high-street retailers (including mobile phone retailers), components manufacturers and retailers, examination boards, UK government departments and utility companies.

Parcelforce Worldwide collects, sorts and delivers items using the Parcelforce Worldwide Network, details of which are summarised in section 4.2(C) of this Part.

The strategic focus of Parcelforce Worldwide centres around expanding the capacity of the Parcelforce Worldwide Network and the implementation of IT enhancements to improve further its competitive position in the delivery of express and high-value parcels. Its new processing centre at Chorley, North West England, opened on 20 September 2013 and is expected to be fully operational by the end of October 2013. The new processing centre will work alongside the existing hub in Coventry and use new sorting equipment and scanning technology, which will enable continued growth in parcel volumes handled by Parcelforce Worldwide in the UK. The Group continually considers plans for the further expansion of Parcelforce Worldwide based on prevailing market conditions.

The Group will continue to upgrade and enhance the core IT systems used within Parcelforce Worldwide through the introduction of a new IT operating system. The new system will support the wider expansion of Parcelforce Worldwide in the UK and aims to deliver benefits through the achievement of operational and IT efficiencies, the improvement of data integrity and the reduction of operational risk associated with existing IT systems.

#### **(C) *International parcels***

UKPIL handles parcels which originate in the UK but which are for delivery to end-recipients overseas. It also carries out the final delivery of parcels which originate overseas to end-recipients in the UK. In FYE 2013, UKPIL’s revenue from international parcels (including parcels for export and import, but excluding Parcelforce

Worldwide) was £534 million (FYE 2012: £476 million; FYE 2011: £405 million), which represented 21 per cent. of UKPIL's parcel revenue (excluding Parcelforce Worldwide) in that financial year (FYE 2012: 22 per cent.; FYE 2011: 21 per cent.). In FYE 2013, the volume of international parcels handled by UKPIL (excluding Parcelforce Worldwide) was approximately 160 million parcels (FYE 2012: 164 million parcels; FYE 2011: 160 million parcels), which represented approximately 16 per cent. of UKPIL's parcels by volume (excluding Parcelforce Worldwide) in that financial year (FYE 2012: 17 per cent.; FYE 2011: 18 per cent.). The Directors estimate that, in 2012, UKPIL (through Royal Mail and Parcelforce Worldwide) had a share of approximately 27 per cent. of the revenue generated by parcel exports from the UK (Source: Triangle Management Services/Royal Mail Fulfilment Market Measure, 2013).

Both the Royal Mail Core Network and the Parcelforce Worldwide Network are used for the collection, sorting and delivery of international parcels. UKPIL has international connectivity through GLS (which is used to fulfil part of UKPIL's requirements with respect to deliveries of parcels to be made to end-recipients in continental Europe), and pursuant to arrangements in place with overseas postal operators under a range of multilateral and bilateral arrangements and RMG's position as the UK's "designated operator" for the purposes of the Universal Postal Union. Further information on RMG's position as the UK's "designated operator" for the purposes of the Universal Postal Union can be found in section 4.1 of part A of Part X (*Regulation, State Aid and Procurement*).

Under the multilateral and bilateral arrangements to which the Group is party and through RMG's position as the UK's "designated operator" for the purposes of the Universal Postal Union, UKPIL charges overseas postal operators a certain rate for delivery of international mail to addresses in the UK, and UKPIL is charged a rate by those postal operators for the delivery to end-recipients of items that originate in the UK. This is known as the "terminal dues" system. On a periodic basis, UKPIL either makes payments to, or receives payments from, other postal operators depending on which of them has the net liability based on the mail items that each of them has sent to the other for final delivery. Further discussion relating to the terminal dues incurred by UKPIL can be found in sections 4.8(B) and 5.3 of Part VII (*Operating and Financial Review*).

In recent years, the growth in Royal Mail's revenue derived from international parcels has been an important driver of UKPIL's parcel business. Royal Mail's trusted brand, relationship with the Post Office and sales approach have made it an attractive proposition for consumers and SMEs. In FYE 2013, approximately 66 per cent. of Royal Mail's export parcel revenue came from consumers and small businesses.

The Group intends to deliver increased efficiency and operational flexibility in its handling and processing of international parcels for export from, or import into, the UK. It plans to simplify operations at its main international hub and increase capacity to serve the growing cross-border parcel market.

#### **(D) Royal Mail Specialist Services**

In addition to the delivery services it provides in the UK through Royal Mail parcels and Parcelforce Worldwide, UKPIL also provides specialist services in the UK through separate networks. In FYE 2013, Royal Mail Specialist Services ("**RMSS**") generated revenue of £30 million. RMSS operates eight standalone hubs and shares a further nine depots with Parcelforce Worldwide.

RMSS comprises two principal brands:

##### *Royal Mail Relay*

Through Royal Mail Relay, the Group offers high-security customised specialist delivery services to a range of commercial customers in the UK, with services tailored for specific customer segments. The service includes scheduled collections and deliveries from, and to, different sites nominated by the customer. The service includes overnight and out-of-hours deliveries. Customers using Royal Mail Relay include financial institutions, utility companies and retailers who use the service for the delivery of a range of items including internal paperwork, point-of-sale material, computer equipment, and service and repair parts.

##### *Royal Mail Courier Services*

Through Royal Mail Courier Services, the Group provides a guaranteed same-day courier service to almost all locations in the UK. It offers a "best in class" service based around quality, reliability and speed. Royal Mail Courier Services offers customers a range of service options, including the availability of online, real-time satellite tracking. To deliver this service the Group has access to a nationwide network of approximately 500 couriers.

## 4.5 Letters

UKPIL collects, sorts, transports and delivers letters in the UK through Royal Mail, and in FYE 2013 it delivered approximately 99 per cent. of all letter volumes in the UK. In FYE 2013, Royal Mail handled approximately 17.4 billion letters, and revenue from letters (as well as certain other items described in the note to the table below) accounted for 52 per cent. of the Group's revenue. UKPIL's letter revenue grew at a CAGR of approximately two per cent. in the period between FYE 2011 and FYE 2013.

In Q1 FYE 2014, UKPIL's letter business accounted for 50 per cent. of the Group's revenue.

The table below provides certain information with respect to the revenue of the letter business of UKPIL for each of the periods indicated.

	Q1 FYE 2014	Q1 FYE 2013 (unaudited)	FYE 2013	FYE 2013 (Adjusted) <sup>(1)</sup>	FYE 2012	FYE 2011
Revenue (£m) <sup>(2)</sup>	1,146	1,141	4,787	4,700	4,585	4,537

### Notes:

(1) Adjusted to remove the revenue earned during the 53rd week in FYE 2013.

(2) Includes revenue from: (i) MarketReach; (ii) data; (iii) the Address Management Unit; and (iv) ancillary products and services including collection and the provision of private post boxes.

The table below provides certain information with respect to the volumes of the letter business of UKPIL for each of the periods indicated.

	FYE 2013	FYE 2013 (Adjusted) <sup>(1)</sup>	FYE 2012	FYE 2011
Volumes (m)				
Addressed letters	14,079	13,869	15,147	16,230
Unaddressed letters	3,307	3,258	3,077	3,181
<b>Total</b>	<b>17,386</b>	<b>17,127</b>	<b>18,224</b>	<b>19,411</b>

### Note:

(1) Adjusted to remove the impact of the 53rd week in FYE 2013.

Royal Mail delivers inland letters within the UK as well as letters which originate outside the UK to final destinations in the UK. It also provides international services for the export of letters which originate in the UK for delivery to final destinations overseas.

### (A) "End to end" and network access services

Royal Mail provides both "end to end" delivery services and network access services for customers in the UK, and the customers for whom it provides these services differ.

#### "End to end"

Where a letter is sent "end to end", Royal Mail is responsible for all phases of the journey of the letter from sender to recipient, including collection, sorting, transportation and delivery, without the involvement of any other postal operator.

Across the different segments of the "end to end" letter market in which Royal Mail operates, it collects, sorts and delivers letters for a wide range of different customers. These include business and commercial customers of various sizes, financial institutions (including banks and insurance companies), utility companies, government agencies and departments, local authorities and charities, as well as individual customers sending small volumes of letters on a social basis.

Royal Mail is benefiting from the new commercial freedoms it has been given by Ofcom under the new regulatory framework that came into force in March 2012 in relation to the "end to end" delivery of business mail.

#### Network access

As the UK's designated universal postal service provider RMG is mandated to provide customers and other postal operators with access to a specified portion of the Royal Mail Core Network for pre-sorted second class letters and large letters. This service allows the customer or other postal operator to use the Royal Mail infrastructure and network to carry letters and large letters for the final part of their journey to the end-recipient, for a set price per item. In FYE 2013, access mail accounted for approximately half of the



addressed letter volume delivered by Royal Mail in the UK, and approximately 32 per cent. of Royal Mail's total addressed letter revenue.

The volume of letters and large letters delivered by Royal Mail using network access services has grown in recent years from approximately 0.1 billion items in FYE 2005 to approximately 7.3 billion items in FYE 2013.

Network access customers are able to deposit second class letters and large letters, which they have already partially sorted, at one of Royal Mail's inward mail centres. Access mail is then released for processing into Royal Mail's network. Access mail is processed alongside other letters (including those which Royal Mail has collected from pillar boxes and other access points) and transported to local delivery offices for final delivery to the end-recipient using Royal Mail's team of postmen and women on Monday to Saturday every week (excluding UK public holidays).

The demand for network access is predominantly for letters falling within the business mail and marketing mail segments of the overall UK letter market. Royal Mail has contracts for the provision of network access with two types of access customer: (i) a number of other postal operators (including TNT, UK Mail and Secured Mail); and (ii) commercial customers from a range of sectors (including banks and charities) known as direct access customers. In FYE 2013, approximately 57 per cent. of the volume of access mail handled by Royal Mail came from other postal operators and approximately 43 per cent. came from direct access customers.

In April 2013, following consultation with access customers, Royal Mail introduced new contracts for the provision of network access by Royal Mail on more commercial terms. Under the new contracts Royal Mail has greater freedom, particularly in relation to pricing. Key changes were introduced in a number of areas, including in relation to Royal Mail's right to increase prices and its right to vary contract terms. The new contracts have also provided Royal Mail with flexibility to make changes in the future to the basis on which it provides network access services, including the possibility of providing access customers with price stability in return for volume commitments.

## **(B) Addressed and unaddressed letters**

Royal Mail delivers both addressed and unaddressed letters in the UK. In FYE 2013, approximately 81 per cent. of the letters handled by Royal Mail were addressed and the remaining 19 per cent. were unaddressed. In FYE 2013, Royal Mail generated revenue of £4,615 million from addressed letters and £134 million from unaddressed letters.

### *Addressed letters*

In FYE 2013, Royal Mail handled approximately 14.1 billion addressed letters in the UK. Royal Mail provides addressed letter delivery services in four main product segments in the UK:

- **Business mail:** this segment comprises the delivery of letters for a range of business clients within the B2B and B2C categories, including banks, insurance companies, government departments and utility companies. Examples of items delivered include bank statements, utility bills, orders for goods and services, customer services communications and other transactional items. Within this segment Royal Mail also provides response services (also known as "freepost"), which enable recipients to respond free of charge to businesses, charities and other organisations with items such as completed forms and applications (the relevant business, charity or other organisation is then charged for the item). In FYE 2013, business mail accounted for approximately 50 per cent. of the total revenue generated by Royal Mail from addressed letters.
- **Marketing mail:** this segment includes addressed marketing and advertising mail (also known as direct mail) items sent to customers or potential customers of the sender promoting particular products or services, or by charities to promote the support of a cause. In this segment Royal Mail delivers items for a range of business customers, including those in the financial services, retail and home-shopping sectors, and charities. The nature of addressed marketing mail means that it can form part of targeted advertising or promotional campaigns directed at particular customer segments or audiences. Royal Mail delivers a range of different types of marketing mail including offer letters, catalogues, brochures and promotional items. In FYE 2013, addressed marketing mail accounted for 22 per cent. of the total revenue generated by Royal Mail from addressed letters. Please see "MarketReach" below for information on Royal Mail's associated MarketReach initiative.
- **Publishing mail:** this segment comprises mail order catalogues, consumer and business magazines, periodicals and journals sent by publishers and businesses, as well as brand magazines (including in

the retail and automotive sectors) used as a customer retention tool, as well as magazines and newsletters sent by organisations (such as clubs and voluntary organisations) to members. In FYE 2013, publishing mail accounted for six per cent. of the total revenue generated by Royal Mail from addressed letters.

- **Social mail:** this segment includes letters and other mail items sent by individual customers and small or micro-businesses. Examples of items delivered include social correspondence, correspondence from consumers to businesses, greetings cards, Christmas cards and postcards. In FYE 2013, social mail accounted for eight per cent. of the total revenue generated by Royal Mail from addressed letters.

In addition to items falling within these four segments, Royal Mail delivers other addressed letters, including international letters and election materials.

Royal Mail offers a range of delivery speed options across its letter product portfolio. Larger customers of Royal Mail's letter products are able to achieve cost savings by pre-sorting their items and achieving an enhanced specification which optimises operational efficiency.

Royal Mail also provides additional services, including service options such as a "signed for" letter service which includes proof of delivery in the form of a signature from the end-recipient together with compensation in the event the item is lost or damaged.

Except for social mail, which is sent only on an "end to end" basis pursuant to products provided by Royal Mail under the USO, items in the three other segments described above are delivered by Royal Mail on either an "end to end" basis or through the provision by Royal Mail of network access services.

In FYE 2013, approximately 32 per cent. of the revenue generated by Royal Mail from total addressed letters came from letters delivered using network access services, approximately 28 per cent. were generated from letters delivered on an "end to end" basis for business and commercial customers, approximately 10 per cent. were generated from international letters, and the remaining 30 per cent. were generated from letters delivered on an "end to end" basis pursuant to products provided by Royal Mail under the USO.

#### *Unaddressed letters*

In FYE 2013, Royal Mail handled approximately 3.3 billion unaddressed letters and between FYE 2011 and FYE 2013 the volume of unaddressed letters handled by Royal Mail in the UK grew at a CAGR of one per cent. The unaddressed letters delivered by Royal Mail in the UK comprise unaddressed marketing mail which is delivered to all addresses within a particular geographical area on a "door drop" basis alongside the delivery of addressed letters and parcels.

#### **(C) Letters – customer-focused service improvements**

In letters as well as parcels, Royal Mail continuously seeks ways in which it can provide further value to its customers. During FYE 2014, Royal Mail plans to roll out bar-coding of letters which will enable the tracking of letter consignments through the Royal Mail Core Network. Royal Mail aims to convert all business customers to the use of barcodes on their letters within three years. This move will deliver a number of benefits for customers including timely, web-based consignment reporting on performance and predicted delivery times, transparent supply chain performance and improved customer service, more accurate and transparent billing, and proof of delivery. This initiative forms a crucial part of Royal Mail's plans to demonstrate the ongoing value of letters to its business customers. The introduction of bar-coding of letters will also deliver benefits for Royal Mail including increased visibility of its letters supply chain and improved possibilities for revenue protection. In July 2013, Royal Mail announced its plan to invest £70 million in this initiative.

Following the introduction of new contracts for network access services in April 2013, Royal Mail has more flexibility to be able to respond to changes in market developments. Possible initiatives which Royal Mail may consider in this area in the future include providing access customers with price stability in return for volume commitments, contents-based pricing and differentiated pricing for different service plans.

In addition to the roll out of bar-coding and changes in relation to network access services, Royal Mail is taking other steps to improve the value it provides to its letter customers, including through its MarketReach initiative discussed further in section 4.8(A) below.

#### **(D) Royal Mail's letter obligations under the USO**

As the UK's designated universal service provider, RMG is required to provide the universal postal service to specified standards. The services which RMG is required to provide include a range of services for the

collection and delivery of letters. These services are summarised in section 8.1(B) of this Part and in section 2.2 of Part X (*Regulation, State Aid and Procurement*).

#### **(E) International letters**

Royal Mail provides services for the delivery of letters which originate outside the UK to final destinations in the UK and for the export of letters which originate within the UK for delivery to final destinations overseas. The services provided in this area include those provided as part of Royal Mail's obligation to provide an international "end to end" letters delivery service as part of the USO, but also other international services outside the scope of the USO. International delivery services are provided to a range of customers including individual consumers sending and receiving international social mail and small, medium and large businesses.

Letters are sent, and received from, overseas pursuant to arrangements the Group has in place with overseas postal operators under a range of multilateral and bilateral arrangements (including pursuant to the UK's membership of the Universal Postal Union). The Group holds bilateral agreements for the reciprocal delivery of letters and/or parcels with postal administrations in a number of countries, with arrangements in respect of other countries managed under the Universal Postal Union Framework. Further information regarding the basis on which Royal Mail pays, and receives payment from, overseas postal operators for the delivery of international letters under these multilateral and bilateral arrangements (known as "terminal dues") can be found in section 4.4(C) of this Part. Further information on the Group's membership of the Universal Postal Union can be found in section 4.1 of Part A of Part X (*Regulation, State Aid and Procurement*).

In FYE 2013, Royal Mail handled 0.3 billion letters which originated in the UK but which were for delivery to end-recipients overseas and 0.4 billion letters which originated overseas for delivery to end-recipients in the UK (including through sales agents). In FYE 2013, international letters accounted for approximately 10 per cent. of Royal Mail's total addressed letter revenue and represented approximately five per cent. of the addressed letter volumes handled by Royal Mail.

#### **4.6 UKPIL sales channels**

Business and consumer customers are able to purchase UKPIL's products and services in many different ways. UKPIL uses a number of common sales channels for the sale of its parcel and letter products across the Royal Mail and Parcelforce Worldwide brands. The various channels used by UKPIL vary depending on the type of customer.

##### **(A) Consumer and SME channels**

###### *Post Office branches*

With some exceptions, the full range of Royal Mail and Parcelforce Worldwide consumer letter and parcel products, as well as postage stamps, can be purchased from Post Office branches across the UK, under the terms of the Mails Distribution Agreement. The Group's exclusive relationship with the Post Office for the retail distribution of its products provides SMEs and individual consumers with a convenient physical access point for UKPIL's products. Further details on the relationship between the Group and POL are set out in section 9 of this Part.

###### *Stamp resellers*

Postage stamps issued by Royal Mail are available for purchase from a wide range of retail outlets, including supermarkets, newsagents and other points of sale. Letters to which stamps have been affixed can be deposited into the Royal Mail Core Network at any Post Office branch or at a Royal Mail pillar box.

###### *Online*

Consumers are able to purchase stamps and labels for letters to be sent through Royal Mail and parcels to be sent through either Royal Mail or Parcelforce Worldwide. Parcels to be sent with Royal Mail can then be deposited by the sender at a local Post Office branch. Parcels to be sent with Parcelforce Worldwide can be deposited at a Parcelforce Worldwide depot or a Post Office branch, or customers can arrange for parcels to be collected by Parcelforce Worldwide. The ability for parcel senders to purchase services online is a convenient self-service option. Royal Mail's main website "royalmail.com" attracts, on average, more than 350,000 unique visitors each day.

## **(B) Business channels**

UKPIL places high importance on the provision of sales and account management services it offers to its business and other commercial customers. It recognises that customers in different market sectors and industries have different requirements for the parcels and items they send and it seeks to ensure that its product offering, and the terms on which its products are made available, are appropriately focused.

Royal Mail and Parcelforce Worldwide work closely with commercial customers to help meet their business needs. UKPIL provides dedicated account directors for its largest corporate customers and each account director manages a small portfolio of customers within the same industry sector. Account directors are supported by teams providing specialist input in relation to the applicable industry sector in which the customer operates, contract management, solution design and customer service.

UKPIL has developed close working relationships with its largest customers. For example, UKPIL has introduced ways of working with large business customers to forecast peaks in delivery volumes so that additional temporary operational capacity is provided to ensure that the Group continues to deliver a high quality of service.

Business and other commercial customers are able to purchase UKPIL's parcel and letter products in a number of ways.

### *Contracts*

Customers can purchase UKPIL's parcel products by entering into contracts with Royal Mail or Parcelforce Worldwide for the delivery of items. Pricing is dependent on the level of service to be provided and the volumes to be delivered under the contract. UKPIL currently has in place contractual arrangements with customers from a range of business sectors including online retailers, high-street retailers (including mobile phone retailers), components manufacturers and retailers, examination boards, UK government departments and utility companies. Volume discounts are also provided to customers together with the option to have parcels collected from premises nominated by the customer.

Royal Mail enters into contracts with a range of customers providing for the collection, sorting and delivery of letters and other mail items. Royal Mail offers a variety of contracts for the provision of letters and other mail services and customers are able to choose a number of different service options, including in relation to the number of items to be delivered and the preparation and presentation of the letters and other mail items. Customers are also able to choose under the terms of these contracts how they would like letters and other mail items to enter the Royal Mail Core Network, including via collection from the customer's premises by Royal Mail or by the customer depositing them at a Post Office branch or local Royal Mail mail centre or delivery office. As described in sections 4.4(A) and 4.5(A) of this Part, Royal Mail also enters into contracts with customers and other postal operators for the provision of network access services for letters, large letters and parcels.

### *Franking meters*

Small business and commercial customers are able to pay for parcel and letter services using franking meters. Customers frank individual parcels themselves and then arrange for collection from their premises by Royal Mail or deposit items themselves into other access points (including pillar boxes and Post Office branches), as appropriate.

## **4.7 UKPIL's customer strategy**

UKPIL prides itself on the level of customer service it provides for customers sending and receiving parcels and letters. Customers are at the heart of UKPIL's business and structure and UKPIL is focused on driving growth through improving the experience of its customers. For the first time within UKPIL the role of Chief Customer Officer was created in 2012, with responsibility for overseeing and coordinating customer-facing activities within UKPIL. UKPIL monitors a number of key customer metrics and performance indicators which inform its activities, strategy and future plans. In recent years, UKPIL has embedded a focus on customer needs across its business and UKPIL is now considerably more responsive to customers' requirements and expectations.

## **(A) Customer strategy**

UKPIL's overall customer strategy comprises three key priorities:

- **Becoming a more customer-focused business via UKPIL's frontline staff:** UKPIL's frontline staff are fundamental to its operations and the successful delivery of its strategic priorities. Above all, they serve as ambassadors in the Group's dealings and engagement with customers. UKPIL deploys clear and consistent communications to its staff to ensure that they remain engaged and focused on the needs and priorities of customers. Front-line training and performance management will remain an important priority for UKPIL as it continues to build the capability and experience of its staff across the delivery offices that form part of the Royal Mail Core Network. UKPIL is aiming to provide capability training to all frontline staff by FYE 2017. RMG has aligned staff remuneration and customer satisfaction through the introduction of a strong customer element in staff reward packages.
- **Ensuring UKPIL's products are continually relevant and valuable for customers:** a priority for UKPIL is to continue to use, and update, customer insight and other market data to identify and anticipate the future needs and expectations of customers and thereby ensure that its product range matches customers' requirements. UKPIL will continue to develop deeper and more commercial relationships with business customers and, in this area, UKPIL intends to make use of the greater commercial freedoms afforded to it under the new regulatory regime in the UK. Where appropriate and permitted by the regime, UKPIL will make further use of its ability to offer bespoke and tailored services and contractual terms to individual customers, and to offer specific pricing arrangements. Building on achievements to date, UKPIL will look for further opportunities to simplify and refine its product portfolio in order to meet evolving customer needs but also to make UKPIL easier to deal with as a business partner and service provider. At the same time, UKPIL will continually explore, and take, opportunities to enhance, extend and improve its product range and, in particular, intends to explore opportunities to develop its product range available to UK customers for the sending of parcels and letters internationally.
- **Making more customers more satisfied:** an area of focus for UKPIL is to reduce, and where possible eliminate, the sources of customer dissatisfaction with the service provided by UKPIL. UKPIL recognises that reliability, accuracy and speed of delivery are central to the Group's position as a leading provider of parcel and letter delivery services. UKPIL adopts practical measures to achieve its aims in this area, including through root cause analysis to identify the causes of customer complaints and making it easier for customers to find information online. These measures are intended to make customers' interaction with UKPIL easier and more convenient.

## **(B) Parcels**

A number of customer surveys conducted by the Group and third parties have demonstrated the high level of customer satisfaction provided by UKPIL's parcel delivery businesses. In a survey conducted in April 2013 (Source: Hall & Partners), 76 per cent. of consumers stated that they would be more likely to re-use a particular online retailer again if they use Royal Mail while 58 per cent. stated that they would be more likely to use a particular online retailer again if they use Parcelforce Worldwide. These figures compared with only 41 per cent. for the nearest parcel competitor. Similarly, a poll conducted in March 2013 found that 73 per cent. of eBay sellers using Royal Mail or Parcelforce Worldwide for the delivery of their items were either very or extremely satisfied, compared with 58 per cent. for the next best competitor (Source: POL survey, March 2013).

Among business customers, both Royal Mail and Parcelforce Worldwide enjoy high levels of customer satisfaction. Royal Mail achieved a rating of 75 (full year result) from business parcel customers and Parcelforce Worldwide achieved a rating of 76 (for the period from June 2012 to March 2013) (Source: Ipsos Mori Business Customer Satisfaction Index, 2012/13)<sup>2</sup>. In addition, despite significant price increases, the proportion of businesses who felt that Royal Mail's prices were competitive increased during FYE 2013 (Source: Ipsos Mori Business Customer Satisfaction Index, 2012/13).

The Group demonstrates high levels of customer service in its UK parcel businesses but no more so than during the busy pre-Christmas period. In the four weeks to 23 December 2012, the Royal Mail Core Network handled 125 million parcels and Parcelforce Worldwide handled eight million parcels. A poll carried out by a

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<sup>2</sup> Customers rate their satisfaction on a seven point scale and each point on the scale is transformed into a value out of 100.



leading consumer website in January 2013 voted Royal Mail the best UK parcel carrier during the 2012 festive period, while Parcelforce Worldwide was in third position, out of the 10 parcel carriers featured in the survey.

#### **(C) Quality of service targets**

In FYE 2013 in the UK, 92.5 per cent. of first class letters and 98.7 per cent. of second class letters were delivered on time by Royal Mail, against regulatory targets of 93.0 and 98.5 per cent., respectively. In the same year Royal Mail exceeded its regulatory target for the delivery of standard parcels, with 96.3 per cent. of items delivered on time versus a target of 90.0 per cent. Royal Mail delivered the target of 91.5 per cent. next day delivery in 73 out of 118 Postcode Areas against a target of 118. 98.2 per cent. of Special Delivery items were delivered on time against a target of 99 per cent. Royal Mail's quality of service specifications are among the highest of any postal operator in any major European country. In the UK, the high level of customer service the Group provides stems from the scope and extent of the Group's networks and its experience of working with customers to offer, and deliver, the products and services they require.

#### **(D) Customer complaints**

The number of complaints received by the Group in the UK in Q1 FYE 2014 (104,000) was, on a like-for-like basis, lower than in Q1 FYE 2013 (115,500)<sup>3</sup>. However, during FYE 2013, the number of complaints received by the Group in the UK increased to approximately 486,400 from approximately 457,600 in FYE 2012, on a like-for-like basis. Over 60 per cent. of all complaints received by Royal Mail in FYE 2013 related to four issues: the delivery of "Something for you cards" when a customer is not at home to receive an item; redelivery of items; mis-delivery of items; and problems experienced in relation to the redirection of items. The Group has made good progress in the areas of redelivery, mis-delivery and redirection, where complaints have reduced since 2009 and the Group continues to work on the implementation of initiatives to reduce further the number of customer complaints received. For example, the implementation of Royal Mail's "Delivery to Neighbour" initiative in September 2012, whereby postmen and women can leave items with a neighbour if the recipient is not at home to receive them, was specifically aimed at reducing the number of complaints received in relation to "Something for you cards". The Group's internal research showed that in the areas where "Delivery to Neighbour" was trialled, 92 per cent. of customers whose items were left with a neighbour were satisfied with their overall customer experience. In addition, the Group offers a free redelivery service, which enables customers to choose to have items redelivered to their address on a day of their choosing, or select an alternative delivery address in the same postcode area.

#### **(E) Simplification of UKPIL's parcel and letter product range**

UKPIL continues to simplify and improve products and services across its parcel and letter businesses, building on significant achievements in this area in recent years.

Royal Mail's parcel product range for business customers has been reduced from over 40 products to three categories of product aligned to customer needs and priorities. It has also simplified its weight-banding, reducing the number of weight bands up to one kilogram from five to one. Royal Mail's business letter product range has also been substantially simplified in recent years to three broad categories (business mail, advertising mail and publishing mail).

Changes in this area have made Royal Mail easier to deal with as a business partner and service provider. They have also made business products more accessible to a wider range of customers and encouraged "up trading" by customers between different products.

### **4.8 Other letter-related activities within UKPIL**

#### **(A) MarketReach**

MarketReach was launched by Royal Mail in July 2012 and is an initiative to provide companies and their advertising agencies with a range of marketing mail services. MarketReach aims to provide, working with external partners where necessary, value-adding services from development and design through to production, printing, and response evaluation. The provision of these additional services complement the extensive UK delivery network which Royal Mail uses for the distribution of customers' marketing mail. Through MarketReach, Royal Mail works with customers to increase the effectiveness of their marketing.

Direct marketing mail is the fourth largest advertising channel in the UK and the Group estimates that in the 12 months between May 2012 and April 2013, direct marketing mail represented approximately 11 per cent.

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3 Includes "Door to Door" unit complaints.

of the total amount of approximately £12.5 billion spent on advertising in the UK. By providing end-to-end services to support advertisers and their advertising agencies, MarketReach aims to increase Royal Mail's share of UK marketing mail. MarketReach is at an early stage of its development but it offers the potential to increase the level of the Group's revenue derived from marketing mail and to play a part in the Group's ongoing management of the structural decline in the overall UK letter market. Royal Mail is taking a number of steps to capture the opportunity to expand its direct mail delivery business, including by developing a segmented market approach to its dealings with customers and potential customers, exploring opportunities to sell marketing mail via advertising agencies, and targeting opportunities to increase sales of direct mail delivery services to SMEs.

#### **(B) Address Management Unit**

The Address Management Unit within UKPIL is responsible for the maintenance and commercial use of PAF. PAF is the UK's most complete and up-to-date address database. As at the end of FYE 2013, PAF contained more than 29 million UK addresses and on average receives over one million updates per annum. It also includes details of approximately 1.8 million UK postcodes and approximately 1.4 million business names. PAF was originally developed by Royal Mail to underpin the systems that support the sorting and delivery of letters and parcels. While PAF continues to play an integral part in ensuring that Royal Mail is able to perform the Universal Service Obligation, it has become a referencing and validation tool for thousands of organisations and businesses across the UK. PAF is licensed by Royal Mail to a range of private and public sector organisations who use it for a number of different purposes including providing online services for customers to look up and enter their addresses (for example, when ordering goods online) and developing location-based technologies (for example, in the development of satellite navigation products and digital maps).

The Address Management Unit and PAF are subject to regulation by Ofcom under the Postal Services Act 2000 (as amended by the PSA). For further information on this see Part X (*Regulation, State Aid and Procurement*). In addition, the Address Management Unit works with the PAF Advisory Board. The PAF Advisory Board was created in 2007 to give independent advice to the Address Management Unit on behalf of PAF users and its members include representatives from independent postal operators, licensed resellers of PAF, web-based companies, and public sector users.

On 14 June 2013, the Group announced new measures designed in collaboration with HM Government for enhanced access to PAF for micro-businesses and small charities. The key measures are free access to PAF for independent small charitable organisations, free access to PAF for one year to independent micro-businesses and an increase in free online address "look-ups" on the Royal Mail website from 15 to 50 per day for both personal and business use. Further details on the regulation of PAF can be found in section 2.14 of Part X (*Regulation, State Aid and Procurement*).

#### **(C) Stamps and collectibles**

The stamps and collectibles function within UKPIL is responsible for the design and production of the UK's stamps and a number of other philatelic products. UKPIL produces stamps that are available all year round as well as special issues which commemorate and celebrate significant events in the UK, or areas of interest, and are available for only a limited period. In FYE 2013, for example, special issues of stamps were produced commemorating the Queen's Diamond Jubilee and the London 2012 Olympics and Paralympics. In addition to stamps, UKPIL produces a number of collectible and gift items, which can be purchased from Royal Mail websites.

#### **(D) HM Forces Mail**

Working in partnership with the UK's Ministry of Defence, the Group operates services for the delivery of letters and parcels to members of the UK armed forces serving overseas. These include the provision of special rates for the delivery of items and, in the run-up to Christmas, the delivery of items sent by relatives and friends of servicemen and women free of charge. The costs that the Group incurs in operating this Christmas service are reimbursed by the UK Ministry of Defence.

### **4.9 Other services provided by Royal Mail under the USO**

In addition to the parcel and letter services provided by Royal Mail as part of the USO, as the UK's designated universal postal service provider, RMG is required to provide a number of other ancillary services in the UK. These services include:

- the provision of certain postal services free of charge throughout the UK, including:
  - a domestic UK service for the conveyance of legislative petitions and addresses to the UK Parliament, the Scottish Parliament and the Welsh Assembly; and
  - a domestic UK service for the delivery of certain specified items to, or from, blind or partially sighted persons or from organisations representing or providing a service specifically designed for blind or partially sighted persons;
- the provision of certain addressee services in the UK, including redirection services under which letters and parcels addressed to a named individual are delivered to an alternative postal address nominated by the addressee; and
- the provision of pillar boxes and other access points for the purpose of providing the universal postal service which meets the reasonable needs of users having regard to the costs of providing and servicing those access points. These access points currently include a network of approximately 115,000 pillar boxes and wall-mounted boxes at which customers can deposit letters and more than 11,500 Post Office branches at which letters and parcels can be deposited for onward conveyance through the Royal Mail Core Network.

## 5. GLS

### 5.1 Overview

GLS is the Group's European parcel business and is focused on the deferred parcel segment. The GLS Network is one of the largest ground-based deferred parcel delivery networks in Europe. It covers 37 European countries and nation states with services provided through a combination of wholly-owned members of the GLS Group, network and service partners of the GLS Group, franchisees and agents. GLS operates predominantly through a ground-based system with a small amount of air transport and the Directors believe it has benefited in recent years from customers trading down to less expensive ground-based delivery options. GLS brings a number of strategic benefits to the wider Group, including an important level of geographical earnings diversification, its ability to generate cash which can be used to fund investment in other parts of the Group's business, a means to capture growth in European cross-border parcel traffic and opportunities for sharing operational excellence within the Group.

In FYE 2013, GLS handled approximately 380 million parcels, generating revenue of £1,498 million, which accounted for 16 per cent. of the Group's revenue. In Q1 FYE 2014, GLS generated revenue of £402 million, which accounted for 17 per cent. of the Group's revenue.

GLS is principally active in the deferred parcel delivery segment (with deferred parcel revenue representing 93 per cent. of GLS Group's revenue in FYE 2013), although it also provides express parcel delivery services and logistics (freight/warehousing) services, which represented two per cent. and five per cent. of GLS Group's revenue in FYE 2013, respectively. On average, GLS handles approximately 1.5 million parcels each day, nearly all of which are scanned electronically.

GLS is managed from its head office in the Netherlands through the holding company of the GLS Group, GLS B.V..

The table below sets out certain information with respect to the revenue and operating profit of GLS for each of Q1 FYE 2014, Q1 FYE 2013, FYE 2013, FYE 2012 and FYE 2011.

	Q1 FYE 2014	Q1 FYE 2013 (unaudited)	FYE 2013	FYE 2012	FYE 2011
Revenue (£m)	402	364	1,498	1,562	1,485
Operating profit (£m)	31	26	101	128	118
Margin (%)	7.7	7.1	6.7	8.2	7.9

The table below sets out information with respect to the volumes of GLS for each of FYE 2013, FYE 2012 and FYE 2011.

	FYE 2013	FYE 2012	FYE 2011
Volumes (m)			
Parcels	380	375	363

## 5.2 Business model

GLS operates in 22 European countries and nation states through wholly-owned members of the GLS Group and franchisees, and covers an additional 15 European countries and nation states through the GLS Group's network partners, which include Parcelforce Worldwide in the UK, and service partners. In addition, GLS enjoys international connectivity across the globe through well-established cooperation agreements with global distribution partners.

GLS operates a number of business models across its network with different structures chosen depending on factors including the maturity of the market in the relevant territory and customer requirements. GLS operates a "profit centre philosophy" model across its operations: prices are set locally across the network with depots generally operating their own profit and loss accounts. In all of the markets in which it operates, GLS deploys a sub-contractor driver model which is at the core of its overall business model and strategy. Almost all of GLS's transportation activities, including collection, delivery and line-haul transportation, are outsourced to sub-contractors which gives GLS greater flexibility to adapt to market changes. Parcels handling at GLS's hubs and other locations is performed by employees of the GLS Group and its network partners, temporary workers and/or sub-contractors.

### **Network partners and service partners**

The GLS Group has contractual arrangements with nine network partners who provide parcel services within their own designated territory. Network partners are required to maintain a network within their territory that connects with the wider GLS Network. They feed into the wider GLS Network parcels collected in their territory which are destined for recipients in other countries and, similarly, deliver parcels in their own territory which have originated in other countries. All services are required to be performed in accordance with specified standards and time schedules. The GLS Group's network partner in the UK is Parcelforce Worldwide.

Network partners pay delivery charges as well as separate overhead re-charges in respect of certain central costs relating to the maintenance of the GLS Network. In return, network partners are compensated for the services they provide to members of the GLS Group or other network partners.

The GLS Group currently has an arrangement in place with two service partners. Service partners provide parcel services for GLS within designated territories, but the arrangements operate on a non-exclusive basis.

### **Franchise systems**

In Italy, in addition to its own operations, local members of the GLS Group have entered into franchise arrangements with respect to certain designated territories pursuant to which franchisees deliver to end-recipients in Italy parcels sent by customers of the GLS Group and feed into the wider GLS Network for delivery to end-recipients parcels that originate with the franchisee's own customers in Italy. In recent years, GLS has acquired the businesses of a number of its Italian franchisees. The business of GLS in Italy comprises 132 depots, of which 96 are franchised.

The table below sets out the countries and nation states in which GLS operates through wholly-owned members of the GLS Group and franchisees, and the countries and nation states covered by GLS through network and service partners of the GLS Group.

<b>Countries and nation states in which GLS operates through wholly-owned members of the GLS Group and franchisees</b>	Austria, Belgium, Croatia, Czech Republic, Denmark, Finland, France, Monaco, Germany, Hungary, Luxembourg, Italy, the Netherlands, Poland, Portugal, Republic of Ireland, Romania, San Marino, Slovakia, Slovenia, Spain and Vatican City
<b>Countries and nation states covered by GLS through network and service partners</b>	Andorra, Bulgaria, Cyprus, Estonia, Greece, Latvia, Liechtenstein, Lithuania, Malta, Norway, Serbia, Sweden, Switzerland, Turkey and United Kingdom

## 5.3 Markets

In FYE 2013, GLS derived 71 per cent. of its revenue from Germany, Italy and France.

In FYE 2013, GLS's third party revenue was approximately €810 million in Germany, approximately €210 million in France and approximately €290 million in Italy. Across the other developed European markets covered by the GLS Network (including Ireland, Austria, the Netherlands, Belgium, Denmark, Portugal and Spain), it generated third party revenue of approximately €390 million, with approximately €140 million of

third party revenue in developing and emerging European markets (including Hungary, Slovenia, Poland, Slovakia, the Czech Republic and Romania).

#### **5.4 Services and customers**

GLS provides services in three broad segments: deferred parcel delivery; express parcel delivery; and logistics services. In most of the markets in which GLS operates, its strategic focus has been, and continues to be, on business and commercial customers. GLS's core focus remains on customers delivering items within the B2B segment (which, the Group estimates, in FYE 2013 accounted for approximately 73 per cent. of the total number of parcels GLS handled) although its share of the B2C segment (which, the Group estimates, in FYE 2013 accounted for approximately 27 per cent. of the total number of parcels GLS handled) is increasing as a result of the structural growth seen in e-retailing in the countries in which it operates.

GLS has a diverse customer base covering a range of sectors. No single customer accounts for more than one per cent. of GLS's total revenue. Its customers are drawn from a wide range of business and industry sectors, including consumer goods, telecoms, electronics, engineering, outdoor clothing and textiles and office supplies. GLS does not have any significant dependency on any specific industry sectors among its customer base.

##### **(A) Deferred parcel delivery**

Approximately 93 per cent. of GLS's revenue in FYE 2013 was derived from its core deferred parcel delivery services. The GLS Network collects and delivers parcels generally weighing up to 40 kilograms domestically and up to 50 kilograms internationally. Deliveries are generally made within one to two days for domestic deliveries and between one and five days for cross-border deliveries. GLS provides parcel delivery services for a range of business customers. In addition to core deferred parcel delivery services, GLS provides a number of complementary services, including services for the return of items which have already been delivered.

Parcels sent on a cross-border basis (from a sender in one country to an end-recipient in another country) represent an important part of GLS's core deferred parcel deliveries services and in FYE 2013 accounted for approximately 18 per cent. of GLS's revenue.

##### **(B) Express parcel services**

In a number of countries in which GLS operates, GLS offers express and courier parcel delivery services (including Italy and, through the "Der Kurier" brand, Germany). These services are predominantly provided in the B2B segment and include time-definite and same-day deliveries. In FYE 2013, express parcel services generated approximately two per cent. of GLS's revenue.

##### **(C) Logistics solutions**

GLS provides a range of logistics solutions for commercial customers, principally freight and warehouse management services. In FYE 2013, these logistics solutions accounted for approximately five per cent. of GLS's revenue.

#### **5.5 The GLS Network**

The GLS Network covers 37 countries and nation states in Europe and comprises 37 European hubs and approximately 700 other locations, and supports GLS's domestic and cross-border parcel delivery services. The central hubs and locations in the GLS Network are connected by a road-based line-haul network serviced by approximately 16,000 delivery vehicles and approximately 2,000 heavy goods vehicles used for the long distance transportation of items between hubs and other locations. The GLS Network operates using a common cross-border IT platform with common bar-coding for cross-border parcels used across all of the markets in which it operates.

The GLS Network comprises a number of different operational structures for the collection, sorting and delivery of parcels in the markets in which it operates. The structure used in a particular country depends on a number of factors including the geography, urban/rural split, and the number of parcels delivered in the relevant country. This section sets out a broad summary of the key features of the GLS Network and the key phases in the provision of services using that network.



### **Collection**

Generally, parcels are collected from the sender's address, although in a number of countries items are also received by GLS at parcel shops at which individual consumers and smaller business customers can deposit items. Once they have been collected, parcels are transported to a local depot.

### **Sorting**

All items are then sorted at the relevant depot (the "**Outbound Depot**"). Items are retained by the Outbound Depot if they are to be delivered within the area covered by that depot and all other items are then despatched to a larger regional depot or one of the network's 37 hubs by road. From that depot or hub, the item will be sent to either a hub or another depot within the domestic network for further sorting, or be sent to a local depot for final delivery. In a number of the territories in which GLS operates a parcel might be processed by a number of hubs and depots before it is transported to a local depot for final delivery.

Items for international delivery will generally be transported from the Outbound Depot to a regional depot or a hub within the particular country. From there, international items are loaded on to international line-haul trucks which travel either directly to the final destination country or indirectly via an international hub in another country. Once they reach the final destination country, parcels are generally forwarded to a domestic central hub from which they are sorted and forwarded to a local depot together with domestic items.

### **Delivery**

Once parcels reach the final local depot they are sorted into delivery routes and allocated to delivery drivers for delivery to the end-customer or, in countries where the service is offered, to a parcel shop (from where the end-customer will collect it).

## **5.6 GLS's strategy: business improvement and expansion**

### **(A) Business improvement initiatives**

GLS plans to continue to invest in its systems, products and processes to capture a larger share of B2C opportunities in the countries in which it currently operates. Key initiatives include the expansion of GLS's B2C services offering and functionality (including the introduction of a flexible delivery service), and strengthening its network of parcel shops. It also intends to implement specific action plans to protect and improve its margins in key markets in which it operates. In addition, GLS has identified a number of key near-term initiatives in its three main countries:

- **Germany:** following a reduction in profitability in FYE 2013, due in part to an increase in sub-contractor costs stemming from a low unemployment rate in Germany, and although costs have now stabilised, GLS has a number of centrally driven initiatives in place to secure efficiencies in sub-contractor and transport costs, including plans for the restructuring of its sub-contractor network and its pick-up and delivery routes;
- **France:** the GLS business in France has been loss-making for a number of years. GLS has initiated a turnaround plan, aimed at increasing sales and optimising processes and systems over the medium term, with a strong focus on improving quality of service for customers; and
- **Italy:** GLS's business in Italy has enjoyed strong financial performance in recent years despite the difficult economic environment in Italy. GLS intends to continue to focus on the strength of the existing network in Italy and continue to concentrate on developing sales among small and medium-sized business customers.

### **(B) Expansion**

Inorganic expansion by GLS in the future will focus on increasing the scale of its operations within Europe. A key focus for GLS will be the continuation of its selective acquisition of franchisees in Italy. In addition, it intends to expand the size of its presence in Spain, where it currently has limited geographical coverage, predominantly through a targeted organic growth strategy although it will also consider potential acquisition opportunities as they arise. GLS also intends to explore targeted opportunities for further expansion into high margin and emerging European markets, with a focus on new member countries of the EU. Any acquisition opportunity will be considered on a case-by-case basis involving the evaluation of potential targets against certain strict criteria, and GLS will balance cash generation opportunities with the strategic value of the investment. Acquisitions by the GLS Group are subject to approval by the Group. The Group would intend to fund any acquisitions by the GLS Group using existing cash resources or committed facilities of the Group.

## 6. NON-CORE DIRECT INVESTMENTS

### (A) Romec

Romec is a joint venture between RMG and Balfour Beatty Workplace Limited ("**BBW**"). RMG holds 51 per cent. of Romec's shares and BBW holds 49 per cent. Romec largely provides facilities management services to the Group, although it also currently provides services to POL and other third parties. RMG has a call option to acquire BBW's shares in Romec in certain circumstances, including in the event of "privatisation" of RMG or if there is a change of control of BBW which involves a competitor of RMG acquiring BBW. BBW has a put option to require RMG to acquire BBW's shares, exercisable in limited circumstances. The price payable for the shares subject to the options is determined by reference to the value of the services agreement in place between RMG and Romec. In August 2013, Balfour Beatty plc, the parent company of BBW, announced the sale of its facilities management business to GDF Suez. Completion of the sale is subject to certain conditions, but is expected to occur in the fourth quarter of 2013.

### (B) Quadrant Catering Limited

Quadrant is a joint venture between RMG and Compass Food Services Limited ("**Compass**"). Quadrant undertakes catering and associated cleaning activities for members of the Group. The Group holds 51 per cent. of the shares in Quadrant and Compass holds 49 per cent. of the shares. However, Compass has board control of Quadrant. For accounting and financial reporting purposes, Quadrant is treated as an associate (and not a subsidiary) of the Group.

### (C) NDC 2000 Limited

NDC 2000 Limited ("**NDC**") is a joint venture company owned 51 per cent. by RMG and 49 per cent. by NDC Partnership Limited ("**NDCP**"). NDC supplies the Group with mechanical and electrical design, consultancy and associated project management solutions pursuant to a services agreement (the "**Services Agreement**"). NDC also provides services to clients other than members of the Group. The shares in NDC held by RMG and NDCP are subject to certain put and call options. These include an option for RMG to require NDCP to purchase its shares in NDC for a specified period following the termination, in certain circumstances, of the Services Agreement by RMG.

## 7. HISTORY

### 7.1 Royal Mail

Royal Mail is able to trace its origins back more than 500 years to the creation of the position of Master of the Posts under King Henry VIII in 1512. The Group's history is strongly associated with the development of postal services in the UK, including through the introduction of the world's first adhesive postage stamp, the Penny Black, in 1840 and the introduction of the UK's iconic red pillar boxes in the nineteenth century. For many years the business of the Group formed part of the General Post Office ("**GPO**") in the UK which, in turn, became the Post Office in 1969. The telecommunications business of the GPO was transferred away from the Post Office in 1981 before the privatisation of British Telecom in 1984.

In recent years, the environment within which the Group operates in the UK has been shaped by considerable legislative reform in the area of postal services. In 2011 the PSA became law, following the update of the Hooper Review in 2010. The PSA provided for the introduction of private capital into the Group and its transfer out of public ownership. It also made provision to address the historic pension deficit of the Royal Mail Pension Plan. On 1 April 2012, following the transfer of the pre-1 April 2012 pension liabilities (based on service and pay up to that date) and certain pension assets of the RMPP to HM Government, the share capital of POL (which operates the UK's Post Office branch network) was transferred from RMG to the Selling Shareholder, separating the Post Office from Royal Mail.

Under section 12 of the PSA, each year RMG is required to send a report to the Secretary of State on its activities in relation to the Royal Mail Archive and British Postal Museum Collections which, together, represent over 400 years of the postal and social history of the UK and the world. The Group proudly supports the ongoing care and custodianship of these collections and is committed to safeguarding the UK's postal heritage.

### 7.2 GLS

The origins of GLS can be traced back to 1989 when 24 independent German freight companies established German Parcel as a franchise network. In 1992, German Parcel became part of General Parcel, a European cooperation and franchise system. In 1999, RMG acquired German Parcel, which later became GLS. GLS

completed a number of acquisitions from 1999 to 2001, mainly of former General Parcel partners, which were combined to form the GLS Group.

Since 2001, GLS has continued to build its network through further acquisitions and start-ups. Such acquisitions have included a number of franchise operations in Italy and acquisitions in Belgium and Portugal, while the start-ups include the establishment of operations in parts of Eastern Europe.

## **8. OVERVIEW OF REGULATORY FRAMEWORK**

Certain of the Group's activities are regulated at the UK, EU and international levels. Further details of these regulatory frameworks are provided in Part X (*Regulation, State Aid and Procurement*).

### **8.1 UK regulatory framework applicable to the Group**

#### **(A) *Royal Mail's regulatory framework is underpinned by legislation which limits the scope of regulation***

At the UK level, the PSA is the basis for sector-specific postal regulation. It implements the third EU Postal Directive (although in certain respects, the PSA goes further than the third EU Postal Directive in relation to the universal service), and changed the regulator for postal services in the UK from Postcomm to Ofcom from October 2011.

Under the PSA, Ofcom has powers to impose regulatory conditions (either just on the universal service provider and/or on all or some postal operators) from a defined list of types of regulatory conditions in certain circumstances.

The universal service is defined within the PSA with reference to attributes, rather than specific products, and changes to this core definition can only be implemented with the consent of Parliament and the Secretary of State.

Ofcom has designated RMG as the universal service provider, and introduced a new regulatory regime from 27 March 2012. Under the new regime, some of the Group's activities are subject to a number of regulatory conditions, including, for example:

- the designated universal service provider condition, which requires RMG to provide the universal service to specified standards; and
- the universal service provider access condition, which requires RMG to offer other postal operators and users of postal services access to its delivery network at the inward mail centre for later than next-day services for letter and large letter services.

The Group is also subject to the general provisions of UK and EU competition law, which Ofcom has concurrent powers to enforce.

#### **(B) *The USO minimum requirements are set out by law***

The PSA sets out the services that must, as a minimum, be included in a universal postal service. A "Postal packet" is defined within the PSA as a "letter, parcel, packet or other article transmissible by post". The minimum requirements are, in summary:

- **Requirement 1:** at least one delivery of letters every Monday to Saturday, and at least one delivery of "other postal packets" every Monday to Friday, to the home or premises of every individual or other person in the United Kingdom, or to such identifiable points for the delivery of postal packets as Ofcom may approve. (This includes the delivery of letters or other postal packets posted outside the United Kingdom.)
- **Requirement 2:** at least one collection of letters every Monday to Saturday, and at least one collection of other postal packets every Monday to Friday, from every access point in the United Kingdom used for the purpose of receiving postal packets, or any class of them, for onward transmission (including to outside the United Kingdom) in connection with the provision of a universal postal service.
- **Requirement 3:** a service of conveying postal packets from one place to another (including to places outside the United Kingdom) by post (including the incidental services of receiving, collecting, sorting and delivering them) at affordable prices determined in accordance with a public tariff which is uniform throughout the United Kingdom.

- **Requirement 4:** a registered items service at affordable prices determined in accordance with a public tariff which is uniform throughout the United Kingdom.
- **Requirement 5:** an insured items service at affordable prices determined in accordance with a public tariff which is uniform throughout the United Kingdom.
- **Requirement 6:** the provision free of charge of postal services (as specified in the universal postal service order) to specified descriptions of blind or partially sighted persons.
- **Requirement 7:** a service of conveying free of charge qualifying legislative petitions and addresses.

Parliament's consent would be needed to change these basic requirements.

The designated universal service provider condition requires Royal Mail to provide the following specific services in addition:

- first (priority) and second (standard) class "end to end" domestic services;
- "end to end" international postal services to and from the EU/non-EU destinations;
- return to sender services; and
- addressee services at affordable prices (redirection, poste restante and retention services).

The designated universal service provider condition also contains specific guidelines on density of pillar boxes and other access points, and quality of service targets for Royal Mail.

Ofcom is able to reopen the regulatory regime and could potentially alter these requirements, although it has indicated that it would only do so in exceptional circumstances.

**(C) *The framework is focused on securing the sustainability of the universal service, Ofcom's primary duty***

Ofcom's primary duty under the PSA is to carry out its functions in relation to postal services in a way that it considers will secure the provision of a universal postal service. In discharging its duties in relation to the provision of the universal service, the PSA also requires Ofcom to have regard to the need for the provision of a universal postal service to be financially sustainable, including the need for a reasonable commercial rate of return for any universal service provider, and to become efficient within a reasonable time, and then remain so.

Ofcom's principal duty under the Communications Act 2003 is to further the interests of citizens and consumers, where appropriate by promoting competition.

In the case of a conflict between these duties, Ofcom's primary duty in relation to postal services is to carry out its functions in relation to postal services in a way that it considers will secure the provision of a universal postal service.

**(D) *Ofcom's framework provides regulatory stability, as Royal Mail's USP designation is not time-limited and the current framework is in place until 2019***

The new regulatory framework was provisionally set by Ofcom for seven years, until 2019 (although Ofcom has the ability to reopen the regulatory regime in certain circumstances).

Subject to the special administration regime set out in the PSA (as described in section 2.12 of Part X (*Regulation, State Aid and Procurement*)), RMG's designation as the provider of the universal postal service in the UK is not time-limited.

**(E) *Ofcom's framework provides significantly greater regulatory and commercial freedom***

The new regulatory regime is "lighter touch" compared with the former regime. It gives the Group a greater degree of commercial freedom than it enjoyed under the previous regulatory regime, when restrictions meant that the Group needed to obtain Postcomm's approval for many pricing and other commercial proposals.

For instance, many of the price controls previously imposed on the Group under the Postcomm licensing regime have now been removed, and there have been changes to the regulatory provisions relating to access, pricing flexibility and margin squeeze, product changes and the regulatory rate of return framework.

For example, in relation to access, under the previous regulatory framework, Royal Mail was mandated to provide access to any of its postal facilities used to provide the USO. Under the current regulatory framework, Royal Mail is mandated to provide network access at inward mail centres for D+2 and later letters and large letters only.

In relation to product changes, under the previous regulatory framework Royal Mail typically had to give three months' notice to Postcomm for changes to the price and non-price terms and conditions of both universal service and non-universal service products, with the universal service product set determined by Postcomm. Under the current regulatory regime, Royal Mail needs to give one month's notice to Ofcom and Consumer Futures in relation to any price and non-price changes to universal service products only (the terms and conditions of which must be "fair and reasonable"), and must also publish such changes one month in advance. Royal Mail is required to give 10 weeks' notice of standard price and non-price changes for access products (unless otherwise agreed by the parties) and an appropriate notice for non-price changes for access products. There is no requirement for Royal Mail to publish or notify changes to the price or non-price terms and conditions of retail non-universal service products.

The Group's regulatory obligations now principally relate to reporting and monitoring, the universal service, and access at inward mail centres for D+2 and later letters and large letters. There is also a "safeguard" price cap on second class letters, large letters and parcels up to 2kg.

Many of the Group's activities, such as Parcelforce Worldwide and GLS, fall entirely or largely outside the scope of this sector-specific regulation.

**(F) Ofcom has clarified the framework further in respect of "end to end" competition and whether the universal service meets the needs of users**

*Ofcom's statement on "end to end" competition*

On 27 March 2013, Ofcom published a statement and guidance on its approach to assessing the impact of "end to end" (or, as it is sometimes known, direct delivery) competition in the UK on the provision of the universal service. Ofcom restated its primary duty, and recognised it has a number of tools to potentially regulate "end to end" competition. Ofcom acknowledged that "end to end" competition has the potential to affect the provision of the universal service, both positively and negatively. Ofcom took the view that the current evidence does not suggest there is an immediate need to conduct a review of the impact of direct delivery competition, given Ofcom's understanding of the scale of competitors' plans, and Ofcom indicated that it does need to review operators' business plans in order to assess whether intervention may be required. However, Ofcom committed to commence a full review of the impact of direct delivery towards the end of 2015.

Ofcom indicated that it will also continue to monitor developments, including any notifications made under the notification condition (discussed above) and has also said it will consider initiating a review before the end of 2015 if circumstances change materially in the meantime. For example, while Ofcom does not consider that transient low profitability would be likely to threaten the universal service, it has indicated that it would expect to intervene if the returns of the Reported Business are anticipated to fall below five to 10 per cent. EBIT margin on a sustained basis, provided that any threat to the financial sustainability of the universal service is not due to the Group's failure to take reasonable steps to improve efficiency.

*Ofcom's statement on user needs*

On 27 March 2013 Ofcom published a statement concluding its review in relation to user needs pursuant to its obligation to do so within 18 months of taking over responsibility for postal regulation. In summary, this statement concludes that:

- the postal sector is currently meeting the reasonable needs of users;
- the postal sector is highly valued by residential users and businesses across the UK; and
- Ofcom will not change the scope of the universal service.

The statement also recognised that postal users' needs, preferences and expectations are evolving and that, as a result, the extent to which the postal sector meets current reasonable needs varies in some areas. In particular, postal users would value greater flexibility in respect of delivery options for parcels. Responding to these changing needs might involve extended delivery office opening hours or evening deliveries, but Ofcom recognised that such change is better brought about through innovation than by regulatory intervention.



Ofcom indicated that, generally, it will keep this issue under review, and will conduct *ad hoc* formal User Needs reviews in response to changes in the postal sector.

**(G) *Regulatory framework allows RMG to earn a reasonable commercial rate of return on costs incurred in providing the universal postal service***

The PSA requires Ofcom to have regard to the need for the provision of the universal postal service to be financially sustainable, which includes the need for a reasonable commercial rate of return for Royal Mail (as the UK's designated universal postal service provider) on any expenditure incurred by it for the purpose of, or in connection with, the provision of the universal postal service and to become efficient within a reasonable time, and then remain so.

Ofcom has stated that an indicative benchmark EBIT margin range of five to 10 per cent. on the activities undertaken for the purpose of, or in connection with, the provision of the universal postal service would be appropriate and consistent with the need for Royal Mail to earn a reasonable commercial rate of return commensurate with the level of risk within the business. In broad terms, this means the profit in relation to such activities should account for between five and 10 per cent. of the revenue generated by such activities. It has also said that such a range represents neither a cap nor a floor on earnings, which would need to be considered over the duration of the regulatory framework (seven years).

## **8.2 EU and EEA regulatory framework applicable to the Group**

The EU postal directives aim to create a single market in postal services in the EU and to ensure a high-quality universal postal service, including by opening up the sector to competition. Among other things, the most recent EU postal directive, the third, imposes obligations on EU member states, including the UK, to ensure the provision of a minimum standard of universal postal services.

The European Commission published a Green Paper consultation on 29 November 2012 which considered the creation of an integrated EU parcel market, placing special emphasis on cross-border issues and e-commerce needs. European Commission officials have indicated that the European Commission has no plans to follow up the Green Paper with formal legislation. Working with European and international postal trade associations, the Group is discussing the issues raised in the Green Paper consultation with the European Commission.

## **8.3 International regulatory framework applicable to the Group**

The Group is bound by the terms of the Universal Postal Union. RMG is a "designated operator" and representative of HM Government under the Universal Postal Union. The Universal Postal Union is a United Nations body which is a forum for cooperation between its member countries concerning postal services. Members of the Universal Postal Union are bound by the Universal Postal Convention, which aims to ensure a universal network of postal services around the world. As the UK's "designated operator" under the Universal Postal Union, RMG is party to a number of multilateral and bilateral agreements with national postal operators in most other European countries relating to the reciprocal payment of terminal dues for handling and delivering one another's cross-border mail. In addition to these agreements, RMG relies on the Universal Postal Union's terminal dues system with respect to other international postal operators. Under the terminal dues system, postal operators pay each other for handling and delivering cross-border mail that originates in another national postal operator's country.

## **9. THE GROUP'S RELATIONSHIP WITH THE POST OFFICE**

### **9.1 Post Office Limited**

Post Office Limited operates the UK's network of more than 11,500 Post Office branches. It is one of the UK's largest retail networks. Post Office branches can be found across the UK and approximately 99 per cent. of the UK population live within three miles of a branch. In recent years, POL has started to implement its own "Network Transformation Programme", which envisages the modernisation of much of the Post Office network and the rollout of new operating models across Post Office branches. These new models offer customers extended opening hours with some branches opening seven days a week.

Royal Mail postage stamps, and Royal Mail and Parcelforce Worldwide retail products can be purchased by customers through the Post Office branch network under the terms of the Mails Distribution Agreement described further below in this Part and in section 16.2(A) of Part XI (*Additional Information*). POL sells Royal Mail postage stamps and the Group's products as agent of RMG and, accordingly, customers contract with

RMG for the provision of the retail product which they have purchased through the agency of POL. However, upon RMG and POL ceasing to be members of the same VAT group, POL will, except in certain circumstances, sell Royal Mail postage stamps as principal. Customers purchasing the Group's retail products at Post Office branches fall mainly within the consumer and SME segments.

In addition to the sale of Royal Mail and Parcelforce Worldwide products, POL provides a range of other products and services, including government services, financial services and telephony products.

Following Admission, POL will, subject to the PSA, remain under the ownership of HM Government.

Further information on the Group's relationship with POL can be found below in this Part and in section 3 of Part V (*Relationship with HM Government*).

## **9.2 Historical relationship and separation in 2012**

Prior to separation in April 2012, POL was a subsidiary of RMG.

The PSA provided for the introduction of private capital into Royal Mail and its transfer out of public ownership. By contrast, the PSA provided that POL would remain in public ownership, with the possibility that a mutual structure may be introduced in the future. In addition, the PSA made provision to address the historic pension deficit of the Royal Mail Pension Plan by transferring the pre-1 April 2012 pension liabilities (based on service and pay up to that date) to HM Government. On 1 April 2012, following the transfer of such liabilities to HM Government, the ownership of POL was transferred from RMG to the Selling Shareholder.

Prior to separation in April 2012, all staff of the post office business who were employed by RMG were seconded to POL under an undocumented secondment arrangement. Therefore, as part of the separation process, such secondment arrangement was terminated pursuant to a deed dated 23 March 2012 and the employment of Post Office staff transferred to POL under the Transfer of Undertakings (Protection of Employment) Regulations 2006 on 1 April 2012. Part of the separation project also involved POL being admitted to participate in the Group's various UK pension arrangements.

As part of the separation process, RMG and RME transferred or granted leasehold interests to POL in respect of certain properties which POL required to operate its business. This was effected pursuant to: (i) a transfer scheme made on 28 March 2012, which transferred certain properties owned by RMG or RME but which were wholly occupied by POL with effect from 1 April 2012; and (ii) a second transfer scheme made on 27 March 2013, which provided for, among other things, the transfer, or the grant of leases in respect of, certain properties which were partly occupied by RME or RMG and partly occupied by POL with effect from 31 March 2013. Both transfer schemes were made by the Selling Shareholder, and approved by the Secretary of State, pursuant to the PSA.

## **9.3 Current relationship**

To prepare for separation, two key agreements governing the Group's ongoing relationship with POL were signed in January 2012.

### *Mails Distribution Agreement*

Under the Mails Distribution Agreement, POL sells Royal Mail postage stamps and the Group's retail products (under the "Royal Mail" and "Parcelforce Worldwide" brands) to customers on behalf of RMG across the UK's Post Office branch network. POL sells Royal Mail postage stamps and the Group's retail products as agent of RMG and customers contract with RMG through the agency of POL. Upon RMG and POL ceasing to be members of the same VAT group, POL will, except in certain circumstances, sell Royal Mail postage stamps as principal. POL currently receives separate remuneration from RMG for each product sold plus an additional fee payable periodically. In FYE 2013, approximately £1.7 billion of the Group's revenue was generated through the sale of the Group's products and postage stamps by POL on the Group's behalf.

Post Office branches also act as a drop off point for Royal Mail and Parcelforce Worldwide prepaid items and can be designated as a customer collection point for items sent using Royal Mail products. Royal Mail is the only postal operator which uses POL either as a retailer of its products or as an acceptance or collection point for postal items. The Mails Distribution Agreement came into operation on 26 March 2012 and the agreement will continue in force until at least the tenth anniversary of the date it was signed (19 January 2012), subject to scheduled renegotiation events or termination in certain limited circumstances before the end of such period. No changes are proposed to be made to the Mails Distribution Agreement in connection with Admission.

Post Office branches are a key sales channel for the Group's products and postage stamps in the UK and serve as the Group's principal retail distribution network in the UK. The Group's relationship with the Post Office is of material significance to the business and revenue of the Group.

#### *Master Services Agreement*

The Master Services Agreement is an agreement under which the Group provides certain services, including IT and finance services, to POL on a transitional basis. The separation process is ongoing as the parties work together to facilitate the migration of POL away from transitional services provided by the Group. Further information regarding the provision of IT services by the Group to POL under the Master Services Agreement is set out below.

Further details on the Mails Distribution Agreement and the Master Services Agreement can be found in section 16.2 of Part XI (*Additional Information*). In FYE 2013, the Group made payments of approximately £371 million to POL, including the annual fee and other remuneration payable under the Mails Distribution Agreement as well as payments in respect of other operational items.

#### *"Click and collect"*

In May 2013, Royal Mail announced that, working with POL, it will be launching the UK's largest "click and collect" network. The new service will allow online shoppers, who use participating retailers' websites, to opt to collect the products they have purchased online from one of approximately 10,500 nominated Post Office branches (to which items are then delivered using the Royal Mail Core Network).

### **9.4 Provision of IT services to POL and POL IT separation**

The IT services provided by the Group (including through its external IT suppliers) to POL under the Master Services Agreement are complex and cover a range of areas. They include network and telecommunications services, e-business services, infrastructure services and IT systems supporting a number of POL's back office and central functions. POL is heavily reliant on the IT services provided by the Group under the Master Services Agreement.

The Group and POL are currently undertaking a joint programme to deliver the required standalone IT capability for POL in order to facilitate the cessation of the provision of IT services by the Group to POL. The completion of the separation of POL's IT from that of the Group is a key strategic programme for the Group, given the dependency that POL has on the IT services currently provided by the Group and the ongoing implementation of the ITST Programme, which is further described in section 12.3 below. The separation programme is complex and involves multiple workstreams, as a result of the large volume and complexity of the IT services currently provided by the Group to POL under the Master Services Agreement.

The programme was originally intended to be completed by September 2014, when the provision of IT services to POL under the Master Services Agreement is due to terminate. However, in order for separation to be completed, the Group and POL will need to complete a number of critical projects, including the creation of new POL network solutions; the creation of a POL supply chain solution; the implementation of a new POL web presence; the building of a POL contact centre telephony capability with POL specific systems; and the implementation of standalone POL finance systems and reporting capability. POL is dependent on the Group (and its external suppliers) to deliver some of these critical projects.

While the initial assumption was that the programme would be complete by September 2014, detailed assessment currently indicates that it will take longer to complete. Therefore, as it is expected that some projects will extend beyond September 2014, it is likely that POL will require some ongoing IT services from the Group (and its external suppliers) after September 2014. POL may request an extension to the provision of certain IT services under the Master Services Agreement in order to continue to receive those services. Further details regarding the Master Services Agreement can be found in section 16.2 of Part XI (*Additional Information*). As a result, if the Group and POL are not able to complete the separation programme in time and there is a delay to completion of the programme beyond September 2014, the Group may need to include the services provided to POL in the ITST Programme. These services would then be transitioned to the Group's new suppliers as part of the ITST Programme and the separation of POL's IT from the Group would be completed after completion of this transition to new suppliers.

The Group and POL are continuing to refine plans for the separation. The Group faces a number of risks associated with the ongoing provision of services to POL under the Master Services Agreement and the programme for the separation of POL's IT, which are described further in section 1.18 of the Risk Factors.

## **10. EMPLOYEES AND INDUSTRIAL RELATIONS**

### **10.1 Employees, contractors and temporary staff**

The Group's staff are critical to its business and are the most visible part of the business to customers. At the end of Q1 FYE 2014, approximately 167,000 people were employed across the Group, and in FYE 2013 the Group incurred total people costs of £5,147 million. The Group is committed to the principle of equal opportunity in employment.

#### *UK employees*

The profile of the Group's employees in the UK delivers a number of advantages for the Group. Approximately 65 per cent. of UKPIL's current employees have worked for the Group for 10 years or more and approximately 25 per cent. of employees in UKPIL work part-time. The introduction of increased numbers of part-time workers within the Royal Mail Core Network has added greater cost flexibility to its operations. Over the past several years, UKPIL has been able to manage its cost base principally as a result of natural attrition and voluntary redundancies which have contributed to a reduction in UKPIL's total headcount from approximately 167,000 at the end of FYE 2009 to approximately 150,000 at the end of Q1 FYE 2014. As at the end of FYE 2013, more than 94 per cent. of UKPIL's employees were employed on a permanent (as opposed to a fixed-term) basis. Around a further 4,000 employees are employed in the UK by the Group's partially-owned subsidiaries, Romec and NDC, and approximately 800 are employed by Quadrant.

The Group aims to achieve high levels of employee satisfaction and engagement by ensuring that all people involved in its UK businesses understand, and are engaged in delivering, the Group's strategic aims. At the heart of this aim has been an improvement in the Group's communications with its employees in UKPIL through tools such as Royal Mail TV, which was launched in March 2012. A majority of UKPIL's employees are proud to work for the Group (62 per cent.) with the number of employees agreeing that the pace of change within the organisation is "just right", increasing from 32 per cent. in FYE 2012 to 35 per cent. in FYE 2013 (Source: Ipsos Mori survey).

In recent years, the Group has made changes to ensure that it is better incentivising employees of RMG at all levels. The remuneration of frontline employees of RMG includes transformation incentive payments. Similarly, RMG managers participate in an annual performance-driven bonus scheme. Bonus payments for RMG's senior management are linked to performance against KPIs closely linked to the Group's strategic objectives set out in its "Corporate Balanced Scorecard". In addition, the opportunity for Eligible Employees to participate in the Employee Free Shares Offer and own Ordinary Shares after Admission will mark a further cultural change in the Group and, through their position as Shareholders, provide share-owning employees with a role in the future ownership and direction of the Group.

The Group operates extensive internal development programmes aimed at developing and enhancing the skills of its staff within UKPIL.

#### *Contractors and temporary staff in the UK*

UKPIL's employees work alongside agency personnel and contractors engaged by UKPIL. A number of these contractors are involved in the delivery and collection of parcels using their own road vehicles.

During the Christmas period each year UKPIL recruits significant numbers of temporary staff to handle increased volumes of letters and parcels. During Christmas 2012, approximately 20,000 temporary staff were recruited by UKPIL. Temporary staff and agency personnel are an important part of the UKPIL team during the run-up to Christmas and UKPIL provides them with appropriate training to ensure that they work efficiently, productively and safely alongside UKPIL's permanent employees.

#### *GLS Group employees*

At the end of Q1 FYE 2014, the GLS Group had approximately 14,000 employees. These employees work in a range of different frontline, operational and support roles. The GLS Group incentivises its most senior managers through a long-term incentive plan. The current plan runs until 2014 and is based on the results and performance of the GLS Group. In addition, the GLS Group operates annual bonus schemes for managers and other employees, based on the results and performance of the depot or part of GLS in which they work. This approach exemplifies the "profit centre" philosophy of GLS. As referred to in section 5.2 of this Part, almost all of GLS's transportation activities are outsourced to contractors.

## 10.2 UKPIL industrial relations

RMG recognises the CWU in respect of operational and administrative grade employees (the vast majority of the Group's UK workforce) and the CMA in respect of most managers across the UK business. The Group estimates that approximately 80 per cent. of RMG's UK operational and administrative grade employees are members of the CWU and approximately 40 per cent. of RMG's managers in the UK are members of the CMA.

In recent years, RMG has sought a collaborative approach to its relationships with the Trade Unions. This is believed to be a key factor that has contributed to the absence of any national strike affecting RMG in the UK since 2009. This collaborative approach includes engagement between representatives of the CWU and RMG at all levels, including regular communication between the Group Chief Executive Officer and the CWU's Deputy General Secretary. However, both the CWU and the CMA are opposed to, and the CWU in particular has publicly campaigned against, the privatisation of Royal Mail.

RMG is required to reach agreement with its Trade Unions prior to implementing changes to pay and terms and conditions for those employees subject to collective bargaining. Separate pay negotiations are conducted for different groups of employees and the pay review dates for existing pay deals vary depending on the terms of the agreement reached with the Trade Unions in relation to the relevant group of employees. Changes to some non-contractual matters, including certain working arrangements and various processes for the introduction of new ways of working are also subject to prior consultation and, in some circumstances, negotiation with the Trade Unions in accordance with the applicable industrial relations framework which records the terms on which RMG recognises the Trade Unions and sets out the process of collective bargaining.

There are over 80 national collective agreements in place in the UK between RMG and the Trade Unions on a wide range of matters from staff uniforms to implementing transformational change.

Over the last six financial years, working days lost due to official industrial action (industrial action balloted by the CWU) have declined overall while days lost due to unofficial industrial action (industrial action not balloted or endorsed by CWU) have remained variable:

	<b>Balloted strikes (working days lost)</b>	<b>Unballoted strikes (working days lost)</b>
FYE 2008	608,601	18,929
FYE 2009	111	1,119
FYE 2010	264,841	3,881
FYE 2011	0	149
FYE 2012	0	592
FYE 2013	497	869
1 April to 31 July 2013	282	827

(Source: Royal Mail)

There have been no recorded instances of industrial action by CMA members since 1979.

The last national strike in the UK affecting the Group occurred in 2009 after a number of issues arose with CWU during 2008 and 2009 over progress on business transformation. The CWU balloted its members to strike in protest at activities by Royal Mail designed solely or primarily for the purpose of improving Royal Mail's operational efficiency or underlying financial position. Industrial action during 2009 culminated in two rolling national strikes by CWU members on 22-23 and 29-31 October 2009 resulting in the loss of 141,916 equivalent full working days (in addition to the significant number of working days lost due to local and regional industrial action in the run-up to the national strikes). Although national quality of service performance was materially impacted by industrial action, on most days of posting the majority of first class mail arrived only one day late. The operations of Parcelforce Worldwide were not affected by the industrial action in 2009.

Industrial action during the financial year ending 2010 was resolved by RMG's entry into a collective agreement with CWU containing a new pay deal and commitments to transformation. Elements of the pay deal became due for renegotiation in April 2013. RMG has been discussing a new agreement with CWU since 2011 and continues to engage in discussions with CWU to reach an agreement on relevant matters.

Although the Directors believe that the CWU, once convinced that privatisation is inevitable, would like to resolve pay matters and agree upon protections for employees working in Royal Mail and Parcelforce Worldwide to apply in the period after privatisation of Royal Mail, it should be assumed that the CWU will not settle an agreement prior to Admission, as it could be seen as compromising its official campaign to oppose



the Transaction. The Directors believe that any agreement will be concluded only after the Transaction is completed and then only after a period of some disruption designed to reinforce the CWU's opposition to the privatisation of Royal Mail. It should therefore be assumed that national industrial action and other forms of industrial action across the whole of UKPIL's activities will take place during the period immediately following, and may occur during, the Offer Period (see further below).

During May and June 2013, the CWU balloted its members on a consultative basis and campaigned strongly for them to vote "yes" if they supported the following: (i) opposition to privatisation; (ii) a boycott of their working duties to handle competitors' letters and parcels under contracts for the provision of network access services; (iii) the CWU's demand for a pay increase above RPI; and (iv) a policy of non-cooperation on aspects of the Transformation Programme. The results of the consultative ballot showed overwhelming support for the CWU on these issues. As set out above, one of the questions posed in the consultative ballot was whether employees would support a boycott of competitors' mail. Royal Mail subsequently sought and received undertakings from the CWU on 28 June 2013 that it would not call for a boycott of competitors' mail on the basis of a consultative ballot alone.

On 17 June 2013, RMG proposed a new pay deal to the CWU under which CWU represented grades of employees working in the Royal Mail Core Operations, Logistics, Engineers, Fleet Maintenance Services, Royal Mail International and Royal Mail Specialist Services would receive a pay increase of 8.6 per cent. on basic pay over a three-year period backdated to 1 April 2013 and a non-consolidated lump sum of £300 gross each (subject to certain conditions). This pay offer does not extend to CWU graded staff in Parcelforce Worldwide and RMG support functions. This proposal was made as part of a package to deliver an agenda for growth and industrial stability (including a new model for the CWU and RMG to work together), and protections in respect of both the current employment model and the operation of the business (including in relation to the future outsourcing of services and company structure), together with confirmation that contracts of employment and terms and conditions for existing employees and those hired into the relevant part of the business would remain on the same basis for the three-year period of the agreement. RMG also said that it would make its proposal part of a legally binding agreement with the CWU.

Although the CWU has stated that the pay element will be seen as "significant", it rejected it in the context of the overall package offered. The CWU is continuing to negotiate with RMG and is asking for a wider range of "protections" in a legally binding collective agreement. The CWU has subsequently published its own proposed package for legally binding protections. RMG does not accept the CWU's position and is continuing to negotiate with the CWU to achieve the right balance of stability for the business and protections for the relevant employees.

Both the CWU and the CMA are opposed to the privatisation of Royal Mail and the CWU, in particular, has publicly campaigned against privatisation.

The CWU held a consultative ballot of members working in Parcelforce Worldwide asking whether they: (i) opposed the privatisation of Royal Mail; (ii) supported the CWU's rejection of RMG's Pensions Reform; and (iii) supported the CWU's pay claim for employees working in Parcelforce Worldwide. The ballot closed on 7 August 2013 and the results showed overwhelming support for the CWU on these issues.

The CMA held a consultative ballot of members working in RMG asking whether they: (i) opposed the Government's stated intention of privatising Royal Mail through a sale of shares; and/or (ii) supported the rejection of RMG's Pensions Reform as it currently stands and as it has been communicated in the employer's consultation booklet. The ballot closed on 16 August 2013 and the results showed significant support for the CMA on these issues.

On 2 September 2013, CWU announced that if current talks with RMG do not lead to an agreement, a ballot for national industrial action would be held. On 20 September 2013, the CWU notified RMG that it intended to ballot relevant RMG employees who are members of the CWU, including those working in Royal Mail and Parcelforce Worldwide, for industrial action and that the ballot would open on 27 September 2013 and close on 16 October 2013. The sample ballot paper provided by the CWU to RMG on 20 September 2013 indicates that industrial action will take the form of a national strike. The duration of any industrial action to be taken is unlikely to be known until 16 October 2013 at the earliest. In accordance with the notification given by the CWU, the earliest date on which this national strike could occur is 23 October 2013. The elements of the dispute identified by the CWU as giving rise to possible industrial action are: the settlement of the CWU's 2013 pay deal; RMG's Pensions Reform; and the impact of privatisation on job security and terms and conditions. It should therefore be assumed, for the purposes of making any investment decision to purchase

Ordinary Shares, that national strike action and other forms of industrial action across the whole of UKPIL's activities will take place during the period immediately following, and may take place during, the Offer Period.

In the event of national industrial action, the Group has contingency plans in place and will also consider its legal options. In particular, the Group has in place contingency plans to reduce or mitigate the impact of the threatened industrial action on the Group's customers, revenue and reputation. The Group has a well-established Business Protection Board which has responsibility for planning for, and responding to, circumstances that could affect service standards, including industrial action.

Potential investors should read the risk factor set out in sections 1.10 and 1.11 of the part of this document entitled "Risk Factors".

## **11. PENSIONS**

### **11.1 General overview of the Group's pension arrangements**

The Group operates two defined benefit pension schemes in the UK, RMPP and RMSEPP. Both schemes closed to new entrants from 31 March 2008. From that date, new employees are offered membership of a defined contribution scheme, RMDCP. RMPP is still open to future accrual on a career average basis but RMSEPP closed to future accrual on 31 December 2012.

The Group also operates a number of small defined benefit and defined contribution pension schemes in the rest of Europe.

Further details on such arrangements and certain further "top-up" arrangements can be found in section 12 of Part XI (*Additional Information*).

### **11.2 Removal of RMPP's historic pension deficit**

Part 2 of the PSA provided powers for HM Government to deal with the pension deficit of RMPP by transferring the pre-1 April 2012 pension liabilities (based on service and pay up to that date) and certain pension assets of RMPP to HM Government (the "**Pensions Transfer**"). In accordance with the Act, HM Government consulted with the RMPP trustee and RMG on the secondary legislation required to implement the Pensions Transfer.

Following receipt of State Aid approval from the European Commission on 21 March 2012, the Pensions Transfer took effect on 1 April 2012, by virtue of Articles 2 to 12 of the Postal Services Act 2011 (Transfer of Accrued Pension Rights) Order 2012 coming into force. The Pensions Transfer involved the RMSPS, a new unfunded public sector pension scheme, assuming responsibility for the historical liabilities accrued under RMPP up to the end of 31 March 2012 in return for a transfer to HM Government of most of the assets of RMPP.

RMSPS assumed all liabilities in relation to RMPP members who were deferred pensioners or pensioners on 1 April 2012. The RMSPS also took on the pre-1 April 2012 liabilities (assuming such members had opted out of pensionable service at the end of 31 March 2012 and so only based on service and pay up to that date) in relation to RMPP active members currently employed on 1 April 2012.

This means that RMPP, on and from 1 April 2012, still has past service liabilities to the extent that RMPP active members' pensionable salaries increase in future at a higher rate than inflation (calculated by reference to RPI). This is because active members' pre-2008 benefits are still calculated on a "final salary" basis – referred to as the "final salary link", as well as in relation to certain other circumstances (e.g. death) where past service benefits are enhanced for active members but not for "optant out" members.

HM Government agreed that RMPP should retain assets matching the value of the retained liabilities as at 31 March 2012, using actuarial assumptions scheduled to the Postal Services Act 2011 (Transfer of Assets) Order 2012. The result was that RMPP had, on those assumptions, no deficit or surplus as at 1 April 2012 and now has a significantly reduced residual liability base. Pension liabilities and assets were transferred to HM Government, leaving assets valued at £2.2 billion in RMPP (Royal Mail Section: approximately £2.1 billion and Post Office Section: approximately £0.1 billion) to match the remaining liabilities at that date. Essentially these remaining liabilities relate to the difference in increases to the pre-2008 final salary benefit that the RMSPS provides for while members remain in pensionable service under RMPP (at RPI), and the assumed rate of future pensionable salary growth under RMPP (RPI + one per cent. per annum).

From 1 April 2012 onwards, however, RMPP (and thereby RMG) is exposed to changes in the value of liabilities retained by it on 1 April 2012 or accrued by reason of continued pensionable service thereafter, and in the value of the assets held to fund those liabilities.

At the same time as the Pensions Transfer was implemented, POL was financially and operationally separated from the Group (see section 9.2 of this Part). Part of that separation project involved the unwinding of the current arrangements under which staff of the post office business were, as a legal matter, employed by RMG but seconded to POL. The Pensions Transfer also therefore provided for the admission of POL to participate in RMPP as soon as the Pensions Transfer had been implemented, so that POL employees' pension accrual was not prejudiced by the change in their legal employer.

In line, however, with the principle of financial separation between Royal Mail and the Post Office, POL's participation in RMPP is on a sectionalised basis, meaning that the "Post Office Section" and the "Royal Mail Section" of RMPP are, for funding and investment purposes, effectively two separate schemes such that neither RMG nor POL is directly liable in respect of any deficit arising in the other employer's section. However, members of the Group could be required to make contributions to, or otherwise financially support, the Post Office Section. This is described in more detail in section 1.17 of the section of this document entitled "Risk Factors".

### **11.3 Pension scheme funding**

#### **(A) Royal Mail Pension Plan**

RMG and the RMPP trustee have recently been in discussion about the future funding requirements of the Royal Mail Section as part of the actuarial valuation as at 31 March 2012 in accordance with Part 3 of the Pensions Act 2004 (as amended). Following a review of the actuarial assumptions used to calculate the cost of funding the Royal Mail Section, RMG's contributions had been projected to increase from their current level of approximately £400 million a year to approximately £700 million a year, principally due to the impact of the reduction in the yields on UK Government and corporate bonds. A cost increase of this order would have put considerable strain on the Royal Mail business, and would have been a significant risk to the viability of RMG.

In order to deal with this issue, RMG consulted with its employees and the Trade Unions regarding a proposal for potential pensions reform ("**Pensions Reform**"). The consultation ended on 25 August 2013 and RMG announced on 25 September 2013 that, following completion of such consultation, it intended to proceed with the implementation of the Pensions Reform with effect from 1 April 2014. This includes certain modifications to RMG's initial proposal, in response to the consultation and RMG's discussions with the Trade Unions. In particular, the scope for certain elements of pay progression and promotions to feed through to basic pensionable pay has been increased, relative to RMG's proposal.

The commercial result of the Pensions Reform is, in summary, that the assets remaining in the Royal Mail Section following the Pensions Transfer (approximately £2.1 billion) to provide for the possibility of final salary pensionable pay increasing by more than RPI are no longer required for that purpose. Those assets which are no longer needed to fund the final salary link are therefore available to fund the £300 million a year gap between RMG's current contributions and the estimated cost which would otherwise have been required to keep the Royal Mail Section open for the future accrual of benefits, without requiring RMG or individuals to make unaffordable increases in their cash contributions.

As a result of the implementation of the Pensions Reform with effect from 1 April 2014, RMG has been able to maintain its contributions at 17.1 per cent. of pensionable pay (around £400 million per annum) in respect of future service accrual under the Royal Mail Section. It also remains the case that no deficit contributions are currently due to the Royal Mail Section. RMG has, however, agreed to pay up to an additional £50 million per annum from 2016 onwards, if required to ensure that the Royal Mail Section continues to be funded on the measure of liabilities agreed with the RMPP trustee from time to time. In addition, the accounting impact of the Pensions Reform, which is recognised from the date RMG and the RMPP trustee entered into the necessary documents to implement the Pensions Reform (see section 16.7(A) of Part XI (*Additional Information*)), will be to increase the accounting pension surplus very significantly with a resulting material one-time non-cash exceptional credit to be recorded in the income statement. This one-time non-cash exceptional credit will be recorded in the first half of FYE 2014. In addition, part of this credit will give rise to an additional deferred tax charge partially offsetting the credit which also will be recognised in the income statement for the first half of FYE 2014.

As part of the process for agreeing the Pensions Reform, RMG has committed to keep the Royal Mail Section open to future accrual and that once the Pensions Reform has been implemented it will not make any further changes to the rules of the Royal Mail Section. This commitment will be binding on RMG (regardless of any future change of ownership), but will be subject to periodic review and certain conditions. The first periodic review will be completed by March 2018. However, there are certain conditions which, if not fulfilled, may trigger an earlier review. These conditions are that the standard contribution rate remains at the current level and any actuarial valuation not requiring additional contributions of more than £50 million per annum; RMG remaining a going concern; and no factors outside of RMG's control causing a material adverse impact on the Royal Mail Section or how the Royal Mail Section must be recognised within the Company's financial statements. At any review, RMG would assess (along with expert advisors and the Trade Unions) the affordability of the Group's pension schemes and the Group's financial position. The scale of any problem would be identified and potential courses of action developed and discussed with all stakeholders before any action is taken.

## **(B) Royal Mail Senior Executives Pension Plan**

RMSEPP is closed to all future accrual. In relation to its historic liabilities, however, the last triennial actuarial valuation as at 31 March 2012, showed a funding deficit of £83 million based on assets of £304.1 million and liabilities of £387.1 million<sup>4</sup>. The legislation requires RMG to agree a recovery plan with the RMSEPP trustee to remove this deficit. RMG has therefore agreed to continue to pay annual deficit contributions to RMSEPP of £11.2 million until at least the date on which the triennial valuation as at 31 March 2018 is completed. POL has agreed to continue to pay seven per cent. of such contributions (approximately £0.8 million per year), with RMG therefore needing to pay the remaining 93 per cent. (approximately £10.4 million per year).

In addition, in February 2013 RMG made a one-off deficit contribution of £20 million to RMSEPP and in March 2013 transferred a further £20 million to an escrow account held for the benefit of the RMSEPP trustees in order to provide further support for RMSEPP. In broad terms, the security in respect of the assets held in escrow will become enforceable and the RMSEPP trustees will be able to pay all such assets into RMSEPP if certain insolvency events occur in relation to RMG. POL has reimbursed RMG for seven per cent. of the £20 million deficit contribution (being £1.4 million) to RMSEPP.

In June 2013 the High Court ruled that members to which Rule 19.2 of the trust deed and rules of RMSEPP applies should have their pensions indexed in line with CPI rather than RPI. The significance of this is that CPI inflation is expected to be generally lower than RPI inflation. RMG expects there to be an estimated £30 million reduction in RMSEPP's current statutory funding deficit as a result of this ruling, although there can be no certainty in this regard. It is possible that this ruling may be challenged but this has not happened to date.

The funding deficit in RMSEPP was estimated by the scheme actuary as at 31 March 2013 to be £19.7 million (based on assets of £361.4 million and liabilities of £381.1 million and on the basis of actuarial assumptions which are consistent with those used for the valuation as at 31 March 2012). The key factors which have resulted in an improvement in RMSEPP's funding position between 31 March 2012 and 31 March 2013 are the strong asset performance over the period, deficit contributions paid into RMSEPP, the closure of RMSEPP to future accrual and the effect of High Court ruling on Rule 19.2 referred to above (although offset by a fall in gilt yields and increased inflation expectations over the period). Such improvement will, however, not impact the size of the deficit contributions currently payable under the funding plan agreed with the RMSEPP trustee.

## **12. INFORMATION TECHNOLOGY**

### **12.1 Description of key IT used by UKPIL**

The business of UKPIL is dependent on IT infrastructure, services and systems. UKPIL's IT estate comprises over 350 systems, of which over 70 are regarded by the Group as business critical. These systems support the front-line operations of UKPIL as well as UKPIL's central functions, including in the following areas:

- **postal delivery and collections:** supporting a range of activities undertaken by UKPIL, including delivery route planning, the maintenance and recording of delivery address changes, collections data, and collections performance measurement reporting;

<sup>4</sup> Note that the RMSEPP deficit figure provided here is the funding deficit determined as part of the actuarial valuation as at 31 March 2012 in accordance with Part 3 of the Pensions Act 2004 (as amended). The RMSEPP deficit figure quoted in relation to the State Aid decision on page 199 is determined as at the time of the State Aid Decision in accordance with IAS 19 (i.e. on an accounting basis) and so produces a different deficit figure.



- **operations:** enabling the use of resources by UKPIL for the sorting of letters and parcels, the tracking and tracing of parcels and letters, and the storage of data collected on handheld scanners by postmen and women for further processing;
- **e-business and commercial:** supporting the Group's online offering including systems that support access to UKPIL's various websites, UKPIL's online sales platforms and requests for mail redirection; and
- **finance and pensions:** supporting UKPIL's general accounting and financial reporting as well as systems for pensions administration.

A large proportion of UKPIL's IT systems are bespoke, and the support and maintenance of the Group's IT in the UK is largely outsourced to a small number of key suppliers with whom UKPIL has strategic relationships. These outsourcing arrangements are overseen by UKPIL's internal technology function. In FYE 2013, more than 50 per cent. of all of UKPIL's IT operational expenditure was incurred with one supplier, CSC. Further details regarding the Group's contractual arrangements with CSC can be found in section 16.3(A) of Part XI (*Additional Information*). In the UK, the Group relies on processes and controls enforced and managed by key suppliers, including CSC, to control its IT environment.

The Group is currently undertaking an IT transformation programme in the UK, of which its ITST Programme forms part. The successful completion of the ITST Programme will allow the Group to broaden its circle of key suppliers and thereby reduce its dependency on a small number of existing suppliers. Further detail on the IT transformation programme and the ITST Programme is set out below.

UKPIL experienced disruption to its online and website sales platform in November and December 2011 (including disruption to UKPIL's online postage, re-direction, online shop and online account services). However, comprehensive joint working by the Group and its supplier ensured no material disruptions to this platform in 2012. In addition, UKPIL has experienced services failures by key IT suppliers. In the recent past, however, UKPIL's significant business IT systems and infrastructure have been stable and have been able to meet periods of peak demand, including for example at the time of increased online merchandising activities associated with the London Olympics in 2012 and during the busy period in the run-up to Christmas 2012.

The Group faces a number of risks relating to its IT systems and infrastructure, which are described further in section 1.15 of the Risk Factors.

## 12.2 IT transformation programme

In 2011, an assessment of the current state of UKPIL's IT identified a need for considerable transformation of, and investment in, UKPIL's IT infrastructure and systems. Factors identified as giving rise to this need included: historical underinvestment in IT infrastructure and systems; the existence of limitations in the structure and terms of the current arrangements pursuant to which UKPIL's IT was outsourced; and the existence of limitations in IT supplier governance. Furthermore, the assessment identified a number of issues within UKPIL's IT estate including: ageing IT applications and hardware; very limited disaster recovery capability in a large number of UKPIL's IT applications; and limitations with respect to UKPIL's IT capabilities and processes. In addition, substantial investment in UKPIL's IT estate was identified by the Group as required to support the objectives of the Transformation Programme.

In 2011, UKPIL began a five-year IT transformation programme, which moved into implementation in 2012. The programme has a number of key objectives. These include the remediation of issues associated with the current delivery of IT services to UKPIL by external suppliers, the strengthening of UKPIL's "in house" IT capability, the implementation of an IT delivery model that will support the business of UKPIL in the future, the repair and de-risking of UKPIL's existing IT infrastructure and the establishment of disaster recovery capability for UKPIL's business critical systems.

The programme has to date included, and includes further, activities and initiatives in the following key areas:

- **disaster recovery and business continuity:** initiatives for the introduction of improved disaster recovery and business continuity capability in UKPIL's IT systems and infrastructure;
- **delivering UKPIL's parcel strategy and adding value to letters:** the implementation of IT systems and infrastructure initiatives to support the key strategic objectives of UKPIL for parcels and letters, including in relation to the provision of additional tracking services for parcels, the deployment of handheld scanners for use by all postmen and women in the Royal Mail Core Network, the use of bar-coding on letters, the expansion of Parcelforce Worldwide, enhanced revenue protection and planning to meet operational demand;



- **driving modernisation:** activities to enable more efficient use of UKPIL's people, safer working methods and the introduction of equipment better suited to the changing profile of the parcels and letters mix handled by UKPIL; and
- **customer interaction management:** initiatives to provide better tools and data to build stronger customer relationships, including through the introduction of new digital channels for customer "self help" services.

As part of the IT transformation, the Group plans to increase significantly the size of its internal IT organisation and function in the UK in order to improve its capability to manage external IT suppliers and the portfolio of IT projects currently under way.

Overall, implementation of the programme is ongoing and is planned for completion in FYE 2016. However, UKPIL has made significant progress in the implementation of the programme to date, with improvements delivered to its IT systems and infrastructure in a number of areas as compared with the position identified in the 2011 assessment.

### 12.3 ITST Programme

As part of its wider IT transformation programme, the Group is undertaking the ITST Programme. The aim of the ITST Programme is to update and transform a significant proportion of the IT services that support the UKPIL business. A number of the contracts under which these existing services are supplied are due to expire between 2014 and 2018. The ITST Programme aims to update and transform the way the Group currently obtains its IT in the UK and remove its current dependency on a small number of key suppliers.

The procurement documents issued to the market in connection with the ITST Programme state the overall value of the ITST Programme as being approximately £1 billion. The ITST Programme will deliver a multi-lot, multi-supplier landscape. The ITST Programme involves a procurement programme which is due to complete in 2014, with transition to new suppliers through 2014 and 2015. The ITST Programme comprises four separate lots covering: desktop services; application maintenance; application development; and hosting and infrastructure. The contracts to be entered into as part of the ITST Programme will each run for an initial term of three or four years and will contain extension rights for the Group. Negotiations are currently taking place between the Group and multiple potential suppliers across all four lots, which will continue throughout 2013.

CSC is carrying out certain IT initiatives to improve the state of UKPIL's IT in anticipation of the transition to the new suppliers under the ITST Programme. An important part of this is the planned migration of a number of priority software applications on a properly supported, robust hardware and software platform. This requires CSC to commission and configure the necessary hardware and software infrastructure in the Group's UK data centres for the migration of these priority applications (the "**Critical Hosting Platform**").

The Group faces a number of risks relating to the ITST Programme and the Critical Hosting Platform, which are described further in section 1.15 of the Risk Factors.

### 12.4 Provision of IT services to POL and POL IT separation

Further information regarding the IT services currently provided by the Group to POL under the Master Services Agreement and the joint programme being undertaken by the Group and POL to separate POL's IT from that of the Group, are described in section 9.4 above. In addition, the Group faces certain risks relating to the provision of IT services to POL under the Master Services Agreement and the separation project, which are described further in section 1.18 of the Risk Factors.

### 12.5 Description of key IT used by GLS

GLS uses a range of critical business IT systems, including in the areas of sales, operations, logistics, e-business and certain back office functions. GLS's IT systems support the common parcel labelling format in use across the GLS Network.

Unlike UKPIL, GLS's use of IT is largely supported by an internal IT services team. There is, however, a varied application landscape across the GLS Network due, in large part, to the retention of country-specific IT systems following the acquisition of entities that now form part of the GLS Group. As a result of the franchise model operated in Italy, the operations of GLS in Italy rely on an independent IT function, systems and support services which reports directly to the Italian business of GLS.

GLS has a three-year IT strategy which runs until 2016 and includes the following key initiatives: the implementation of a more secure IT environment; and the taking of actions to address the growing B2C market. GLS is currently undertaking a system replacement project which is expected, between now and 2016, to provide a modern and robust IT infrastructure for its operational business processes.

### 13. REAL ESTATE

The Group owns an extensive freehold and leasehold real estate portfolio in the UK and Europe. The ability of the Group to operate its considerable networks for the collection, transportation, sorting and delivery of letters and parcels depends to a large extent on its real estate assets.

In the UK, the Group owns or leases approximately 2,000 real estate sites, approximately half of which are freehold properties. These properties occupy more than three million square metres and are used for a number of different purposes, including mail centres and local delivery offices that form part of the Royal Mail Core Network, Parcelforce Worldwide properties that form part of the Parcelforce Worldwide Network, regional distribution centres, vehicle workshops, parking sites, administration and office buildings, and space that is currently vacant.

The Group's UK real estate strategy comprises three main elements: to manage property costs tightly; to provide fit-for-purpose processing and delivering centres which allow the Group to generate competitive advantage in the UK; and to realise surplus value in the real estate portfolio. A recent key focus of the Group in relation to real estate has been to support the expansion of Parcelforce Worldwide through the construction of the new processing centre in Chorley, North West England, and the acquisition and development of a further eight depots (and two areas of land for ancillary use by depots) throughout the UK (these new depots are, in general, replacing existing facilities which are not large enough to support the anticipated increase in the number of parcels coming through the Parcelforce Worldwide Network).

Three major sites in London which form part of the Group's UK freehold estate have been recognised as surplus by the Group subject to completion of necessary separation and reprovisioning activities (the "**London Development Portfolio**"). The three sites are:

- a 14 acre site in Nine Elms, South London which was used formerly as the location of the Group's South London Mail Centre;
- a site of over eight acres that forms part of land owned by the Group at Mount Pleasant in central London; and
- a one acre site adjacent to Paddington main line railway station in central west London.

A key objective of the Group in relation to the London Development Portfolio has been to generate value in the relevant sites by undertaking pre-development work, including obtaining planning consents and resolving issues identified with the legal title to the land, with the aim of repositioning the portfolio for alternative use (which has tended to be residential use) and thereby allow the Group to capture upside on disposal of the relevant property.

There are sites within the remainder of the Group's freehold real estate portfolio with potential for development for alternative use in a similar manner to the London Development Portfolio but for the most part these sites are not readily realisable at the moment in the absence of confirmed arrangements for the separation of the sites' current operations. In addition, the Group has identified other smaller surplus properties of lesser value, which it intends to dispose of in or after FYE 2014 without significant further pre-development activity.

### 14. INTELLECTUAL PROPERTY

#### 14.1 General overview of brand and other IP

The Group's brand is integral to its commercial operations. The Group operates three distinct brands: Royal Mail; Parcelforce Worldwide; and GLS. The Group has a substantial portfolio of registered trade marks, and in many cases the corresponding domain names, to reflect this.

The Group owns an extensive portfolio of registered UK, European and international trade marks covering the Royal Mail, Parcelforce Worldwide and GLS brands. In many cases, such as in relation to the distinctive red pillar boxes, these trade marks are established and well known in the UK through their widespread use and are key to the strength of the Group's brands. The Group also owns certain patents and designs.

The Group holds current domain name registrations in respect of the key websites for the Group's brands, including [www.royalmail.com](http://www.royalmail.com), [www.royalmailgroup.com](http://www.royalmailgroup.com), [www.parcelforce.com](http://www.parcelforce.com) and [www.gls-group.eu](http://www.gls-group.eu). The Group also holds registrations for a number of domain names which are similar to the names of the Group's key websites, or related to certain products and services provided by the Group.

#### **14.2 Royal Associations**

The Group is currently permitted to use the Royal Cypher (the *ELIR* symbol) and the Royal Crown emblem, which are associations connected with HM The Queen, pursuant to the terms of the Royal Associations Agreement, further details of which are set out in section 16.4(B) of Part XI (*Additional Information*).

#### **14.3 The Machin Image**

All UK postage stamps issued by the Group bear an image of HM The Queen, typically the distinctive profile image of the Queen's head based on a design by Arnold Machin and first used on UK postage stamps in 1967 (the "**Machin Image**"). The Group plans to continue using the Machin Image and similar images on its postage stamps.

#### **14.4 Postcode Address File**

The Group manages, maintains, verifies, updates and invests in a comprehensive database of postal addresses in the UK – the Postcode Address File. It licenses use of the file to a range of businesses and other organisations for a licence fee. Further details on PAF can be found in section 4.8(B) of this Part and section 2.14 of Part A of Part X (*Regulation, State Aid and Procurement*).

## **PART III**

### **DIVIDEND POLICY**

The Directors have adopted a dividend policy that supports the Group's aim of generating value for Shareholders while ensuring that it retains sufficient capital to invest in growing the business.

In respect of FYE 2014, in the absence of unforeseen circumstances, the Directors intend to propose a final dividend only, to be paid in July 2014, of £133 million. This amount is approximately two-thirds of the notional full-year dividend of £200 million that the Directors believe they would have proposed if the Company had been listed throughout FYE 2014.

As described in section 1.11 of the section of this document entitled "Risk Factors", investors should assume that national strike action and other forms of industrial action will take place across the whole of UKPIL's activities during the period immediately after, and may take place during, the Offer Period. That Risk Factor describes the risks that the Group would face as a result of any such national industrial action and investors should read that section.

The Directors do not currently expect any such action to reduce the amount of the final dividend for FYE 2014, provided that the financial impact of any such action does not compromise the Group's capital structure policy, including targeting financial metrics consistent with an investment grade credit profile.

In subsequent financial years the Directors intend to pursue a progressive dividend policy having regard to the normalised earnings progression of the Group. Given the seasonality of the Group's business, the Directors expect to pay an interim dividend each year equal to approximately one-third of the prior financial year's total dividend (in the case of setting the FYE 2015 interim dividend, calculated on the basis of the notional full year dividend described above) and to set the final dividend for each year in the light of the full year outturn; accordingly, the ratio of interim and final dividends may vary over time.

It is envisaged that interim dividends will be paid in December or January of the relevant financial year and final dividends in July or August of the following financial year.

The ability of the Company to pay dividends is dependent on a number of factors, including the availability of sufficient distributable reserves, and there is no assurance that the Company will pay dividends, or if a dividend is paid, what the amount of such dividend will be.

The Board may revise the Company's dividend policy from time to time.

## PART IV

### DIRECTORS, SENIOR MANAGERS, CORPORATE GOVERNANCE AND REMUNERATION

#### 1. DIRECTORS

The Directors and their principal functions within the Group, are set out below. The business address of each of the Directors (in such capacity) is 100 Victoria Embankment, London EC4Y 0HQ, United Kingdom. Each of the Directors was appointed to the Board on 20 September 2013, with the exception of Donald Brydon, Moya Greene and Matthew Lester who became Directors on 6 September 2013. Prior to their appointment as directors of the Company, each of the Directors had been a director of RMG, as described below.

##### **Donald Brydon CBE – Chairman**

Donald Brydon joined the board of RMG in January 2009 and became Chairman of RMG in March 2009. Donald is Chairman of Smiths Group plc (retires November 2013) and The Sage Group plc, in addition to being chair of the Medical Research Council and Patron of the British Postal Museum and Archive. He had a career in finance, and was previously Chairman and Chief Executive of BZW Investment Management and acting Chief Executive of BZW. Donald subsequently was Chairman and Chief Executive of AXA Investment Managers. Donald is a former Chairman of the London Metal Exchange, Amersham plc, Taylor Nelson Sofres plc, the IFS School of Finance and EveryChild, an international children's charity. He is a former director of Allied Domecq plc, Scottish Power plc and AXA UK plc.

Donald is Chairman of the Nomination Committee and a member of the Remuneration Committee.

##### **Orna Ni-Chionna – Senior Independent Non-Executive Director**

Orna Ni-Chionna joined the board of RMG in June 2010 and was appointed Senior Independent Non-Executive Director in April 2011. Orna is Chair of the Advisory Board at Eden McCallum LLP and Chair of Trustees of the Soil Association. A former partner at McKinsey & Company, where she specialised in serving retail and consumer clients, Orna has also held the position of senior independent director at HMV Group plc, Northern Foods plc and BUPA, and was a non-executive director of the Bank of Ireland UK Holdings plc and Bristol & West plc.

Orna is Chair of the Remuneration Committee, and a member of the Audit and Risk Committee and the Nomination Committee.

##### **Moya Greene – Chief Executive Officer**

Moya Greene was appointed as Chief Executive Officer of RMG in July 2010. Moya is also currently a director of Tim Hortons Inc. Moya joined the Group from Canada Post Corporation, where she became President and Chief Executive Officer in 2005 and led a wide-ranging transformation programme to improve quality of service and efficiency across the organisation. Prior to joining Canada Post Corporation, she held senior positions at Bombardier Inc, Canadian Imperial Bank of Commerce and TD Securities Inc. Moya has a background working in the public sector, and has held various posts in a variety of departments culminating in the position of Assistant Deputy Minister for Transport Canada.

##### **Matthew Lester – Chief Finance Officer**

Matthew Lester was appointed to the board of RMG in November 2010. He is currently a non-executive director of Man Group plc. Matthew was previously Group Finance Director at ICAP plc and has held a number of senior finance roles at Diageo plc, including Group Financial Controller and Group Treasurer. In addition, Matthew is a main committee member of the 100 Group of Finance Directors, where he is Chairman of its Investor Relations and Markets Committee.

Matthew is a member of the Pensions Committee.

##### **Mark Higson – Managing Director, Operations and Modernisation**

Mark Higson was appointed to the board of RMG in November 2007. Mark is currently President of the World Class Manufacturing Association and a member of the IPA Advisory Council. He was previously Divisional



Chief Executive and Group Operations Director of BPB plc. Mark has also held senior positions at Courtaulds plc, HJ Heinz and British Aerospace.

#### **John Allan CBE – Non-Executive Director**

John Allan was appointed to the board of RMG in January 2013. John is also Chairman at Dixons Retail plc, Worldpay Limited, and Care UK Health & Social Care Holdings Limited in addition to being a non-executive director of the Home Office, where he is chair of the Audit and Risk Committee. He is Chairman of the Board of Trustees of the DHL UK Foundation and was previously a corporate board member of Deutsche Post DHL and Chief Executive Officer of Exel plc, a supply chain logistics company. John has also been a non-executive director at 3i Group plc and National Grid plc.

John is a member of the Audit and Risk Committee.

#### **Jan Babiak – Non-Executive Director**

Jan Babiak was appointed to the board of RMG in March 2013. Jan is currently a non-executive director at Walgreens and is chair of its Audit Committee and a member of its Finance Committee. She is also a director at the Bank of Montreal where she is a member of its Audit and Conduct Review Committee and its Risk Review Committee. Jan previously held Managing Partner and executive board level roles at Ernst & Young LLP and has also been an independent board member and Audit Committee Chair for Logica plc. In addition, Jan is a Council Member on the governing body of the Institute of Chartered Accountants in England and Wales.

Jan is a member of the Nomination Committee, the Pensions Committee and the Remuneration Committee.

#### **Nick Horler – Non-Executive Director**

Nick Horler was appointed to the board of RMG in April 2010. At present, Nick is a non-executive director of The Go-Ahead Group plc and Secure Electrans Limited, is Chief Executive Officer at Alderney Renewable Energy Limited and also chairs the Advisory Board for KPMG's Energy and Natural Resources Practice. Nick was previously Chief Executive Officer of Scottish Power Limited, Managing Director of E.ON UK plc and Managing Director of Powergen Energy Trading Limited.

Nick is a member of the Audit and Risk Committee and the Nomination Committee.

#### **Cath Keers – Non-Executive Director**

Cath Keers was appointed to the board of RMG in June 2010. Cath is currently a non-executive director of Telefónica Europe plc, Home Retail Group plc and LV= (Liverpool Victoria Friendly Society Limited). Cath has chaired the Remuneration and Nomination Committee at LV= since May 2011 and has chaired the Remuneration Committee at Home Retail Group since July 2012. Previously, Cath was Customer Director and Marketing Director of O2 UK and has held various marketing, strategy and business development roles at Next, SKY TV, Avon and Thorn EMI.

Cath is a member of the Audit and Risk Committee and the Nomination Committee.

#### **Paul Murray – Non-Executive Director**

Paul Murray was appointed to the board of RMG in August 2009. Paul is a non-executive director of Knowledge Peers plc, Naked Energy Limited and Qinetiq Group plc, as well as being Chair of Qinetiq's Audit Committee. In addition, Paul is a Trustee and Chair of the Finance Committee at Pilotlight and a director of Ventive Limited. Previously, Paul was a senior independent director of Taylor Nelson Sofres plc and Group Finance Director of Carlton Communications plc and of LASMO plc.

Paul is Chairman of the Audit and Risk Committee and a member of the Remuneration Committee and the Pensions Committee.

#### **Les Owen – Non-Executive Director**

Les Owen was appointed to the board of RMG in January 2010. A qualified actuary, Les has 35 years' experience in the financial services industry. Les is currently Non-Executive Chairman at Jelf Group plc. In addition, Les is a non-executive director at Computershare, CPP Group plc, Just Retirement (Holdings) Limited and Discovery Holdings, a South African listed health and life insurer. He has previously held the

posts of Chief Executive Officer of AXA Sun Life plc and AXA Asia Pacific Holdings Limited, as well as being a member of the Global AXA Group Executive Board. Les has also been a non-executive director of POL.

Les is Chairman of the Pensions Committee and a member of the Audit and Risk Committee and the Remuneration Committee.

## **2. SENIOR MANAGERS**

In addition to the Executive Directors, the current members of the senior executive management team with responsibility for day-to-day management of the Group's business are set out below. The business address of each of the Senior Managers (in such capacity) is 100 Victoria Embankment, London EC4Y 0HQ, United Kingdom save for Rico Back whose business address is Breguetlaan 28-30, 1438 BC Oude Meer, the Netherlands.

### **Stephen Agar – Managing Director, Consumer & Network Access**

Stephen Agar was appointed Managing Director, Consumer & Network Access in October 2011. Stephen is a barrister who started his career in the Government Legal Service before moving to Racal Electronics plc. He joined Royal Mail in 1991 and previous roles with Royal Mail include Business Strategy Director in Royal Mail's Marketing Division, Regulatory Affairs Director, Managing Director of Royal Mail Wholesale and Regulated Business Director.

### **Rico Back – Chief Executive Officer of GLS**

Rico Back was appointed Chief Executive Officer of GLS in October 1999. Rico was previously Managing Director of German Parcel, which was acquired by the Group in 1999. He is a member of the Supervisory Board of Raben Group, a haulage contractor.

### **Nick Landon – Managing Director, Royal Mail Parcels**

Nick Landon was appointed Managing Director, Royal Mail Parcels in October 2011. He was previously Customer Experience Director for Royal Mail and Marketing Director for Parcelforce Worldwide. Nick has worked in the Group since 1993 in a number of senior roles. Nick is a Chartered Marketer.

### **Jon Millidge – Company Secretary**

Jon Millidge was appointed Company Secretary of RMG in May 2010 and has been the Company Secretary of the Company since its incorporation. Jon joined Royal Mail in 1985 as a graduate entrant, and has worked across all of the businesses of the Group, notably as HR Director of Royal Mail Letters and Parcelforce Worldwide. He was Group Director of Employee Relations prior to his current role. Jon is a fellow of the Chartered Institute of Management Accountants and of The Chartered Institute of Personnel Development.

### **Mike Newnham – Chief Customer Officer**

Mike Newnham was appointed Chief Customer Officer of RMG in March 2012. Prior to this appointment, Mike led the Consumer division of Orange in the UK for two years. Prior to that Mike held a number of executive board positions at Orange, including running the Consumer Sales and Service operations and leading Orange's B2B business. Before joining Orange, Mike was a director at PricewaterhouseCoopers in its Telecoms, Media and Technology practice. Mike is a qualified Chartered Accountant.

### **Gary Simpson – Managing Director of Parcelforce Worldwide**

Gary Simpson was appointed Managing Director for Parcelforce Worldwide in August 2012. Gary was previously Interim Chief Customer Officer of RMG and Managing Director of Royal Mail International. Gary joined the Group in 1988 and has held a number of senior positions including Operations Director and International Director at Parcelforce Worldwide.

### **Sue Whalley – Director of Regulation, Government Affairs, Pricing and Business Analysis**

Sue Whalley is the Group's Director of Regulation, Government Affairs, Pricing and Business Analysis. She leads the Group's interface with HM Government and Ofcom. Sue joined the Group in September 2006 and was appointed to the Group Executive Team in June 2009. Before joining Royal Mail, Sue was a consultant

at McKinsey and Company for 17 years where she was a partner in its London office working with a broad range of clients in consumer and business to business industries.

### **3. THE BOARD AND CORPORATE GOVERNANCE**

The Group is firmly committed to the highest standards of corporate governance and maintaining an effective framework for the control and management of the Business. Accordingly, many of the corporate governance practices and principles expected of listed companies are already well-established within the Group. In addition, in anticipation of Admission, the Board has adopted a number of measures with regard to its governance arrangements in order to be in a position to comply with the principles and provisions of the UK Corporate Governance Code (the “**UK Corporate Governance Code**”) published by the Financial Reporting Council in September 2012.

#### **3.1 The Board**

The Board is responsible for leading and controlling the Group and has overall authority for the management and conduct of the Business and the Group’s objectives and development. The Board is also responsible for approving strategic plans, financial statements, acquisitions and disposals, major contracts, projects and capital expenditure.

#### **3.2 Compliance with corporate governance requirements**

##### *Compliance with the UK Corporate Governance Code*

From Admission, the UK Corporate Governance Code will apply to the Group. The UK Corporate Governance Code sets out a number of principles in relation to board leadership, effectiveness, accountability, remuneration and relations with shareholders. Although, as an unlisted company, the UK Corporate Governance Code does not apply to the Group as at the date of this document, the Directors consider that the Group complies with the UK Corporate Governance Code insofar as it is applicable to a Government-owned entity with a single shareholder. The Group will comply with the UK Corporate Governance Code on Admission. Thereafter the Group intends to continue to comply with the principles and provisions of the UK Corporate Governance Code on an ongoing basis.

##### *Board and committee independence*

The UK Corporate Governance Code recommends that at least half the board of directors of a UK listed company (excluding the Chairman) should comprise “independent” non-executive directors. The board should determine whether a director is independent in character and judgement and whether there are relationships or circumstances which are likely to affect, or could appear to affect, the director’s judgement. In addition, the UK Code on Corporate Governance recommends that a UK company’s remuneration and audit committees should comprise at least three independent non-executive directors and that its nomination committee should comprise a majority of independent non-executive directors.

As at the date of this document, the Board consists of 11 members: the eight Non-Executive Directors (including the Chairman) and the three Executive Directors. The Directors consider that each of the Non-Executive Directors is independent and that the Company complies with the requirements as to the composition of its Remuneration, Audit and Risk and Nomination Committees. While Donald Brydon was appointed by the Secretary of State, the Directors consider that Donald Brydon was independent at the time of his appointment and continues to be independent.

##### *Annual re-election of Directors*

The UK Corporate Governance Code recommends that all directors of FTSE 350 companies should be subject to annual election by shareholders. Accordingly, the Directors of the Company will all voluntarily put themselves up for re-election at the Company’s next annual general meeting. It is currently intended that the Directors of the Company will continue to be subject to annual re-election at each subsequent annual general meeting for so long as this practice is recommended by the UK Corporate Governance Code. The Board also intends to carry out an annual reassessment of the ongoing independence of each of the Non-Executive Directors prior to recommending their re-election to shareholders and to make an appropriate statement regarding such independence in the Company’s annual report.

#### *Senior independent director*

The UK Corporate Governance Code also recommends that the Board should appoint one of its independent non-executive directors to be the senior independent director (the “**Senior Independent Director**”). The Senior Independent Director should be available to 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 Company's Senior Independent Director is Orna Ni-Chionna.

### **3.3 Board committees**

The Board has established a number of committees, whose terms of reference are documented formally and updated as necessary. If the need should arise, the Board may set up additional committees as appropriate.

#### *Audit and Risk Committee*

The responsibilities of the Audit and Risk Committee include: (i) monitoring the financial integrity of financial statements of the Group; (ii) considering the appointment of the external auditor and approving its remuneration and terms of engagement; (iii) monitoring the external auditor's independence and objectivity and the effectiveness of the audit process; (iv) monitoring the performance of the Group's internal audit function; (v) reviewing the effectiveness of the Group's internal control systems and risk management systems; and (vi) overseeing the process for managing risks across the Business, including reviewing the Group's corporate risk profile.

The terms of reference of the Audit and Risk Committee cover matters such as membership of the committee, requirements as to quorum and the frequency of meetings. The Audit and Risk Committee meets quarterly and at other times when required.

Further, and in accordance with the UK Corporate Governance Code, the terms of reference of the Audit and Risk Committee state that the Audit and Risk Committee must comprise at least three members, all of whom must be independent non-executive directors. In addition, at least one member must have recent and relevant financial experience. The Audit and Risk Committee is chaired by Paul Murray and its other members are Orna Ni-Chionna, John Allan, Nick Horler, Cath Keers and Les Owen. The Board considers that a number of the members of the Audit and Risk Committee have recent and relevant financial experience.

#### *Remuneration Committee*

The Remuneration Committee has responsibility for, among other things: (i) determining, and recommending for the Board's approval, the framework and policy for the remuneration of the senior management of the Group; (ii) determining individual remuneration arrangements for the Chairman, the Executive Directors and the Company Secretary and certain other senior managers, including the terms of any performance-related incentive schemes; and (iii) reviewing the Group's remuneration framework and policy to ensure compatibility with its risk policies. No Director or executive shall participate in any discussion, recommendation or decision directly concerning his or her own remuneration.

The terms of reference of the Remuneration Committee cover matters such as membership of the committee, requirements as to quorum and the frequency of meetings. The Remuneration Committee meets three times a year and at other times when required.

Further, and in accordance with the UK Corporate Governance Code, the terms of reference of the Remuneration Committee state that the Remuneration Committee must comprise at least three members, all of whom must be independent non-executive directors. The Chairman may also serve as a member of the Remuneration Committee if he or she was considered independent on appointment as Chairman. The Remuneration Committee is chaired by Orna Ni-Chionna and its members are Donald Brydon, Jan Babiak, Paul Murray and Les Owen.

#### *Nomination Committee*

The responsibilities of the Nomination Committee include: (i) leading a formal, rigorous and transparent process for appointments to the Board and other senior management positions; (ii) evaluating the balance of Board membership to ensure that it has an appropriate mix of skills, knowledge and experience; and (iii) advising the Board with regard to succession planning, taking into account the challenges and opportunities facing the Group.

The terms of reference of the Nomination Committee cover matters such as membership of the committee, requirements as to quorum and the frequency of meetings. The Nomination Committee meets on an *ad hoc* basis.

The Nomination Committee is chaired by Donald Brydon and its members are Orna Ni-Chionna, Jan Babiak, Nick Horler and Cath Keers. This accords with the UK Corporate Governance Code, which recommends that a majority of members should be independent non-executive directors.

#### *Pensions Committee*

The role of the Pensions Committee is to review funding, benefits, scheme structure and strategic developments impacting the Group's occupational pension schemes, and to represent the Group in discussions with the trustees of the Group's occupational pension schemes.

The Pensions Committee meets twice annually unless otherwise convened at the request of the Pensions Committee chair or the Chief Finance Officer. The Pensions Committee is chaired by Les Owen and its members are Paul Murray, Jan Babiak and Matthew Lester.

### **3.4 Model Code**

From Admission, the Company shall require the Directors and other persons discharging managerial responsibilities within the Group to comply with the Model Code, and shall take all proper and reasonable steps to secure their compliance.

## **4. REMUNERATION POLICY FOR EXECUTIVE DIRECTORS**

The Company's policy on Executive Directors' remuneration is that:

- a significant proportion of the remuneration package should be dependent on achievement of stretching performance targets – both short and long term;
- incentives should be designed so that they align the interests of senior executives, customers and the shareholders;
- variable reward should be structured so as to achieve an appropriate balance between short-term and long-term incentive programmes; and
- the overall remuneration package should reflect the need to continue to attract and retain executives with the commercial experience and talent to run a large, complex business in a highly challenging context.

The current contracts and remuneration arrangements for the Executive Directors have been determined in the context of HM Government's ownership of the Group.

Following Admission, the Remuneration Committee will follow normal practice in consulting the Company's principal shareholders on the structure of contracts, including remuneration arrangements. In compliance with new reporting requirements, the Remuneration Committee will propose the resulting policy to Shareholders at the Company's annual general meeting to be held in 2014. The Remuneration Committee will consider all relevant information and take appropriate independent advice.

The Remuneration Committee does not expect to make any changes to Executive Directors' remuneration packages prior to that annual general meeting, other than that the LTIP awards granted for FYE 2014 will convert, on Admission, on a value-neutral basis to awards over Ordinary Shares.

The Remuneration Committee considers that it is important that there is formal encouragement for executives to build and maintain a shareholding in the Company following Admission. Accordingly as part of the proposed policy, a guideline will be developed that will require executives to build and maintain an appropriate shareholding.

The key terms of the existing remuneration packages of the Executive Directors are set out below.

### **4.1 Base salary**

The base salary of the Executive Directors is as follows: Moya Greene – £498,000; Matthew Lester – £428,000; and Mark Higson – £428,400.



## **4.2 Pension and Benefits in Kind**

Salary supplements are paid in lieu of pension contribution at a rate of 40 per cent. of base salary for Executive Directors. Benefits in kind include a company car and health insurance or allowance in lieu thereof. The Chief Executive is eligible for two return flights to Canada each year.

## **4.3 Short Term Incentive Plan (“STIP”)**

For FYE 2014, 80 per cent. of the amount available under the STIP is dependent on the achievement of corporate targets, as summarised in the Corporate Balanced Scorecard (“**CBS**”). The CBS is directly linked to the achievement of the Group’s strategic objectives and is used to determine STIP awards for all Royal Mail Group managers. CBS targets relate to financial and operational performance, and people and customer measures, with all four quadrants given equal weighting. The remaining 20 per cent. of the amount available under the STIP is dependent on the achievement of specific personal targets. In addition to the corporate and personal targets, a minimum level of operating profit must be achieved before any Executive Director becomes eligible for a payment.

Executive Directors’ awards are limited to 100 per cent. of base salary (and 80 per cent. in the case of Mark Higson) and are payable in cash after the year end once the performance conditions have been assessed.

The structure and size of the STIP has been approved each year by the Secretary of State.

## **4.4 Long Term Incentive Plan (“LTIP”)**

Awards take the form of a right to receive a cash amount, normally three years after grant, subject to continued employment and the satisfaction of the performance conditions. The LTIP awards for FYE 2014 will convert on Admission, on a value-neutral basis to awards over Ordinary Shares. For the avoidance of doubt, the conversion share price on Admission will be the “volume weighted average price” of the Ordinary Shares traded between the eighth and fourteenth days after Admission. Awards are made each year and the maximum award limit is currently 98 per cent. of salary for Executive Directors.

The performance conditions for outstanding awards are based on both operating profit and return on total assets in the third year of a three-year performance period, with the targets for each measure derived from the Company’s business plan. The LTIP grants, size and targets have been approved each year by the Secretary of State.

## PART V

### RELATIONSHIP WITH HM GOVERNMENT

This Part sets out certain information relating to the relationship between the Group and HM Government. Investors should note that the policy, plans, views, expectations and/or intentions of HM Government, the Secretary of State and the Selling Shareholder are subject to change after the date of this document. Each of the statements in this Part should be read together with the other parts of this document and, in particular, in light of the risk factors set out in the sections of this document and the Securities Note entitled "Risk Factors".

#### 1. HM GOVERNMENT AS SHAREHOLDER

The Secretary of State has written to the Company to confirm that, from Admission, HM Government currently intends to hold its residual shareholding in the Company through the Selling Shareholder and that, in turn, the Selling Shareholder will continue to be wholly-owned by HM Government.

The Company has entered into a Relationship Agreement with the Secretary of State and the Selling Shareholder which is conditional only on Admission. In the Relationship Agreement, the Secretary of State and the Selling Shareholder agree, among other things, that they will exercise their respective powers to ensure that the Group is capable of operating independently of them, that they will not influence the day-to-day running of the Company and the Group at an operational level or hold or acquire a material shareholding in one or more material subsidiaries of the Company. Further details of the Relationship Agreement are set out in section 16.1(A) of Part XI (*Additional Information*) of this document.

The Secretary of State has written to the Company to confirm that he intends to manage HM Government's shareholding in the Company in a commercial manner within the context of protecting and creating value for the taxpayer as shareholder. The policy statement published by the Department for Business, Innovation and Skills in October 2010 stated that HM Government does not believe that there is a need for HM Government to retain a stake in Royal Mail in the long term, although HM Government has not given any undertaking regarding the timing or form of future sales. The Secretary of State has written to the Company to confirm that the timing and process for any further sale or sales by HM Government will be subject to, among other things, HM Government being satisfied that it receives value for money from any such sale of Ordinary Shares.

The Secretary of State has written to the Company to confirm that, in order to limit HM Government control over the Company, the Secretary of State and the Selling Shareholder intend, following Admission and the exercise or lapse of the Over-allotment Option, to execute a deed poll in which the Secretary of State and the Selling Shareholder undertake to limit their exercise of voting rights in the Company to a level below the retained stake of the Selling Shareholder and in any event no higher than 30 per cent. of the issued share capital of the Company from time to time.

The deed poll will not be executed if the Selling Shareholder holds less than 30 per cent. or more than 50 per cent. of the issued Ordinary Shares following exercise or lapse of the Over-allotment Option. The provisions of the deed poll will terminate if the interests of the Secretary of State and the Selling Shareholder in the issued Ordinary Shares are reduced below 30 per cent. The Secretary of State will make an announcement via the Regulatory Information Service of the London Stock Exchange when the deed poll is executed.

The Selling Shareholder is expected to be the beneficial owner of at least 30 per cent. of the issued Ordinary Shares following Admission and it may retain a holding of more than 50 per cent. of the issued Ordinary Shares following Admission. If the Selling Shareholder remains the beneficial owner of more than 25 per cent. of the issued Ordinary Shares following Admission, it will have the power to block special resolutions of the Company. If the Selling Shareholder remains the beneficial owner of 50 per cent. or more of the issued Ordinary Shares following Admission, it will have the power to block ordinary and special resolutions of the Company. In practice, the Selling Shareholder may be able to block special resolutions of the Company in circumstances where it is the beneficial owner of less than 25 per cent. of the issued Ordinary Shares if not all Shareholders exercise their votes in respect of the relevant special resolutions.

## **2. HM GOVERNMENT AS CUSTOMER**

The Group, in common with a number of other UK postal services operators, trades with numerous government bodies in the UK in the ordinary course of business on arm's length terms and on a normal commercial basis. Relevant bodies with which the Group trades include central ministerial departments of HM Government as well as executive agencies, non-ministerial departments and local authorities. Save as described in section 16.2(A) of Part XI (*Additional Information*) in relation to the Mails Distribution Agreement, no member of the Group has entered into any exclusive arrangement with any such government body for the provision of postal services or delivery activities by the Group in the ordinary course of business.

Following Admission, the Company expects that trading relationships between the Group and government bodies in the UK will continue to be on arm's length terms and on a normal commercial basis. In the Relationship Agreement, the Secretary of State and the Selling Shareholder agree that they will conduct all transactions and relationships with members of the Group, and ensure that all arrangements and agreements between the Secretary of State or the Selling Shareholder (or any of their respective associates), as the case may be, and the Company or any other member of the Group, are entered into on arm's length terms and on a normal commercial basis.

The Secretary of State has written to the Company to confirm that he is not currently aware of any current intentions of HM Government to change the nature of any of its trading relationships with the Group as a result of the Offer or Admission.

## **3. THE GROUP'S RELATIONSHIP WITH POL**

The Group has a significant trading relationship with POL pursuant to which POL sells Royal Mail postage stamps, and the Group's letter and parcel products (under the "Royal Mail" and "Parcelforce Worldwide" brands) to customers on behalf of the Group through its Post Office branch network in the UK. Post Office branches serve as the Group's principal retail distribution network in the UK and are of material significance to the business and revenue of the Group. The UK's Post Office branch network is used to satisfy part of the Group's obligation to provide access points for universal postal services. In FYE 2013, approximately £1.7 billion of the Group's revenue was generated through the sale of the Group's products and postage stamps by POL. Further details of the relationship between the Group and POL are summarised in section 9 of Part II (*The Business*) and section 16.2 of Part XI (*Additional Information*).

In "Building a Mutual Post Office: The Government's Response" published in July 2012, the Department for Business, Innovation and Skills, on behalf of HM Government, has stated that it has committed £1.34 billion over the duration of the current Parliament to both maintain the size of the Post Office network at its current size of at least 11,500 branches, and to modernise approximately 6,000 Post Offices, including in-branch improvements for both customers and sub-postmasters. HM Government has also stated that public funding ensures that there will be no programme of Post Office closures in the current Parliament. POL is wholly-owned by the Selling Shareholder. The PSA provides that no disposals of HM Government's interest in POL may be made except by way of mutualisation. The Department for Business, Innovation and Skills, on behalf of HM Government, has stated that clear progress towards mutualisation of the Post Office should be made prior to the end of the current Parliament.

## **4. THE SECRETARY OF STATE'S REGULATORY ROLE**

The Secretary of State plays a significant role in the framework for the regulation of postal services in the UK, to which the Group is subject. The PSA provides for certain duties and functions of the Secretary of State in relation to postal services in the UK. HM Government's overarching objective in relation to postal services in the UK is to secure the USO, the minimum requirements of which can only be changed by Parliament. Further details of the Secretary of State's role in relation to the regulation of postal services in the UK are summarised in Part X (*Regulation, State Aid and Procurement*). The Secretary of State has written to the Company to confirm that he has no current intention to propose any changes to the legislative framework for the regulation of postal services in the UK that is set out in the PSA, other than the consultation by the Department for Business, Innovation and Skills on options for reform of regulatory and competition law appeals generally in the UK, which closed for responses on 11 September 2013.

## **5. HM GOVERNMENT'S REPRESENTATIVE ROLE IN THE EUROPEAN UNION**

As with other interests relevant to the United Kingdom, in the ordinary course of its representation and participation in EU decision-making processes, HM Government participates in discussions relating to the regulation of postal services at EU level. Decisions taken at EU level, including in relation to new legislation

relating to postal services, have a significant effect on the UK's postal services industry. The Secretary of State has written to the Company to confirm that in discussions at EU level, HM Government intends to have regard to the interests of UK postal services providers and consumers.

## **6. STATE AID**

For details on the State Aid that was granted to RMG by HM Government, see section 2 of part B of Part X (*Regulation, State Aid and Procurement*).

## PART VI

### FINANCIAL INFORMATION RELATING TO THE GROUP

#### 1. PREPARATION OF HISTORICAL FINANCIAL INFORMATION

Schedule III (*Historical Financial Information*) sets out the Historical Financial Information, comprising the consolidated financial information for Royal Mail Group Limited and its subsidiaries for the 13 weeks ended 30 June 2013, the 13 weeks ended 24 June 2012, the 53 weeks ended 31 March 2013, the 52 weeks ended 25 March 2012 and the 52 weeks ended 27 March 2011, together with the notes to that financial information. The Historical Financial Information has been prepared in accordance with the requirements of the Prospectus Directive Regulation and the Listing Rules in accordance with the basis of preparation included in Note 1 (*Basis of preparation*) to the Historical Financial Information (set out on pages F-8 to F-9 of Schedule III (*Historical Financial Information*) to this document). Please refer to the section entitled "Presentation of Financial Information" on page 46 of this document for further details regarding the presentation of the Historical Financial Information.

The Company was incorporated on 6 September 2013 and acquired its current shareholding in Royal Mail Group Limited (and became the holding company for the Group) on 12 September 2013. As a consequence, there is no historical consolidated audited financial information relating to the Company. Accordingly, Schedule III (*Historical Financial Information*) presents the financial information on Royal Mail Group Limited and its subsidiaries for the 13 weeks ended 30 June 2013, the 13 weeks ended 24 June 2012, the 53 weeks ended 31 March 2013, the 52 weeks ended 25 March 2012 and the 52 weeks ended 27 March 2011, being the entities held by the Company as at the date of this document and at Admission.

#### 2. CROSS-REFERENCE LIST

The following list is intended to enable the easy identification of specific items of Historical Financial Information. The page numbers in the tables below in this Part VI refer to the relevant pages of Schedule III (*Historical Financial Information*), which is numbered F-1 to F-68. In Schedule III (*Historical Financial Information*), references to: "Company" are to be taken as references to "Royal Mail Group Limited"; and "Group" or "Royal Mail Group" are to be taken as references to "Royal Mail Group Limited and its subsidiaries". Schedule III (*Historical Financial Information*) refers to "Royal Mail Holdings plc", the Selling Shareholder, which was renamed Postal Services Holding Company plc on 11 September 2013.

***Royal Mail Group Limited historical financial information for the 13 weeks ended 30 June 2013, the 13 weeks ended 24 June 2012, the 53 weeks ended 31 March 2013, the 52 weeks ended 25 March 2012 and the 52 weeks ended 27 March 2011***

• Accountant's report	F-1 to F-2
• Consolidated income statement	F-3
• Consolidated statement of comprehensive income	F-4
• Consolidated statement of cash flows	F-5
• Consolidated balance sheet	F-6
• Consolidated statement of changes in equity	F-7
• Notes to the consolidated historical financial information	F-8 to F-68

#### 3. SELECTED HISTORICAL FINANCIAL INFORMATION

The tables in sections 3.1 to 3.4 of this Part VI set out certain consolidated income statement, comprehensive income, cash flow and balance sheet information relating to the Group for the 13 weeks ended 30 June 2013, the 13 weeks ended 24 June 2012, the 53 weeks ended 31 March 2013, the 52 weeks ended 25 March 2012 and the 52 weeks ended 27 March 2011. The table in section 3.5 of this Part VI sets out certain key financial and operating measures in respect of the same periods. The information contained in tables 3.1 to 3.5 of this Part VI has been extracted without material adjustment from the Historical Financial Information set out in Schedule III (*Historical Financial Information*) or, where indicated, from the Group's unaudited accounting records, operating systems and other information prepared by the Group.



Prospective investors should read the whole document of this document and not only rely on the key or summarised information set out in the tables below. In particular, the selected historical financial information set out below should be read in conjunction with Part VII (*Operating and Financial Review*) and Schedule III (*Historical Financial Information*) as well as the rest of this document.

### 3.1 Consolidated income statement

		13 weeks ended		53 weeks ended	52 weeks ended	52 weeks ended
	Notes	30 June 2013	24 June 2012	31 March 2013	25 March 2012	27 March 2011
		£m	£m	£m	£m	£m
		(unaudited)				
<b>Revenue</b>	2/3	2,304	2,168	9,279	8,764	8,415
People costs	9	(1,286)	(1,254)	(5,147)	(4,920)	(4,986)
Distribution and conveyance operating costs		(447)	(410)	(1,785)	(1,755)	(1,616)
Infrastructure costs (property, IT, depreciation/amortisation)		(254)	(254)	(1,052)	(1,060)	(1,025)
Other operating costs		(122)	(147)	(660)	(648)	(578)
<b>Operating profit before exceptional items</b>		195	103	635	381	210
Transformation costs – operating exceptional items	4	(31)	(39)	(195)	(229)	(192)
<b>Operating profit after transformation costs<sup>1</sup></b>		164	64	440	152	18
Other operating exceptional items	4	(21)	(2)	(77)	(57)	(48)
<b>Operating profit/(loss)</b>		143	62	363	95	(30)
Profit on disposal of property, plant and equipment		17	1	4	156	60
Profit on disposal of business		2	–	–	26	44
<b>Earnings before interest and taxation (EBIT)</b>		162	63	367	277	74
Finance costs	5	(27)	(27)	(104)	(112)	(107)
Finance income	5	1	23	27	12	23
Net pension interest credit/(charge)	8(g)	9	9	30	(230)	(419)
<b>Profit/(loss) before taxation</b>		145	68	320	(53)	(429)
Taxation – current charge	6(a)	(19)	(13)	(38)	(36)	(35)
– deferred (charge)/credit	6(a)	(18)	317	284	(15)	(88)
<b>Profit/(loss) for the period</b>		108	372	566	(104)	(552)
<b>Profit/(loss) for the period attributable to:</b>						
Equity holder of the parent company		108	372	562	(105)	(553)
Non-controlling interest (other partner interest in Romec Limited and NDC 2000 Limited)		–	–	4	1	1

**Notes:**

(1) Before other operating exceptional items.

The notes referred to in the table above are set out on pages F-8 to F-68 of Schedule III (*Historical Financial Information*) to this document and are an integral part of this historical financial information.

### 3.2 Consolidated statement of comprehensive income

Notes	13 weeks ended		53 weeks ended	52 weeks ended	52 weeks ended
	30 June 2013	24 June 2012	31 March 2013	25 March 2012	27 March 2011
	£m	£m	£m	£m	£m
	(unaudited)				
Profit/(loss) for the period from continuing operations	108	372	566	(104)	(552)
Other comprehensive income for the period:					
<b>Items that will not be subsequently reclassified to profit or loss:</b>					
Amounts relating to pension accounting	(127)	(456)	(407)	1,690	3,448
IFRIC 14 adjustment relating to pensions	8(c)	(8)	(5)	–	–
Actuarial (losses)/gains on defined benefit schemes	8(g)	(164)	(214)	1,690	3,448
Deferred taxation on actuarial movements and pension deficit transfer to HM Government on 1 April 2012	6(b)	45	(188)	–	–
<b>Items that may be subsequently reclassified to profit or loss:</b>					
Foreign exchange translation differences	1	(26)	(5)	(47)	(11)
Cash flow hedges	(11)	(33)	2	(14)	10
(Losses)/gains on cash flow hedges deferred into equity	(11)	(32)	(1)	(4)	24
(Gains)/losses/on cash flow hedges released from equity to income	–	(1)	2	(15)	(7)
Gains on cash flow hedges released from equity to the carrying amount of non-financial assets	–	–	(1)	(3)	(3)
Taxation on items taken directly to equity	6(b)	–	2	8	(4)
Gains on financial assets	–	(22)	(22)	14	(3)
Gains on financial assets deferred into equity	–	–	–	14	3
Gains on financial assets released from equity to income	5	(22)	(22)	–	(6)
<b>Total comprehensive (expense)/income for the period</b>	<b>(29)</b>	<b>(165)</b>	<b>134</b>	<b>1,539</b>	<b>2,892</b>
<b>Total comprehensive income for the period attributable to:</b>					
Equity holder of the parent company	(29)	(165)	130	1,547	2,891
Non-controlling interest (other partner interest in Romec Limited and NDC 2000 Limited)	–	–	4	(8)	1

The notes referred to in the table above are set out on pages F-8 to F-68 of Schedule III (*Historical Financial Information*) to this document and are an integral part of this historical financial information.

### 3.3 Consolidated statement of cash flows

The statement of cash flows below is prepared using the template prescribed under IFRS. Note 7 on pages F-18 to F-19 of Schedule III (*Historical Financial Information*) provides a summary statement of cash flows used by management, and includes a reconciliation to the statement shown below.

Notes	13 weeks ended		53 weeks ended	52 weeks ended	52 weeks ended
	30 June 2013	24 June 2012	31 March 2013	25 March 2012	27 March 2011
	£m	£m	£m	£m	£m
	(unaudited)				
<b>Cash flow from operating activities</b>					
Operating profit before exceptional items		195	103	635	381
Adjustment for:					210
Depreciation and amortisation	10	64	70	281	301
Share of post-taxation profit from associates	22	(1)	(1)	(1)	(3)
<b>EBITDA before exceptional items</b>	7	258	172	915	681
Working capital movements:	7	(83)	241	142	(19)
					(58)
Decrease/(increase) in inventories		—	—	8	1
(Increase)/decrease in receivables		(3)	32	25	(148)
(Decrease)/increase in payables		(83)	215	136	116
Net decrease/(increase) in derivative assets		2	(7)	(15)	(6)
Increase/(decrease) in non-exceptional provisions		1	1	(12)	18
					1
Difference between pension costs charged in operating profit and pension cash flows	7	17	5	(3)	(9)
Payments in respect of transformation operating exceptional items <sup>1</sup>	7	(44)	(60)	(230)	(280)
Payments in respect of non-transformation operating exceptional items	7	(8)	(10)	(26)	(37)
					(5)
<b>Cash inflow/(outflow) from operations</b>		140	348	798	336
Income taxation paid	7	(8)	(4)	(37)	(35)
					(36)
<b>Net cash inflow/(outflow) from operating activities</b>		132	344	761	301
					(111)
<b>Cash flows from investing activities</b>					
Dividends received from associates	7	2	—	—	4
Finance income received	7	1	1	5	12
Proceeds from sale of property, plant and equipment	7	23	4	52	203
Proceeds from disposal of business	7	3	—	—	37
Purchase of property, plant and equipment <sup>1</sup>		(33)	(49)	(388)	(287)
					(270)
Transformation investment in UKPIL	7	(7)	(25)	(177)	(185)
Other (GLS and business as usual UKPIL spend)	7	(26)	(24)	(211)	(102)
					(104)
Acquisition of business (in GLS) <sup>1</sup>	7	(1)	(1)	(3)	(2)
Purchase of intangible assets (software) <sup>1</sup>	7	(13)	(3)	(41)	(45)
Payment of deferred consideration in respect of prior years' acquisitions <sup>1</sup>	7	—	—	(3)	(1)
Net sale/(purchase) of financial assets investments (non-current)		—	149	129	(4)
Net sale/(purchase) of financial assets investments (current)		—	—	30	(30)
					—
<b>Net cash (outflow)/inflow from investing activities</b>		(18)	101	(219)	(113)
					7
<b>Net cash inflow/(outflow) before financing activities</b>		114	445	542	188
					(104)
<b>Cash flows from financing activities</b>					
Finance costs paid	7	(4)	(7)	(49)	(68)
Payment of capital element of obligations under finance lease contracts		(19)	(22)	(74)	(49)
Cash received on sale and leasebacks		46	11	58	88
New loans		—	—	—	—
Repayment of borrowings		—	(600)	(600)	(1)
					(42)
Net cash inflow/(outflow) from financing activities		23	(618)	(665)	(30)
					257
<b>Net increase/(decrease) in cash and cash equivalents</b>		137	(173)	(123)	158
					153
Effect of foreign currency exchange rates on cash and cash equivalents		—	(4)	1	(4)
Cash and cash equivalents at the beginning of the period		351	473	473	319
Cash and cash equivalents at the end of the period	13	488	296	351	473
					319

The notes referred to in the table above are set out on pages F-8 to F-68 of Schedule III (*Historical Financial Information*) to this document and are an integral part of this historical financial information.

1 Items included in total investment costs in Note 7.

### 3.4 Consolidated balance sheet

	Notes	At 30 June 2013 £m	At 31 March 2013 £m	At 25 March 2012 £m	At 27 March 2011 £m
<b>Non-current assets</b>					
Property, plant and equipment	19	1,892	1,916	1,822	1,829
Leasehold land payment		3	3	3	3
Goodwill (mainly investment in GLS)	20	198	196	189	197
Intangible assets (mainly software)	21	147	139	135	126
Investments in associates	22	2	3	3	9
Financial assets – pension escrow investments	5/11/12/13/16	20	20	149	87
– bank deposits	5/11/13/16	–	–	–	44
– derivatives	11/16	2	3	2	6
Retirement benefit asset net of IFRIC 14 adjustment	8(c)	647	825	–	–
Other receivables		7	8	–	–
Deferred taxation assets	6	140	112	9	8
		<u>3,058</u>	<u>3,225</u>	<u>2,312</u>	<u>2,309</u>
<b>Non-current assets held for sale</b>		–	2	4	4
<b>Current assets</b>					
Inventories		24	24	32	33
Trade and other receivables	23	1,009	1,004	1,036	906
Financial assets – derivatives	11/16	3	9	9	36
– short-term deposits	5/11/13/16	1	1	31	1
Cash and cash equivalents	13	488	351	473	319
		<u>1,525</u>	<u>1,389</u>	<u>1,581</u>	<u>1,295</u>
<b>Total assets</b>		<u>4,583</u>	<u>4,616</u>	<u>3,897</u>	<u>3,608</u>
<b>Current liabilities</b>					
Trade and other payables	24	(1,562)	(1,611)	(1,512)	(1,394)
Financial liabilities – obligations under finance leases	5/11/15/16	(80)	(79)	(86)	(61)
– derivatives	11/16	(5)	(2)	(4)	(3)
Income taxation payable		(24)	(14)	(9)	(6)
Provisions	18	(113)	(119)	(132)	(167)
		<u>(1,784)</u>	<u>(1,825)</u>	<u>(1,743)</u>	<u>(1,631)</u>
<b>Non-current liabilities</b>					
Financial liabilities – interest bearing loans and borrowings	5/11/14/15/16	(973)	(973)	(1,522)	(1,478)
– obligations under finance leases	5/11/15/16	(252)	(226)	(231)	(184)
– derivatives	11/16	(4)	(1)	(1)	–
Provisions	18	(120)	(127)	(85)	(85)
Retirement benefit obligation – pension deficit	8(b)	–	–	(2,716)	(4,185)
Other payables		(50)	(36)	(36)	(29)
Deferred taxation liabilities	6	(24)	(23)	(18)	(10)
		<u>(1,423)</u>	<u>(1,386)</u>	<u>(4,609)</u>	<u>(5,971)</u>
<b>Total liabilities</b>		<u>(3,207)</u>	<u>(3,211)</u>	<u>(6,352)</u>	<u>(7,602)</u>
<b>Net assets/(liabilities)</b>		<u>1,376</u>	<u>1,405</u>	<u>(2,455)</u>	<u>(3,994)</u>
<b>Equity</b>					
Share capital	25	–	–	–	–
Share premium	25	–	–	3,784	3,784
Retained earnings – all distributable		1,299	1,318	(6,347)	(7,941)
Other reserves		73	83	108	155
		<u>1,372</u>	<u>1,401</u>	<u>(2,455)</u>	<u>(4,002)</u>
Equity attributable to equity holder of parent company					
Non-controlling interest (other partner interest in Romec Limited and NDC 2000 Limited)		4	4	–	8
<b>Total equity</b>		<u>1,376</u>	<u>1,405</u>	<u>(2,455)</u>	<u>(3,994)</u>

The notes referred to in the table above are set out on pages F-8 to F-68 of Schedule III (*Historical Financial Information*) to this document and are an integral part of this historical financial information.

### 3.5 Non-IFRS performance measures and other operating information

	13 Weeks ended 30 June 2013 Reported	13 Weeks ended 24 June 2012 Unaudited	FYE 2013 53 Weeks Reported	FYE 2013 52 Weeks Adjusted <sup>(1)</sup>	FYE 2012 52 Weeks Reported	FYE 2011 52 Weeks Reported
<b>£m</b>						
<b>Revenue</b>	2,304	2,168	9,279	9,146	8,764	8,415
UKPIL	1,898	1,798	7,766	7,633	7,189	6,885
GLS	402	364	1,498	1,498	1,562	1,485
Other <sup>(2)</sup>	4	6	15	15	13	45
Growth % <sup>(3)</sup>	3%	–	–	5%	4%	–
<b>Net operating costs</b>	(2,109)	(2,065)	(8,644)	(8,548)	(8,383)	(8,205)
Growth % <sup>(3)</sup>	1%	–	–	3%	2%	–
<b>Transformation costs<sup>(4)</sup></b>	(31)	(39)	(195)	(195)	(229)	(192)
<b>Total net operating costs after transformation costs</b>	(2,140)	(2,104)	(8,839)	(8,743)	(8,612)	(8,397)
Growth %	1%	–	–	2%	2%	–
<b>Operating profit/(loss) after transformation costs</b>	164	64	440	403	152	18
UKPIL	132	36	331	294	33	(110)
GLS	31	26	101	101	128	118
Other	1	2	8	8	(9)	10
<b>Operating profit margin after transformation costs %<sup>(5)</sup></b>	5.0%	3.0%	4.7%	4.4%	1.7%	0.2%
UKPIL <sup>(6)</sup>	4.4%	–2.0%	4.3%	3.9%	0.5%	nm <sup>(7)</sup>
GLS	7.7%	–7.1%	6.7%	6.7%	8.2%	7.9%
<b>EBITDA before exceptional items<sup>(8)</sup></b>	258	172	915	878	681	493
<b>Free cash flow</b>	110	289	334	NM	154	(246)

#### Notes:

- (1) FYE 2013 was a 53-week financial year. In order to provide a meaningful comparison with FYE 2012, operating profit after transformation costs and operating margin after transformation costs are also presented on an adjusted 52-week basis, which removes the revenue earned and associated costs incurred in the 53rd week.
- (2) Other revenue includes revenue from the Group's separately managed non-core division which holds its interests in two subsidiaries and an associate which provide facilities management, catering and cleaning services, consulting and project management services to the Group.
- (3) Changes in revenue and costs at the Group level are calculated on an adjusted 52-week basis and the impact of foreign currency movements. Changes in revenue and costs at the Group level for Q1 FYE 2014 are adjusted for the impact of foreign currency movements in GLS and, for revenue only, the difference in working days for UKPIL.
- (4) Transformation costs are costs which fall outside the Group's normal trading activity and are disclosed separately to provide greater visibility of the underlying results of the revenue. The costs represent people and non-people related costs associated with the Transformation Programme.
- (5) Operating profit margin after transformation costs is calculated as operating profit after transformation costs to revenue.
- (6) Operating profit margin after transformation costs at the UKPIL level for the 13 weeks ended 30 June 2013 is adjusted for the impact of two additional working days in that period.
- (7) Not meaningful.
- (8) EBITDA before exceptional items is defined as operating profit before exceptional items plus depreciation less share of post-tax profits from associates.



## PART VII

### OPERATING AND FINANCIAL REVIEW

*The following operating and financial review is intended to convey the Directors' perspective on the Group's operating performance and its financial condition during the periods under review. The Directors intend this disclosure to assist investors in understanding and interpreting the Historical Financial Information set out in Schedule III (Historical Financial Information) and summarised in Part VI (Financial Information relating to the Group). The Historical Financial Information has been prepared in accordance with (i) the applicable International Financial Reporting Standards (IFRS) as issued by the IASB, except for the non-consolidation of POL, which was a subsidiary of the Group until its transfer to Royal Mail Holdings plc on 1 April 2012, (ii) the requirements of the Prospectus Directive Regulation and (iii) the Listing Rules. See the basis of preparation included in Note 1 to the Historical Financial Information included in Schedule III (Historical Financial Information). As a result of this basis of preparation, financial information related to POL is fully excluded from the Historical Financial Information.*

*Investors should read this Part in conjunction with the section entitled "Risk Factors", Part II (The Business), Part VI (Financial Information relating to the Group), Schedule III (Historical Financial Information) and the other information included in this document.*

*The following discussion contains forward-looking statements. The Group has based these forward-looking statements on its current projections and expectations about future events which the Directors consider reasonable. The Group's actual results may differ materially from those anticipated in these forward-looking statements as a result of many important factors, including those set out in the Risk Factors section in this document. See "Forward-looking Statements".*

*Certain figures contained in this Part, including financial information, have been subject to rounding adjustments. Accordingly, in certain instances, (i) the sum or percentage change of the numbers may not conform exactly to the total figure given; and (ii) the sum of the numbers in a column or row in certain tables may not conform exactly to the total figure given for that column or row.*

*The Group reports its consolidated financial results on the basis of a financial year which ends on the last Sunday in March of each year. Every five to seven years, the Group's financial year will include an additional week. The financial year ended 31 March 2013 consisted of 53 weeks.*

#### **1. PRESENTATION OF RESULTS AND OPERATIONS**

##### **(A) Adjusted 52-week basis for FYE 2013**

FYE 2013 was a 53-week year and to provide meaningful comparisons with FYE 2012, Group revenue and costs (including operating costs, but not transformation costs or other operating exceptional items) for FYE 2013 are also presented on an adjusted 52-week basis. The adjustment removes the revenue earned during the 53rd week and only the incremental operating costs associated with that revenue. There are no adjustments to line items on the Group's income statement for FYE 2013 appearing below operating profit before exceptional items and no adjustments are made to the Group's balance sheet or cash flow statement. Unless otherwise stated, numbers that are quoted as being on an "as adjusted 52-week" basis reflect the removal of the 53rd week in FYE 2013 from the Group's results (excluding GLS, which for each year reports on the basis of a 52-week year ending 31 March).

##### **(B) Changes in revenue and costs in FYE 2013 and in Q1 FYE 2014**

In addition to the adjustment for the 53-week year ended 31 March 2013, the impact of translating GLS's results from Euro into Pounds Sterling using different average exchange rates has also been eliminated to permit revenue and cost growth rates to be calculated on a like-for-like basis when comparing the Group's results for FYE 2013 with FYE 2012 and comparing Q1 FYE 2014 with Q1 FYE 2013.

The average Pounds Sterling/Euro exchange rate was £1 = €1.2262 for FYE 2013 compared with £1 = €1.1572 in FYE 2012, which represents a six per cent. weakening in the relative average value of the Euro against Pounds Sterling over that period, and was £1 = €1.1765 for Q1 FYE 2014 compared with £1 = €1.2278 for Q1 FYE 2013, which represents a four per cent. strengthening in the relative average value of the Euro against Pounds Sterling over that period. If GLS's revenue of €1,808 million (reported as £1,562 million) for FYE 2012 were translated at the FYE 2013 average exchange rate, it would have been reported as £1,474 million, or £88 million lower. The translational impact of foreign currency movements in FYE 2013

had a positive impact on UKPIL's revenue of approximately £2 million which is not material and therefore has not been included in the like-for-like calculations. The movement in the Pounds Sterling/Euro exchange rates between FYE 2011 and FYE 2012 was not material so no adjustments have been made for purposes of the FYE 2012 and FYE 2011 Group and GLS results of operations discussion set out below.

Throughout the discussion of results of operations of the Group for FYE 2013 compared with FYE 2012, unless otherwise stated, FYE 2013 percentage changes in revenue and costs which are quoted as being on a "like-for-like" basis reflect the removal of (i) the 53rd week in FYE 2013 from the Group's results and (ii) the impact of movements in the Pounds Sterling/Euro exchange rates between FYE 2012 and FYE 2013. In the discussion of the segments, when comparing FYE 2013 with FYE 2012 for UKPIL, like-for-like basis only refers to the adjustment made to eliminate the 53rd week in FYE 2013 and for GLS, only refers to the elimination of the impact of movements in the Pounds Sterling/Euro exchange rates between FYE 2012 and FYE 2013.

In Q1 FYE 2014, for UKPIL, there were 64 working days compared with 62 working days in Q1 FYE 2013. In order to provide meaningful comparisons of the Group's and UKPIL's results of operations between Q1 FYE 2014 and Q1 FYE 2013, revenue in Q1 FYE 2014 has been adjusted to reflect the two additional working days in Q1 FYE 2014. No adjustments have been made to costs, as the Group estimates that it would only have incremental costs if the difference in working days between the two periods were greater than a week. Both revenue and cost growth/decline rates have been adjusted to exclude the foreign exchange impact of translating GLS Euro results into Pounds Sterling.

**(C) Changes in UKPIL's volumes for FYE 2013 and Q1 FYE 2014**

Parcel and letter volumes in each financial period are reported on an actual basis, without adjustment for the number of working days during the relevant period. To enable meaningful comparisons of changes in letter and parcel volumes between FYE 2013 and FYE 2012, and Q1 FYE 2014 and Q1 FYE 2013, UKPIL's volumes have been adjusted to remove the impact of differences in the number of working days in each comparative period. Year-on-year changes in the weighted number of working days in GLS were deemed immaterial, and, accordingly, no working day adjustment was made for GLS or at the Group level.

Changes in UKPIL's letter and parcel volumes (expressed as a percentage) between FYE 2012 and FYE 2013, which are presented on a "like-for-like" basis, reflect the removal of the 53rd week in FYE 2013. For UKPIL, changes in volumes between Q1 FYE 2014 and Q1 FYE 2013 have been calculated by adjusting UKPIL's volumes in Q1 FYE 2014 to reflect the two additional working days in Q1 FYE 2014.

**(D) Use of estimates and surveys to determine volumes and revenue**

Royal Mail, like other postal operators, cannot track how prepaid products such as stamps and meters are actually used by customers. For example, a basic weight stamp could be used to post a basic weight letter or several could be used to post a parcel or international letter. Furthermore, Royal Mail cannot track the contents of a mailed envelope which may contain a bank statement, marketing material or a social letter.

Royal Mail uses statistical sampling surveys both to derive the volumes relating to its prepaid products and to disaggregate total letter revenue into marketing mail revenue and other letter revenue.

These statistical processes and surveys are subject to continuous refinement, which may, over time, reallocate revenue between marketing mail and other letters and which could change the volumes of prepaid products. Prior period results could, therefore, be restated.

**(E) Change in accounting policy**

For a discussion of the impact of revised IAS19 'Employee Benefits' on the Historical Financial Information, see Note 28 included in Schedule III (*Historical Financial Information*).

**2. OVERVIEW OF BUSINESS**

The Group is a leading provider of postal and delivery services in the UK, with significant additional operations in continental Europe. It is the UK's incumbent universal postal service provider and its core UK business is the collection, sortation, transportation and delivery of parcels and letters in the UK where it has leading positions in the UK parcel and letter delivery markets. The Group owns GLS, one of the largest ground-based deferred parcels delivery networks in Europe. In FYE 2013, the Group handled approximately 17.4 billion letters and approximately 1.4 billion parcels across all of its networks.

The Group's revenue was £9,279 million in FYE 2013 (£9,146 million on an adjusted 52-week basis) compared with £8,764 million and £8,415 million in FYE 2012 and FYE 2011, respectively. In FYE 2013, the Group's revenue consisted of: UKPIL letters (£4,787 million); UKPIL parcels (£2,979 million) and GLS

(£1,498 million). Operating profit after transformation costs has increased from £18 million in FYE 2011 to £152 million in FYE 2012 and to £440 million in FYE 2013 (£403 million on an adjusted 52-week basis) and operating profit margin after transformation costs has improved from 0.2 per cent. in FYE 2011, to 1.7 per cent. in FYE 2012 and to 4.7 per cent. in FYE 2013 (4.4 per cent. on an adjusted 52-week basis).

In April 2012, POL, which owns and operates the UK's Post Office branch network, was separated from the Group. The Group and POL have entered into a long-term distribution agreement under which POL provides retail letter and parcel services to consumers on behalf of RMG across the UK's Post Office branch network.

In recent years, the operating environment for the Group has changed following the transition to a new and more supportive regulatory framework in the UK, the development of improved relationships with Trade Unions representing the Group's employees in the UK and the transfer to HM Government of the Group's pre-1 April 2012 pension liabilities (based on service and pay up to that date) and certain pension assets relating to the RMPP.

"Royal Mail" is a household name in the UK that customers rely on for the delivery of parcels and letters. The Group is a trusted partner for consumers and businesses across the UK and Europe.

### 3. SEGMENT REPORTING

The Group is structured on a geographic basis and operates through two main business segments:

- (1) UKPIL, which comprises the Group's UK parcel and letter delivery activities operating under the "Royal Mail" and "Parcelforce Worldwide" brands. It also discharges the Group's obligations as the UK's designated universal postal service provider under the "Royal Mail" brand; and
- (2) GLS, which comprises the Group's European parcel business.

Each business segment has discrete revenue, costs, profits, cash flows, assets and employees and reports to the Chief Executive's committee and the RMG Board of Directors on a regular basis.

In FYE 2013, UKPIL accounted for 83 per cent. (£7,633 million) of the Group's revenue and 73 per cent. (£294 million) of its operating profit after transformation costs, in each case on an adjusted 52-week basis. In the same period, GLS accounted for 16 per cent. (£1,498 million) of the Group's revenue and 25 per cent. (£101 million) of the Group's operating profit after transformation costs, in each case on an adjusted 52-week basis.

In addition to these segments, the Group manages two subsidiaries and an associate through a separate non-core division, UK Other, which includes the Group's investments in Romec, Quadrant Catering Limited (classified as an associate for reporting purposes) and NDC 2000 Limited. These subsidiaries and associate provide facilities management services, catering and cleaning services, consulting and project management services to the Group (see section 6 of Part II (*The Business*)). The division generated £15 million of revenue (FYE 2012: £13 million; FYE 2011: £45 million) and contributed £8 million to the Group's overall operating profit after transformation costs in FYE 2013 (FYE 2012: £9 million loss; FYE 2011: £10 million). As the contribution by UK Other to the Group's financial results over the last three financial years has been non-material, discussion and analysis of the financial results attributable to UK Other have not been included in this Part. For more information about UK Other, see Schedule III (*Historical Financial Information*).

#### 3.1 UKPIL

UKPIL encompasses both the Royal Mail Core Network and Parcelforce Worldwide.

- **Royal Mail Core Network:** this is the Group's core network in the UK. The network is used by the Group to fulfil its obligations as the UK's designated universal postal service provider. It is capable of delivering letters and parcels to more than 29 million business and residential addresses in the UK six days a week. The Royal Mail Core Network comprises, among other things, approximately 115,000 pillar boxes, eight regional distribution centres, 45 mail centres, approximately 1,400 local delivery offices, a road fleet of more than 40,000 vehicles, access to a rail and air transport network, and approximately 140,000 frontline employees. In FYE 2013, the Royal Mail Core Network sorted and delivered approximately 14.1 billion addressed letters, 3.3 billion unaddressed letters and one billion parcels.
- **Parcelforce Worldwide:** this is a separate UK network which collects and delivers express parcels under the "Parcelforce Worldwide" brand. Parcelforce Worldwide comprises, among other things, one

hub in Coventry, a new processing centre in Chorley, 52 local depots and a road fleet of vehicles either owned by the Group or by contracted drivers providing services to the Group. In FYE 2013, the Parcelforce Worldwide Network handled approximately 71 million parcels.

Since FYE 2008, Royal Mail has been undergoing a major transformation programme which has covered every aspect of its operations, namely: collection, processing, logistics, sorting and delivery. The Transformation Programme has focused on enabling Royal Mail to deliver letters and parcels more efficiently and adapting the Royal Mail Core Network so that it can carry more parcels. The Group has improved the productivity and effectiveness of the Royal Mail Core Network, which has traditionally been focused on the delivery of letters and is now well positioned to benefit further from predicted levels of growth in the overall UK parcel market while continuing to deliver high levels of service as the UK's universal postal service provider. As of 31 March 2013, the cumulative amount invested in the Transformation Programme was £2,795 million. Approximately 21,000 people have left the business since FYE 2008.

Although letters continue to be important to the business of the Group (including as part of its obligations as the UK's designated universal postal service provider), a key focus for the Group is parcels. In FYE 2013, UKPIL delivered more parcels than ever before, accounting for 38 per cent. of UKPIL's total revenue on an adjusted 52-week basis (FYE 2012: 36 per cent.; FYE 2011: 34 per cent.).

The following table presents certain selected financial data for UKPIL for the periods indicated:

	<b>Reported 53 weeks 2013</b>	<b>Adjusted 52 weeks 2013</b>	<b>Reported 52 weeks 2012</b>	<b>Reported 52 weeks 2011</b>
Revenue (£ million) <sup>(1)</sup>	7,766	7,633	7,189	6,885
Operating profit after transformation costs (£ million)	331	294	33	(110)
Operating profit margin after transformation costs (%) <sup>(2)</sup>	4.3	3.9	0.5	nm <sup>(3)</sup>

**Notes:**

(1) Excludes inter-segment revenue.

(2) Operating profit after transformation costs to revenue.

(3) Not meaningful.

## 3.2 GLS

GLS operates the Group's European parcel business and is focused on the growing deferred parcel segment. GLS operates in 22 countries and nation states through wholly-owned members of the GLS Group and franchisees, and covers an additional 15 countries and nation states through the network and service partners of the GLS Group, which include Parcelforce Worldwide in the UK. The GLS Network is one of the largest ground-based deferred parcel delivery networks in Europe. The GLS Network includes 37 European hubs, approximately 700 locations and approximately 14,000 employees. It utilises approximately 16,000 delivery vehicles and approximately 2,000 long-distance trucks both of which are operated by its sub-contractors. It also has access to a global network of service providers through arrangements with other international delivery operators. In FYE 2013, GLS delivered approximately 380 million parcels. GLS's functional currency is the Euro.

The following table presents certain selected financial data for GLS for the periods indicated:

	<b>Reported 52 weeks 2013</b>	<b>Reported 52 weeks 2012</b>	<b>Reported 52 weeks 2011</b>
Revenue (£ million)	1,498	1,562	1,485
Operating profit after transformation costs (£ million) <sup>(1)</sup>	101	128	118
Revenue (€ million)	1,837	1,808	1,746
Operating profit after transformation costs (€ million)	123	148	139
Operating profit margin after transformation costs (%)	6.7	8.2	7.9

**Notes:**

(1) Although this line item refers to transformation costs, GLS has not incurred any such costs as all transformation costs relate to UKPIL.

## 4. PRINCIPAL FACTORS AFFECTING HISTORICAL RESULTS OF OPERATIONS

### 4.1 Macroeconomic environment in the UK and Europe

The Group's performance and results of operations are significantly influenced by macroeconomic trends and conditions as the volume of deliverable, traded goods and the number of business and transactional communications made by letter are closely linked to levels of economic activity and economic growth in

general. Since the start of 2008, the global economy has experienced significant turbulence and the outlook for the near to medium term remains challenging with some forecasts predicting only modest levels of GDP growth in the UK and the Group's other European core markets. During the three-year period under review the UK and the Eurozone have experienced periods of modest GDP growth and the Eurozone has had a period of contraction.

The following table shows the levels of real GDP growth in the UK and in the Eurozone for the calendar years indicated:

	2012	2011 %	2010
UK	0.2	1.1	1.7
Eurozone	(0.6)	1.5	2.0

Source: UK Office of National Statistics and Eurostat.

## 4.2 UK postal regulation

The UK postal activities of Royal Mail (excluding Parcelforce Worldwide) are regulated by the provisions of the Postal Services Act 2011, which implements the third EU Postal Directive. As the designated universal service provider in the UK, Royal Mail is required to collect and deliver letters six days per week and parcels five days per week (other than on UK public holidays), in each case, at a uniform price throughout the UK. Royal Mail must also allow other postal operators to access its delivery network in certain circumstances.

Ofcom, the regulator for postal services in the UK, introduced a new regulatory framework in March 2012, which gave Royal Mail greater commercial freedom to set prices for its services. Under the previous regime, approximately 60 per cent. of Group revenue was subject to direct price control by the postal regulator whereas under the new regime, direct price control impacts only five per cent. of Group revenue although approximately 50 per cent. of Group revenue (including revenue subject to direct price control) is subject to Ofcom oversight relating to the USO and network access.

Under the new framework, second class stamp products (including parcels up to two kilograms) are subject to a safeguard price cap. USO and access products (second class letters and large letters only) must be provided on "fair and reasonable" terms. Retail second class letter and large letter format business and advertising mail products, and equivalent access products, are subject to a regulatory margin squeeze price control. The margin squeeze price control requires Royal Mail to have a reasonable expectation of recovering its relevant upstream fully allocated costs across the basket of access products. In addition, there is a margin squeeze price control for individual contracts that requires Royal Mail to have a reasonable expectation of recovering a minimum of 50 per cent. of its relevant upstream fully allocated costs for such contracts. Therefore, the margin squeeze price control effectively requires Royal Mail to maintain a minimum margin (using the cost basis defined by Ofcom) between the downstream price it charges to its access customers (including competitors) and the equivalent second class pre-sort retail price it charges its customers for whom it provides an "end to end" service. For further discussion of margin squeeze price control, see section 2.5 of Part A of Part X (*Regulation, State Aid and Procurement*).

Under the new regulatory framework, Ofcom is required to carry out its functions in relation to postal services in a way that it considers will secure the universal service, having regard to the need for the provision of the universal service (i) to be financially sustainable, including the need for a reasonable commercial rate of return for any universal service provider on any expenditure incurred by it for the purpose of, or in connection with, the provision of the universal postal service and (ii) to become efficient within a reasonable time, and then remain so. Ofcom has stated that an indicative benchmark EBIT margin range of five per cent. to 10 per cent. on the revenue less the costs associated with the activities undertaken for the purpose of, or in connection with, the provision of the universal service would be appropriate and consistent with the need for Royal Mail to earn a reasonable commercial rate of return commensurate with the level of risk within the business. In broad terms, this means the profit in relation to such activities should account for between five and 10 per cent. of the revenue generated by such activities. It has also stated that such a range represents neither a cap nor a floor on earnings, which would need to be considered over the duration of the regulatory framework (set for seven years from March 2012). In FYE 2013, the Reported Business, which represents the portion of UKPIL's operations that provides the universal service, generated an EBIT margin (defined as the Reported Business's revenue less costs over revenue) of three per cent.

Neither GLS nor Parcelforce Worldwide are subject to regulation by Ofcom.



### 4.3 Structural changes due to e-substitution and e-commerce

Since 2005, letter and parcel volumes have been significantly affected by e-substitution, having a negative impact on letter volumes, and the increase in online shopping (e-commerce), having a positive impact on parcel volumes.

The volume of addressed letters in the UK is declining, a trend that is common among other developed countries. Historically, letter volumes have been closely correlated with drivers such as GDP growth. However, since 2005, the overall decline in letter volumes has been primarily caused by the shift towards substitution of paper communication by electronic methods, which has occurred across all letter segments and is expected to continue in the foreseeable future. The reasons for e-substitution vary and include, among others, corporate cost pressures, convenience, environmental considerations, broadband penetration and internet usage, and governmental initiatives to reduce paper-based communications and move them online. In the UK, the volume of traditional paper statements and communications issued by financial institutions, such as banks and insurance companies, has declined as a result of their adoption of electronic “paperless” statements as a means of reducing costs. Publishing mail volumes have declined as a result of the shift towards digital publication of newspapers and the widespread adoption and use of email as a form of communication has caused social mail volumes to decline. In addition, there are initiatives by central and local governments to increase the level of digital services as evidenced by HM Government’s “digital by default” strategy intended to drive the further development and use of online government services.

Although there has been a structural decline in letter volumes, parcel volumes have grown in recent years, including in all the periods under review, and are expected to continue growing in the foreseeable future, particularly in the B2C segment. This growth in parcel volumes has been primarily driven by a consumer shift towards online shopping. E-commerce has grown as a result of physical retailers developing or improving their online sales facilities and consumers switching their spending from “high street” retail stores to online stores, which enable convenient price and product range comparison. In addition, the growing popularity of online marketplaces, such as Amazon, and auction websites, such as eBay, has also facilitated an increase in the purchase and sale of goods online, particularly with respect to electrical items, clothing and footwear and health and beauty products. Growth in parcel volumes, however, has been, and will continue to be, negatively impacted by the digital substitution of certain products such as books, films, music and video games. These products are increasingly being purchased by consumers in electronic rather than in physical form, whether through websites or through a downloadable format.

### 4.4 Industrial relations

For the three years ending with FYE 2013, Royal Mail experienced stable relations with its employees predominantly as a result of the Business Transformation Agreement with the CWU signed in 2010, elements of which became due for renewal in April 2013. The agreement established a collaborative framework for pay and modernisation, including the establishment of local employee incentive schemes. This agreement included agreed pay rises and set out the terms under which Royal Mail could undertake the Transformation Programme, including voluntary redundancies and changes in work patterns and practices. Pay rises were phased in over the three years of the agreement: 2.0 per cent. in April 2010, 1.4 per cent. in April 2011 and 3.5 per cent. in April 2012. Since the agreement was signed, significant progress has been made with respect to the Transformation Programme with Royal Mail experiencing no national strikes.

However, both the CWU and the CMA are opposed to, and the CWU, in particular, has publicly campaigned against, the privatisation of Royal Mail. On 20 September 2013, the CWU notified RMG that it intended to ballot relevant employees of RMG who are members of the CWU, including those working in Royal Mail and Parcelforce Worldwide, for industrial action and that the ballot would open on 27 September 2013 and close on 16 October 2013. The sample ballot paper provided to RMG by the CWU indicates that industrial action will take the form of a national strike. The Group expects that the members of the CWU will vote for national industrial action in this ballot. Potential investors should therefore assume for the purposes of making any decision to purchase Ordinary Shares that national strike action and other forms of industrial action will take place across the whole of UKPIL’s activities during the period immediately following, and may occur during, the Offer Period.

For a further discussion of the Group’s relations with employees, see section 10 of Part II (*The Business*).

### 4.5 Pensions transfer

On 1 April 2012, after the grant of State Aid approval from the European Commission to HM Government on 21 March 2012, the pre-1 April 2012 pension liabilities (based on service and pay up to that date) and certain pension assets of the RMPP were transferred to HM Government.

On this date, the RMPP was also sectionalised, with RMG and POL each responsible for their own sections from 1 April 2012 onwards.

The transfer left the RMPP fully funded on an actuarial basis using assumptions scheduled to the Postal Services Act 2011 (Transfer of Assets) Order 2012. This means that, using long-term actuarial assumptions agreed at that date, it was estimated that RMG would not have to make any further deficit contributions (although it would still need to fund the cost of continuing benefit accrual from 1 April 2012 onwards).

RMG retained assets valued at approximately £2.1 billion in the Royal Mail Section of the RMPP to match the remaining liabilities at that date. From 1 April 2012 onwards RMG has been exposed to changes in the value of liabilities retained by it on 1 April 2012 or accrued thereafter, and in the value of the assets held to fund those liabilities.

In FYE 2013, the Group's pension charge was £434 million (FYE 2012: £400 million; FYE 2011: £437 million). The reduction in the pension charge from FYE 2011 to FYE 2012 was due to a three per cent. reduction in headcount and a reduction in contribution rates from 17.8 per cent. in FYE 2011 to 17.1 per cent. in FYE 2012 in relation to the RMPP. The increase in the pension charge from FYE 2012 to FYE 2013 was due to staff pay rises and an increase in the regular future service contribution rates to 18.2 per cent. in relation to the Royal Mail Section of the RMPP, which were partially offset by a 1.9 per cent. reduction in average FTEs. For a further discussion of the Group's pension arrangements, see section 11 of Part II (*The Business*).

## 4.6 Volumes and pricing

### (A) UKPIL parcels

In FYE 2013, over 90 per cent. of UKPIL's parcel volume was delivered through the Royal Mail Core Network with the remainder delivered by Parcelforce Worldwide. The average daily parcel revenue for UKPIL was £11 million to £12 million in FYE 2013 (FYE 2012: £10 million to £11 million; FYE 2011: £9 million to £10 million). The following table shows the revenue earned by UKPIL parcels over the periods indicated, as well as the split in parcel volumes between the Royal Mail Core Network and Parcelforce Worldwide.

	Reported 53 weeks 2013	Adjusted 52 weeks 2013	Growth (%)	Reported 52 weeks 2012	Growth (%)	Reported 52 weeks 2011
Revenue (£ million)	2,979	2,933	13	2,604	11	2,348
Volumes (million)						
– Royal Mail Core Network Parcels	1,010	994	5	950	4	910
– Parcelforce Worldwide	71	70	6	66	5	63

Revenue for UKPIL parcels represented 38 per cent. of UKPIL's total revenue in FYE 2013 on an adjusted 52-week basis (FYE 2012: 36 per cent.; FYE 2011: 34 per cent.).

#### *Growing parcel volumes due to e-commerce*

From FYE 2011 to FYE 2013, UKPIL's parcel volumes for the Royal Mail Core Network and Parcelforce Worldwide grew at a CAGR of five per cent. Revenue from UKPIL parcels has grown as a proportion of UKPIL's total revenue over the last three financial years, primarily as a result of increasing volumes in the B2C segment driven by growth in e-commerce (see section 4.3 of this Part). Linked to the growth generally in e-commerce is Royal Mail and Parcelforce Worldwide's reputation with consumers: 76 per cent. of consumers are more likely to reuse a particular online retailer if that retailer uses Royal Mail to deliver their products. For Parcelforce Worldwide, this figure is 58 per cent. and the nearest competitor is at 41 per cent. (Source: "Delivery Matters", Hall and Partners April 2013).

In calendar year 2012, the overall UK parcel market consisted of the following main segments by volumes: B2C (56 per cent.); B2B (38 per cent.) and C2X (six per cent.). Between 2009 and 2012, volumes in the B2C segment (including the C2X segment) grew at an average annual rate of 5.2 per cent. whereas volumes in the B2B segment grew at an average annual rate of 2.9 per cent. (Source: Triangle Management Services/Royal Mail Group Fulfilment Market Measure, 2013).

In FYE 2013, UKPIL delivered approximately 36.2 per cent. (by revenue) of UK domestic parcels, 4.7 per cent. of which was accounted for by Parcelforce Worldwide (FYE 2012: 34.3 per cent.; FYE 2011: 33.3 per cent.) (Source: Triangle Management Services/Royal Mail Group Fulfilment Market Measure, 2013). On a volume basis, UKPIL's market share in the overall UK parcel market was approximately 53 per cent. in FYE 2013 compared with approximately 52 per cent. in FYE 2011 (Source: Triangle Management Services/Royal Mail Group Fulfilment Market Measure, 2013).

In FYE 2013, UKPIL's revenue from international parcels (including parcels for export and import, but excluding Parcelforce Worldwide) was £534 million (FYE 2012: £476 million; FYE 2011: £405 million), which represented 21 per cent. of UKPIL's parcel revenue (excluding Parcelforce Worldwide) in that financial year (FYE 2012: 22 per cent.; FYE 2011: 21 per cent.). In FYE 2013, the volume of international parcels handled by UKPIL (excluding Parcelforce Worldwide) was approximately 160 million parcels (FYE 2012: 164 million parcels; FYE 2011: 160 million parcels), which represented approximately 16 per cent. of UKPIL's parcels by volume (excluding Parcelforce Worldwide) in that financial year (FYE 2012: 17 per cent.; FYE 2011: 18 per cent.).

#### *Increase in average prices*

The average unit price of UKPIL's parcel products has increased from £2.41 in FYE 2011 to £2.56 in FYE 2012 and to £2.76 in FYE 2013. This represents a year-on-year growth in average unit prices of six per cent. in FYE 2012 and eight per cent. in FYE 2013.

#### **(B) UKPIL letters**

UKPIL letters comprises addressed letters, which includes business, social, publishing and addressed marketing mail, and unaddressed letters, which consists of marketing mail only. In FYE 2013, UKPIL letters generated revenue of £4,787 million, which comprised: letters and other mail (76 per cent.) and marketing mail (24 per cent.). The average daily letters revenue for UKPIL was £18 million in FYE 2013 (FYE 2012: £18 million; FYE 2011: £18 million). The following table shows UKPIL letter revenue and volume information over the periods indicated.

	<b>Reported 53 weeks 2013</b>	<b>Adjusted 52 weeks 2013</b>	<b>Growth (%)</b>	<b>Reported 52 weeks 2012</b>	<b>Growth (%)</b>	<b>Reported 52 weeks 2011</b>
<b>Revenue (£ million)</b>						
Letters and other mail <sup>(1)</sup>	3,652	3,582	3	3,485	(1)	3,504
Marketing mail <sup>(2)</sup>	1,135	1,118	2	1,100	6	1,033
<b>Total letter revenue</b>	<b>4,787</b>	<b>4,700</b>	<b>3</b>	<b>4,585</b>	<b>1</b>	<b>4,537</b>
<b>Volumes (million)</b>						
Addressed letters <sup>(3)</sup>	14,079	13,869	(8)	15,147	(7)	16,230
Unaddressed letters	3,307	3,258	6	3,077	(3)	3,181

#### **Notes:**

- (1) Other mail includes revenue from ancillary products and services including collection and the provision of private post boxes.
- (2) Marketing mail includes revenue from MarketReach, data, and the address management unit.
- (3) Includes international letters.

Revenue from UKPIL letters represented 62 per cent. of UKPIL's total revenue in FYE 2013 on an adjusted 52-week basis (FYE 2012: 64 per cent.; FYE 2011: 66 per cent.).

#### *Declining UK letter volumes due to e-substitution*

Revenue from UKPIL letters has been negatively affected by declining volumes in addressed letters. Since 2004, the use of addressed letters has declined primarily as a result of the increased use of email and other forms of electronic communication (see section 4.3 of this Part). Addressed letter volumes are also affected by general economic conditions and have been adversely impacted by the weak UK economy over the past three years.

Addressed letter volumes have declined at a CAGR of approximately six per cent. over the last five years. In FYE 2013, addressed letter volumes declined by eight per cent., on a like-for-like basis, compared with a decline of seven per cent. in FYE 2012. This decline reflects the impact of substantial price increases, e-substitution as described above as well as the weak economic environment in the UK.

Addressed marketing mail volumes, which are included within addressed letter volumes, are declining at a slower rate than other addressed letters as they are affected by levels of advertising spending, and as a result, are more resilient to e-substitution and the other factors that are driving the decline in addressed letters generally. Unaddressed letter volumes decreased from FYE 2011 to FYE 2012 due to the weak economy, but subsequently increased in FYE 2013 due to one-off sales and improved sales from sales channel partners.

### *Overview of Royal Mail's strategy on letter pricing*

Royal Mail uses detailed models to inform decisions on price increases within the portfolio of its letter products. These models forecast the impact on total letter revenue based on relative pricing between stamped, metered, retail business and access letter products and the impact these price increases are estimated to have on the respective volumes for these specific letter products. These models also forecast the risks of competitive entry in the relevant market associated with any such price increases.

### *The new regulatory regime*

Under the previous regulatory regime, price increases for most products and services (including the price of stamps) were tightly regulated and had not kept pace with inflation, rendering the letter business uneconomical given the significant, fixed cost of operating the business and delivering the Universal Service Obligation.

The new regulatory regime in the UK for the letter market has given Royal Mail greater freedom to set commercial prices for its letter products and services and, thereby, to earn a reasonable commercial rate of return. In particular, direct price cap control now only applies to second class stamped products, which represented approximately five per cent. of Group revenue in FYE 2013. Increased pricing flexibility under the new regulatory regime allowed the Group, among other things, to target volume commitment pricing and rebalance USO and access prices.

### *Increase in average letter prices*

The average unit prices of UKPIL's addressed letter products (which are derived from dividing revenue by volumes for each product grouping) have increased from £0.27 in FYE 2011 to £0.29 in FYE 2012 and to £0.33 in FYE 2013. This represented a growth in average unit prices in FYE 2012 of eight per cent. and in FYE 2013 of 13 per cent. In FYE 2012 and FYE 2013, the growth in average letter revenue was mainly due to the increases in prices of letters (business and social) and marketing mail, although the latter increased at lower levels. In April 2012, the prices of first and second class stamps increased from 36 pence and 46 pence to 50 pence and 60 pence, respectively.

### *Changes in letter product mix*

The approach to optimising letter revenue in an environment of customer price-sensitivity results in a constantly changing product mix within the letter market. Stamped prices are the highest relative to the prices of other products, followed by meter prices, retail business prices and network access prices. As prices across products have increased, customers have switched between mail products in order to reduce their costs, for example from business mail products to marketing mail products, which have a lower average unit price.

In addition to the change in product mix, since 2004, network access volumes have grown as certain customers, generally the larger business mailers, have switched from Royal Mail to alternative postal operators, such as TNT and UK Mail, to take advantage of lower prices offered by these companies. Access volumes have increased from nil in FYE 2004 to 7.3 billion in FYE 2013 or approximately 52 per cent. (by volume) of total addressed letter volumes. However, the growth in network access has flattened in recent years. In FYE 2012 access letter volumes increased by two per cent. and in FYE 2013 the volume increase was less than one per cent. on a like-for-like basis. Trading down by customers from business mail to network access mail has had a negative impact on revenue as Royal Mail charges a lower price per unit for collection and delivery of access mail than it does for delivery of business mail.

## **4.7 Transformation Programme**

Since FYE 2008, the Group's UK core operations have undergone a major transformation programme. The operational transformation is intended to improve the effectiveness of Royal Mail, making it better equipped to handle the growing number of parcels being sent through the Royal Mail Core Network and enabling it to deliver parcels and letters more efficiently. In addition, over this period, Royal Mail has transformed each phase of its operations in the UK and implemented measures to increase profitability and manage costs, while maintaining Royal Mail's quality of service and employee safety.

From FYE 2007 to the end of FYE 2013, the Group invested a total of £2,795 million in the Transformation Programme consisting of £1,093 million of infrastructure costs, £875 million of redundancy costs (including in respect of non-frontline staff), £515 million of incentive payments and £312 million of project management costs. As a result, the Group estimates that it now bears approximately £0.5 billion less cost per year than it

would otherwise have done had it not made that investment. The costs avoided include £0.2 billion of costs relating to processing operations, £0.2 billion of costs relating to delivery operations and £0.1 billion of costs relating to the Group's commercial and central functions.

During the last three financial years, the Transformation Programme has delivered annual productivity improvements of 4.4 per cent., 3.2 per cent. and 1.7 per cent. in FYE 2011, FYE 2012 and FYE 2013, respectively. This has been due in part to improvements in mail processing, mail delivery and a reduction in headcount. Productivity improvements, which result in a reduction of the hours that are required to be worked to handle the Royal Mail's workload, have the effect of lowering people costs.

Productivity is the primary measure for the ability of the business to efficiently process and deliver mail, and is measured by reference to the weighted items (workload) that the Royal Mail Core Network handles per gross hour. Workload is derived by applying different weightings to different product and format volumes, dependent on the work required to process and deliver them. A unit of workload represents the work required to put one average, sequenced letter through the Royal Mail Core Network. Gross hours represent the number of hours needed to process and deliver the aggregate annual volume of letters and parcels through the Core Network (based on frontline delivery and processing hours only). Over the past two years, despite addressed letter volumes declining by approximately two billion items, the Core Network's workload has remained relatively stable due to an increase in parcel volumes, which have a higher workload impact per item than letters. Productivity gains are achieved when the number of gross hours in processing and delivery is reduced at a higher rate than any reduction in workload.

#### (A) Transformation costs

All transformation costs are incurred at UKPIL. The table below provides UKPIL's transformation costs recognised in the income statement for the periods indicated.

	Reported 53 weeks 2013	Reported 52 weeks 2012 £ million	Reported 52 weeks 2011
<b>Incentive payments</b>			
– Business transformation milestone payments/bonus <sup>(1)</sup>	(22)	(87)	(31)
– Colleague Share – 'legacy share' scheme release <sup>(2)</sup>	–	–	101
<b>Restructuring costs</b>			
– Voluntary redundancy	(78)	(77)	(223)
– One-off project and property costs	(95)	(65)	(27)
Impairment of property, plant and equipment	–	–	(12)
<b>Total</b>	<u>(195)</u>	<u>(229)</u>	<u>(192)</u>

#### Notes:

- (1) Business transformation milestone payments/bonus relate to the Business Transformation Agreement under which frontline employees received payments of up to £1,000 based on specific milestones and specific bonuses with respect to modernising the network.
- (2) Colleague Share was a notional share scheme for employees, which was valued in FYE 2011 at nil resulting in a decrease in the estimated liability and subsequent release to the Group's profit and loss account as an operating exceptional item.

The table below sets out the impact of the Transformation Programme on the Group's cash flows for each of the last three financial years. The difference between the transformation costs recognised in the income statement and those recorded in the statement of cash flows principally relates to the inclusion of capital expenditures in the latter as set out below. There may also be timing differences as certain costs are recorded when a programme is announced (for example, closing a mail centre) although the cash costs will only be incurred when the mail centre is actually closed.

	Reported 53 weeks 2013	Reported 52 weeks 2012 £ million	Reported 52 weeks 2011
<b>Cash flows</b>			
Business transformation milestone payments/bonus	(55)	(60)	(95)
Voluntary redundancy	(75)	(129)	(110)
Capital expenditure	(177)	(185)	(166)
One-off projects	(100)	(55)	(8)
<b>Total</b>	<u>(407)</u>	<u>(429)</u>	<u>(379)</u>



### **(B) Mail processing**

UKPIL has 45 mail centres. Since FYE 2007, 28 mail centres have been closed (FYE 2013: 9 closures; FYE 2012: four closures; FYE 2011: seven closures) and four new modernised mail centres have been opened. To date in FYE 2014, three mail centres have been closed and a further five mail centres are expected to be closed in FYE 2014 leaving three more to follow by the end of FYE 2016. As of 31 March 2013, 995 new, refurbished or upgraded machines have been installed into the mail centres that are to remain open which enable letters to be automatically sorted to match the delivery sequence of the postman or postwoman. This contrasts with only 40 such machines that were in place in March 2008.

### **(C) Mail delivery**

The number of delivery offices (approximately 1,400) is not being reduced because these are required by Royal Mail to fulfil the Universal Service Obligation and to provide a collection point for parcels that cannot be delivered to the recipient's address or to a neighbour. More than 60 per cent. of UKPIL's delivery offices, however, have been or are in the process of being modernised, which involves the optimisation of delivery "walks", the implementation of new techniques and tools, such as tracking devices and high capacity trolleys better suited for carrying parcels, to provide greater capability to deliver parcels and improve productivity. By the end of FYE 2014, the Group aims to have completed the modernisation of 100 per cent. of its delivery offices. To underpin the strategy to grow parcel volumes, approximately 11,500 shared vans have been deployed during the Transformation Programme, of which over 4,500 were purchased in FYE 2013 to provide the ability to deliver an increasing number of parcels. At 31 March 2013, nearly 50,000 handheld scanners were in use to provide scanning and tracking services and proof of delivery to customers, and approximately 73,000 handheld scanners are expected to be in use by Christmas 2013. In addition, at the end of FYE 2013, 79 per cent. of letters were sequenced to delivery points compared with only 34 per cent. at the end of FYE 2011. The costs incurred in implementing these changes are included within the transformation costs and the consequential improvement in productivity has contributed to a reduction of hours worked. Productivity improvements, which result in a reduction of the hours that are required to be worked to handle the Royal Mail's workload, have the effect of lowering people costs.

### **(D) Logistics and network**

Royal Mail has achieved a reduction in network mileage of approximately 10.7 per cent. since FYE 2009 through the optimisation of the air transport network and the introduction of specialised vehicles such as shared delivery vans and double-decker trailers that can carry more mail in fewer journeys, thus reducing fuel and labour costs.

## **4.8 Costs**

### **(A) Group costs**

Operating costs, exclusive of transformation costs, are managed by segment and by type: people, distribution and conveyance, infrastructure and other. The following table sets out the Group's operating costs excluding transformation costs for the periods indicated.

	<b>Reported 53 weeks 2013</b>	<b>Adjusted 52 weeks 2013</b>	<b>Reported 52 weeks 2012</b>	<b>Reported 52 weeks 2011</b>
	<b>£ million</b>			
People	(5,147)	(5,077)	(4,920)	(4,986)
Distribution and conveyance	(1,785)	(1,771)	(1,755)	(1,616)
Infrastructure	(1,052)	(1,047)	(1,060)	(1,025)
Other	(660)	(653)	(648)	(578)
<b>Total</b>	<b>(8,644)</b>	<b>(8,548)</b>	<b>(8,383)</b>	<b>(8,205)</b>

## (B) UKPIL operating costs

The following table sets out UKPIL's operating costs excluding transformation costs for the periods indicated.

	Reported 53 weeks 2013	Adjusted 52 weeks 2013	Reported 52 weeks 2012	Reported 52 weeks 2011
	£ million			
People	(4,711)	(4,641)	(4,477)	(4,558)
Distribution and conveyance	(864)	(850)	(805)	(718)
Infrastructure	(956)	(951)	(959)	(927)
Other	(709)	(702)	(686)	(600)
<b>UKPIL operating costs</b>	<b>(7,240)</b>	<b>(7,144)</b>	<b>(6,927)</b>	<b>(6,803)</b>
Transformation costs	(195)	(195)	(229)	(192)
<b>UKPIL operating and transformation costs</b>	<b>(7,435)</b>	<b>(7,339)</b>	<b>(7,156)</b>	<b>(6,995)</b>

**People costs:** People costs include expenses related to payment of salaries, wages, pension and payroll taxes to employees. People costs represented 63 per cent. of UKPIL's cost base including transformation costs in FYE 2013 on an adjusted 52-week basis (FYE 2012, 63 per cent.; FYE 2011, 65 per cent.). Over the last three financial years, wage increases agreed as part of the Business Transformation Agreement have been lower than RPI on a cumulative basis.

As of 31 March 2013, UKPIL's headcount was approximately 150,000 (FYE 2012: 151,200; FYE 2011: 155,200). The number of employees at UKPIL has fallen by three per cent. since FYE 2011, mainly as a result of voluntary redundancy in connection with the Transformation Programme, retirement and natural attrition.

**Distribution and conveyance costs:** Distribution and conveyance costs include international conveyance costs and terminal dues, fuel, vehicle consumables and vehicle leasing. Distribution and conveyance costs represented 12 per cent. of UKPIL's cost base including transformation costs in FYE 2013 on an adjusted 52-week basis (FYE 2012: 11 per cent.; FYE 2011: 10 per cent.). Terminal dues, which are the costs to transport and deliver international export mail by delivery providers in that country and which are charged by weight, have increased over the period due to the increase in export volumes of parcels. Such terminal dues were £313 million in FYE 2013 (FYE 2012: £303 million; FYE 2011: £272 million). UKPIL conveys letters and parcels primarily by road transport and operates, directly or indirectly, a large fleet of road vehicles in the UK. To a lesser extent, UKPIL also relies upon rail and air transport. During FYE 2013 road fuel costs were £180 million (FYE 2012: £167 million; FYE 2011: £145 million).

**Infrastructure costs:** Infrastructure costs include the costs of maintaining the Group's property, IT and communication costs and depreciation. Infrastructure costs such as depreciation are fixed in nature while property costs (including utility costs) can vary. Both electricity and gas costs are hedged under the Group's hedging programme.

Infrastructure costs represented 13 per cent. of UKPIL's cost base including transformation costs in FYE 2013 on an adjusted 52-week basis (FYE 2012: 13 per cent.; FYE 2011: 13 per cent.).

**Other costs:** Other non-people costs include the annual fee and sales commissions paid to POL, which varies with volume and was £371 million in FYE 2013 (FYE 2012: £359 million; FYE 2011: £346 million), stamp production costs, operational consumables and consulting, legal and marketing expenses, which are discretionary. Other costs represented 10 per cent. of UKPIL's cost base including transformation costs in FYE 2013 (on a 52-week adjusted basis) (FYE 2012: 10 per cent.; FYE 2011: 9 per cent.).

## 4.9 GLS

GLS has made important contributions to the Group's operating profit after transformation costs, although its relative contribution declined in FYE 2013, primarily due to the significant improvement in operating profit after transformation costs of UKPIL. In FYE 2013, GLS accounted for 25 per cent. of the Group's operating profit after transformation costs (on an adjusted 52-week basis) (FYE 2012: 84 per cent.) In FYE 2011, GLS made an operating profit after transformation costs of £118 million, compared with the Group's operating profit after transformation costs of £18 million.

In FYE 2013, GLS generated €1.8 billion of revenue, which comprised: deferred parcels (93 per cent.); logistics (five per cent.) and express parcels (two per cent.). In FYE 2013, on a volume basis, it is estimated

that approximately 73 per cent. of the parcels handled by GLS were in the B2B segment, with approximately 27 per cent. in the B2C segment.

The following table shows GLS's revenue and volume information for the periods indicated.

	<b>Reported 52 weeks 2013</b>	<b>Reported 52 weeks 2012</b>	<b>Reported 52 weeks 2011</b>
Revenue (€ million)	1,837	1,808	1,746
Revenue (£ million)	1,498	1,562	1,485
Volumes (million)	380	375	363

GLS's revenue has been affected by weak economic conditions in the Eurozone over the last three financial years. During this period, GLS's overall revenue grew at a CAGR of 3.1 per cent., which was above Eurozone GDP growth, which had a CAGR of 2.1 per cent. over the same period. GLS derives a substantial portion of its revenue from Germany, Italy and France (collectively, 71 per cent. in FYE 2013). In FYE 2013, GLS's third party revenue from these three countries was: Germany (approximately €810 million); France (approximately €210 million), and Italy (approximately €290 million). In FYE 2013, GLS generated third party revenue of approximately €390 million in other developed European markets (including Ireland, Austria, the Netherlands, Belgium, Denmark, Portugal and Spain) and approximately €140 million of third party revenue in developing and emerging European markets (including Hungary, Slovenia, Poland, Slovakia, the Czech Republic and Romania).

From the beginning of FYE 2011 to the end of FYE 2013, revenue from GLS Germany, GLS Italy and GLS France grew at a CAGR of 2.7 per cent., 7.0 per cent. and 0.2 per cent. (adjusted to exclude the impact of the sale of the In Night business during FYE 2012), respectively. GLS Italy's revenue grew significantly faster than GDP growth in Italy over the same period as a result of acquisitions of former franchisees and organic growth.

GLS France incurred an EBITDA loss of €24 million in FYE 2013 (FYE 2012: €23 million; FYE 2011: €24 million). One of the drivers of these losses was the change in French road regulations, which limited GLS France's ability to deliver express parcel services and prompted it to convert its business into a deferred delivery service. As part of this conversion, GLS France sold In Night, its overnight courier business, in FYE 2012. Losses associated with In Night combined with operational issues, quality of service impairment and consequential customer losses have resulted in operating losses at GLS France during the last three financial years. The GLS management team is implementing a strategy, the objective of which is to achieve a break-even position in France in the medium term.

GLS's parcel volumes grew by five per cent. from FYE 2011 to FYE 2013, driven by general market growth, business customers downsizing palletised freight into smaller consignments, which GLS specialises in delivering, and in the B2C segment, which was driven by growth in e-commerce. During the same period, volume growth in Germany, Italy and most of the other countries in which GLS operates was partially offset by a reduction in volumes in France.

Average prices have increased by two per cent. for domestic parcels between FYE 2011 and FYE 2013, but fell by one per cent. for export parcels reflecting the overall underlying trend in pricing in this market segment. The contribution of domestic parcels and export parcels to GLS's FYE 2013 revenue was approximately 69 per cent. and 18 per cent., respectively, with the balance representing logistics, express, other parcels and non-core revenue. Modest price growth in domestic parcels and the price decline in export parcels reflect the highly competitive nature of the markets in which GLS operates. In addition, the increase in B2C parcels had a negative impact upon GLS's operating costs due to generally higher delivery costs that are associated with B2C parcels.

Unlike UKPIL where people costs represented 63 per cent. of operating costs (including transformation costs) in FYE 2013, GLS's primary costs relate to distribution and conveyance as it relies entirely on sub-contractors to provide road transport and delivery of its parcels. In FYE 2013, such costs represented 66 per cent. of GLS's operating costs (FYE 2012: 66 per cent., FYE 2011: 66 per cent.).

The following tables set out GLS's operating costs for the periods indicated in both Pounds Sterling and Euro, GLS's functional currency.

	Reported 52 weeks 2013	Reported 52 weeks 2012 £ million	Reported 52 weeks 2011
People	(337)	(348)	(327)
Distribution and conveyance	(920)	(949)	(898)
Infrastructure	(100)	(105)	(105)
Other	(40)	(32)	(37)
<b>Total</b>	<b>(1,397)</b>	<b>(1,434)</b>	<b>(1,367)</b>

	Reported 52 weeks 2013	Reported 52 weeks 2012 € million	Reported 52 weeks 2011
People	(414)	(402)	(385)
Distribution and conveyance	(1,129)	(1,098)	(1,056)
Infrastructure	(123)	(122)	(123)
Other	(48)	(38)	(43)
<b>Total</b>	<b>(1,714)</b>	<b>(1,660)</b>	<b>(1,607)</b>

As of 31 March 2013, GLS's headcount was approximately 13,600 (FYE 2012: 13,400; FYE 2011: 13,200). During the periods under review, GLS's headcount increased to meet the demand of handling higher parcel volumes. In France and Belgium, however, headcount declined due to redundancies particularly with respect to the sale of the In Night business by GLS France in FYE 2012.

Distribution and conveyance costs include collection costs, delivery costs and line haul costs which GLS outsources to third party sub-contractors upon which GLS relies to collect, transport and deliver parcels. From FYE 2011 to FYE 2013, sub-contractor costs have increased as a result of higher fuel prices, tight labour market conditions, particularly in Germany, where a large portion of GLS's sub-contractors are based, and industry-wide pressure from German political, union and media sources.

Infrastructure costs include rental expenses, depreciation and amortisation, utilities and repair and maintenance expenses. Infrastructure costs have remained stable over the last three financial years.

Other costs principally include marketing and consultancy, claims and damages, and the other staff-related costs (travel, education and training).

## 5. KEY TRENDS, VALUE DRIVERS AND OBJECTIVES

The key trends, value drivers and objectives described below assume that the Group's operating environment continues to be stable and that there is no disruption to the Group's business.

### 5.1 UK parcels

Growth in e-commerce has driven growth in parcel volumes, particularly in the B2C segment. Online retailing represented approximately 10 per cent. of the UK's total retail sales in August 2013 (Source: Office for National Statistics) and is expected to continue to grow. As internet penetration expands and internet usage continues to grow, the Directors believe that growth in e-commerce will continue to drive growth in overall market parcel volumes. Although digital substitution will continue to have a negative impact on the parcel volumes of certain items, the Directors believe that volumes in the B2C market segment will grow between five and six per cent. per year over the three financial years ending in FYE 2016. With the difference between the B2C and the C2X parcel segments becoming increasingly blurred, the Directors believe that this combined segment will grow at approximately 4.5 to 5.5 per cent. per annum and the Group expects to track this over the three financial years ending in FYE 2016. The Directors expect that parcel volumes within the UK's B2B segment will grow at slightly above UK GDP per annum in the three financial years ending in FYE 2016. See section 3.1(B) of Part I (*Market Overview*) for further discussion of market trends.

The Directors believe the UK represents one of the best online opportunities in Europe and that the Group has the ability to leverage the extensive reach of its Royal Mail Core Network. The Group continues to invest in the parcel business to meet the changing needs of customers and receivers through IT (handheld scanners, tracking, SMS messaging) and enhanced customer choice (alternative delivery options, "Delivery to Neighbour" and "click and collect"). As a result of the new regulatory framework, the Group now has

greater commercial freedom to price its products, which was reflected in the simplified products offering launched in April 2013, such as the size-based pricing strategy. Size-based pricing is designed to simplify delivery options for parcels and to optimise use of Royal Mail's networks by diverting larger, uneconomical parcels from the Royal Mail Core Network into the Parcelforce Worldwide network or moving such parcels out of UKPIL's networks altogether.

The Group's strategy is to migrate customers towards higher value, tracked and insured products and services. In FYE 2014, UKPIL is expected to see price increases above RPI due to the introduction of size-based pricing; thereafter the Directors expect future price rises broadly in line with RPI to FYE 2016.

## **5.2 Letters**

The Directors expect that addressed letter volumes (including inland and international letters but excluding election material) in the UK will decline by approximately four to six per cent. per year over the three financial years ending with FYE 2016. Addressed letter volumes have fallen by six per cent. on average over the last five years although the volume decline in FYE 2013 was eight per cent. The decline has been driven mainly by e-substitution, although part of the decline in FYE 2013 was attributable to the substantial price increases implemented in April 2012. The Directors' estimates going forward are based on assumptions regarding the rate of e-substitution and GDP growth rates as well as price increases in line with RPI. See section 3.2(B) of Part I (*Market Overview*) for further discussion of market trends.

Despite the significant increases in prices that were implemented in April 2012, the UK letter market remains competitively priced when compared with European countries. Following such significant increases (including above RPI price increases in FYE 2012), the Directors expect any price increases to be broadly in line with RPI over the three financial years ending in FYE 2016.

## **5.3 Operating costs, exceptional items and tax**

The Directors expect that wage growth rates will be linked with RPI in the next three financial years ending in FYE 2016. Targeted annual productivity improvements of approximately two to three per cent. from the Transformation Programme are expected to partially offset RPI-linked wage increases during this period. Distribution and conveyance costs, infrastructure and other costs are expected to increase broadly in line with RPI over the next three financial years, but will be partially offset through procurement and other savings.

Based on the assumptions used in the valuation of the pension liabilities under IAS 19 as at 31 March 2013, the regular future service contributions in the Group's income statement for FYE 2014 have increased by approximately £50 million as a result of the fall in AA corporate bond rates. As a result, the regular future service contribution rate for the Royal Mail Section of the RMPP has increased from 18.2 per cent of pensionable pay in FYE 2013 to 20.3 per cent in FYE 2014.

Benefit changes have been made through the Pensions Reform (see section 11.3(A) of Part II (*The Business*)) for further details) that create a surplus from assets left in the Royal Mail Section. This surplus will be used to fund the gap between the existing RMG contributions and the estimated cost of future accrual for the Royal Mail Section. Subject to certain conditions, this will keep the Royal Mail Section open for the benefit of the members over the period up to March 2018, without requiring either RMG or individuals to make unaffordable increases to their cash contributions. The accounting impact of the Pensions Reform, which is recognised from the date the RMPP trustee agreed the reform, will be to increase the accounting pension surplus very significantly with a resulting material one-time non-cash exceptional credit to be recorded in the income statement. This one-time non-cash exceptional credit will be recorded in the first half of FYE 2014. In addition, part of this credit will give rise to an additional deferred tax charge partially offsetting the credit which also will be recognised in the income statement for the first half of FYE 2014.

In FYE 2014, the Group's UK effective tax rate was expected to increase due to the impact of a number of non-deductible charges as well as the revaluation of the Group's UK deferred tax assets following the reduction of the UK corporation tax rate from 23 per cent. to 20 per cent. As a result, UKPIL's tax charge (wholly deferred tax related) was expected to be higher than the UK statutory tax rate in FYE 2014. However, as a result of the additional deferred tax charge arising from the material one-time non-cash exceptional credit related to Pensions Reform as described above, the Group's UK effective tax rate for FYE 2014 is expected to be lower than the statutory rate. In FYE 2015, the Group's UK effective tax rate now is expected to be above the statutory rate and then broadly in line with the statutory rate in FYE 2016. Over this period, GLS's current tax rate is expected to be above 30 per cent.



As the Group is past the peak of its investment in the transformation process, related operating costs are expected to decrease, and will include the final payments in respect of the business transformation milestone payments/bonus of approximately £29 million in FYE 2014.

In addition to the foregoing, the following items are expected to increase costs during the three years ending in FYE 2016:

- higher export payments due to terminal dues;
- the effect of a full year of higher German sub-contractor costs at GLS which only had a partial impact on FYE 2013;
- an increase in depreciation of approximately £20 million in FYE 2015 and FYE 2016, although depreciation is expected to be broadly flat in FYE 2014 compared with FYE 2013; and
- increased people-related spend in IT of approximately £25 million in FYE 2014.

#### **5.4 Cash flow**

In FYE 2014, the Group expects to invest a broadly similar amount on capital expenditure and transformation related projects as it did in FYE 2013 (£665 million). Overall investment is expected to decrease by approximately £100 million to £120 million in FYE 2015 and remain at this lower level in FYE 2016. From FYE 2015, it is expected that a higher level of investment will be directed towards non-transformation capital expenditure such as the Enterprise Intelligent Barcode system (as further detailed in section 16.3 of Part XI (*Additional Information*)), Parcelforce Worldwide expansion, IT and the initial planning for parcel automation.

Future service pension contributions in relation to the Royal Mail Section of the RMPP are expected to remain 17.1 per cent. of pensionable pay (approximately £400 million per annum) as a result of the implementation of the Pensions Reform, as explained above. The difference between annual future service contributions and the pension charge to the Group's income statement is expected to increase by approximately £50 million to approximately £75 million. Underlying working capital is expected to remain broadly flat although in the second half of FYE 2014, pension related prepayments are expected to generate a working capital benefit of approximately £150 million.

The Group expects that only a limited amount of UK tax will be payable in FYE 2014 and FYE 2015 due to brought forward capital allowances and tax deductions in connection with the Employee Free Shares Offer but that in FYE 2017, the Group will be paying tax broadly in line with the tax charge to the Group's income statement. Tax payable by GLS is expected to be equivalent to a rate above 30 per cent.

#### **5.5 GLS**

GLS's revenue is affected by economic growth in the Eurozone and has grown at a CAGR of 3.1 per cent. over the last three financial years, which has exceeded the growth in Eurozone GDP over the same period (2.1 per cent.). The Directors believe that GLS's revenue will grow broadly in line with Eurozone GDP over the next three financial years.

The expansion of the GLS network through organic growth and targeted acquisitions focused on the standard parcel market is a key objective. GLS continues to monitor emerging markets, particularly those seeking to join the EU, for further growth opportunities. In the near term, cost challenges remain in Germany due to the impact of high levels of employment on sub-contractor costs, but the Directors expect that this will be partially offset by benefits of the restructuring in France resulting in improved profitability of GLS as a whole.

#### **5.6 Group objectives**

On the basis of the "Key trends and value drivers" described in sections 5.1 to 5.5 of this Part, the Group has established certain financial objectives:

- Low single digit revenue growth;
- Net operating costs (operating costs and transformation costs) growth to remain below revenue growth; and
- Operating profit margin after transformation costs to grow over the next three to five years ending with FYE 2018 to achieve margins in line with the Group's peer group.

In addition, the Group intends to target financial metrics consistent with an investment grade credit profile.

## 5.7 Sensitivities

The Group's ability to achieve the above objectives is subject to a number of factors, the most important of which are summarised below:

- With respect to UKPIL, a uniform increase or decrease of one per cent. in annual volumes of letters and parcels is estimated to impact (positively or negatively): (i) revenue by approximately £75 million; (ii) costs by approximately £5 million to £9 million in the immediate term, and (iii) hours worked, which is approximately equivalent to people costs of £17 million, in the longer term; and
- GLS's cost base is more variable than that of UKPIL. A significant proportion of GLS's cost base (approximately 60 per cent.) comprises fees paid for the largely sub-contracted transport fleet, which are largely variable but have some fixed cost characteristics.

External factors that will also affect the Group's ability to achieve its objectives include a number of the factors that are set forth under section 4 of this Part, including:

- macroeconomic developments in the UK and Europe;
- the continuing impact of e-commerce growth and rate of e-substitution on parcel volumes and letter volumes, respectively;
- growth in marketing mail;
- the potential impact on UKPIL of direct delivery competition;
- an adverse outcome of the VAT litigation which could have an adverse effect on UKPIL's access services (for further information on the VAT litigation, see section 14.1 of Part XI (*Additional Information*));
- regulatory developments generally, including the compliance costs associated with potential new EU data collection protection legislation; and
- national industrial action or the threat of national industrial action.

The objectives stated above do not represent any forecast, target or expectation as to future results or performance. The Group's ability to achieve its objectives are subject to a number of risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future or are beyond the control of the Group. See "*Forward-Looking Statements*" and "*Risk Factors*".

## 6. NON-GAAP OPERATING MEASURES

This Part includes a discussion of the Group's income statement on the basis of certain adjustments described below. These adjusted numbers as well as certain other measures used by the Group are not determined in accordance with GAAP but are included here because the Group's management uses these measures to manage the businesses and allocate resources. The Directors believe that these measures provide the Group's investors with useful information regarding the Group's financial performance. In particular, these measures facilitate a comparison of period-to-period results without the effect of including the additional week in FYE 2013 as well as to reduce volatility associated with exchange rate fluctuations. Other companies may use similarly titled non-GAAP financial measures that are calculated differently from the way the Group calculates such measures and, accordingly, the Group's non-GAAP financial measures may not be comparable with similar measures used by other companies.

Certain other operating measures, which provide useful information about the Group's businesses and the operational factors underlying the Group's financial performance, are described below.

### 6.1 EBITDA before exceptional items

EBITDA before exceptional items is calculated as follows: Operating Profit before exceptional items *plus* depreciation *less* share of post-tax profits from associates. It is a standard proxy for the Group's cash flow earnings derived from its operating activities and, as discussed below, it is the first line item within the Group's free cash flow statement.

### 6.2 Free cash flow

Royal Mail uses free cash flow to monitor and manage its cash performance. This measure eliminates inflows/outflows between net debt items and includes finance cash costs paid.

The free cash flow is used by the Group as management believes that it provides a more useful tool because it separates cash flows with respect to the daily operations of the Group (EBITDA, pensions, working capital); cash flows relating to the significant investment in the Transformation Programme; cash flows with respect to taxation and interest; cash flows relating to other exceptional items and cash flows relating to disposals of property and non-core businesses. Separating these cash flows in the free cash flow statement makes it easier for investors to see them as compared with the statutory cash flow statement presented in accordance with IFRS. See Schedule III (*Historical Financial Information*).

## **7. DESCRIPTION OF PRINCIPAL INCOME STATEMENT ITEMS**

### **7.1 Revenue**

Revenue comprises income generated from the collection and distribution of parcels and letters, primarily in the UK by the UKPIL segment and from the collection and delivery of parcels by GLS. Account revenue is derived from specific contracts and is recognised on completion of the delivery of an item. Prepaid revenue relating to stamp and meter income is recognised when the sale is made, adjusted to reflect the value of stamps and meter credits held but not used by the customer.

At 31 March 2013, the amount of prepaid revenue not recognised was £375 million (25 March 2012, £292 million; 27 March 2011, £241 million).

Within UKPIL, stamped, metered and other prepaid revenue channels are subject to statistical sampling surveys to derive the revenue relating to parcels, marketing mail and letters. These surveys are subject to continuous refinement, which may over time reallocate revenue between the products and prior period results may, therefore, be restated.

### **7.2 People costs**

People costs comprise wages and salaries of employees, employer's pension service costs, National Insurance costs and temporary resource costs. People costs represented 58 per cent. of the Group's cost base after transformation costs in FYE 2013 (FYE 2012: 57 per cent.; FYE 2011: 59 per cent.).

### **7.3 Distribution and conveyance costs**

Distribution and conveyance costs relate to non-people costs incurred in transporting and delivering mail. These include conveyance by rail, road, sea and air, together with costs incurred by international mail carriers and Parcelforce Worldwide delivery operators and GLS.

### **7.4 Infrastructure costs**

Infrastructure costs include the cost of maintaining the Group's property, IT communication costs and depreciation.

### **7.5 Other operating costs**

Other operating costs include sales commission paid to POL, stamp production costs, operational consumables, marketing, consulting and legal costs.

### **7.6 Transformation costs – operating exceptional costs**

Transformation costs are costs which fall outside the Group's normal trading activity and are therefore disclosed separately to provide greater visibility of the underlying results of the business. The costs represent people and non-people related costs associated with the Transformation Programme. All transformation costs are incurred at UKPIL.

### **7.7 Other operating exceptional items**

These are other non-recurring costs, other than transformation costs, that fall outside the Group's normal trading activity and are therefore disclosed separately to provide greater visibility of the underlying results of the business.

### **7.8 Finance costs**

Finance costs relate to interest payable on the Group's financial liabilities.

## 7.9 Finance income

Finance income relates to interest received on available for sale financial assets and interest received on loans and receivable financial assets.

## 7.10 Net pension interest

Net pension interest reflects the change during the period in the net defined benefit liability or asset that arises from the passage of time calculated by applying the discount rate.

# 8. RESULTS OF OPERATIONS

## 8.1 Seasonality

Mail volumes are subject to seasonal variation. The Group's busiest period is from September to December, when there is an increase in marketing mail volumes as businesses seek to maximise sales in the period leading up to Christmas, an increase in parcel volumes as a result of online Christmas shopping and an increase in addressed letter volumes as a result of the delivery of personal Christmas cards. During this period the Group would expect to record higher revenue as greater volumes of letters and parcels are delivered through its networks. It also incurs higher costs as the Group, particularly in UKPIL, hires large numbers of temporary workers to assist in handling the increased workload. Other seasonal factors that can affect the Group's results of operations include the Easter period, the number of bank holidays in a reporting period and weather conditions. Within the year, mail volumes typically decline in the summer months due to the holiday period, and then increase during autumn through the peak period at Christmas.

The Group's revenue was £4,355 million in the first half of FYE 2013 (April through September) and £4,791 million in the second half of FYE 2013 (October through March), which includes the period leading up to and including Christmas, in each case on an adjusted 52-week basis. The Group's operating profit before transformation costs was £264 million in the first half of FYE 2013 (April through September) and £334 million in the second half of FYE 2013 (October through March), in each case on an adjusted 52-week basis.

## 8.2 Comparison of the financial results of the Group for FYE 2013 and FYE 2012

The following table presents the Group's results of operations for the periods indicated:

	Reported 53 weeks 2013	Adjusted 52 weeks 2013 <sup>(1)</sup> £ million	Reported 52 weeks 2012
Revenue	9,279	9,146	8,764
Operating costs	(8,644)	(8,548)	(8,383)
<b>Operating profit before exceptional items</b>	<b>635</b>	<b>598</b>	<b>381</b>
Transformation costs – operating exceptional items	(195)	(195)	(229)
<b>Operating profit after transformation costs</b>	<b>440</b>	<b>403</b>	<b>152</b>
Other operating exceptional items	(77)		(57)
<b>Operating profit</b>	<b>363</b>		<b>95</b>
Profit on disposal of property, plant & equipment	4	Not adjusted	156
Profit on disposal of business	–	at this level	26
<b>Earnings before interest and taxation (EBIT)</b>	<b>367</b>		<b>277</b>
Net finance costs and pension interest	(47)		(330)
Taxation – current charge	(38)		(36)
deferred credit/(charge)	284		(15)
<b>Profit/(loss) for the period</b>	<b>566</b>		<b>(104)</b>

### Note:

(1) No adjustments relating to the 53rd week in FYE 2013 are made after operating profit after transformation costs.

## (A) Revenue

Group revenue was £9,279 million in FYE 2013, compared with £8,764 million in FYE 2012, an increase of £515 million. On a like-for-like basis, revenue increased five per cent. in FYE 2013. This increase was principally attributable to revenue growth at UKPIL (up six per cent. in FYE 2013 on a like-for-like basis compared with FYE 2012) which increase was due to a 13 per cent. increase in parcel revenue (£2,933 million in FYE 2013 on an adjusted 52-week basis compared with £2,604 million in FYE 2012) and a three per cent. increase in letter revenue (£4,700 million in FYE 2013 on an adjusted 52-week basis

compared with £4,585 million in FYE 2012). In addition, GLS revenue increased by two per cent. in FYE 2013 compared with FYE 2012 on a like-for-like basis. Actual reported revenue of GLS in FYE 2013 declined four per cent. compared with FYE 2012 due to the weakness of the Euro against the Pound.

**(B) Operating costs**

Group operating costs were £8,644 million in FYE 2013, compared with £8,383 million in FYE 2012, an increase of £261 million. On a like-for-like basis, operating costs increased by three per cent. This increase was due to increases in people costs (up four per cent. on a like-for-like basis in FYE 2013), distribution and conveyance costs (up four per cent. on a like-for-like basis in FYE 2013) and other costs (up one per cent. on a like-for-like basis in FYE 2013).

**(C) Transformation costs – operating exceptional items**

	Reported 53 weeks 2013 <sup>(1)</sup>	Reported 52 weeks 2012
	£ million	
Incentive payments		
Business transformation milestone payments/bonus	(22)	(87)
Restructuring costs		
Voluntary redundancy	(78)	(77)
Other costs charged – projects and property	(95)	(65)
<b>Total transformation costs</b>	<b>(195)</b>	<b>(229)</b>

**Note:**

(1) There are no adjustments to transformation costs as a result of the 53-week year in FYE 2013.

Transformation costs were £195 million in FYE 2013, compared with £229 million in FYE 2012, a decrease of £34 million. This decrease was primarily due to lower business transformation milestone payments/bonus of £22 million in FYE 2013, compared with £87 million in FYE 2012, which included the payment of a one-off bonus to replace the Colleague Share plan in FYE 2012. This decrease was partially offset by an increase of £30 million in project and property costs relating to projects including the implementation of new delivery methods, mail centre rationalisation and deployment of automation equipment (up 46 per cent. in FYE 2013 compared with FYE 2012). Voluntary redundancy payments remained stable in FYE 2013 compared with FYE 2012.

**(D) Operating profit after transformation costs/Operating profit margin after transformation costs**

Operating profit after transformation costs was £440 million in FYE 2013, compared with £152 million in FYE 2012, an increase of £288 million. On an adjusted 52-week basis, operating profit after transformation costs was £403 million. This increase was primarily due to the increase in revenue of five per cent. (on a like-for-like basis), which grew at a faster rate than the increase in operating costs (including transformation costs), which grew by two per cent. (on a like-for-like basis). In FYE 2013, on an adjusted 52-week basis, UKPIL and GLS contributed 73 per cent. and 25 per cent. of the Group's operating profit after transformation costs respectively, compared with contributions of 22 per cent. and 84 per cent., respectively, in FYE 2012.

For the above reasons, the operating profit margin after transformation costs improved to 4.4 per cent. on an adjusted 52-week basis in FYE 2013 from 1.7 per cent. in FYE 2012.

**(E) Other operating exceptional items**

	Reported 53 weeks 2013	Reported 52 weeks 2012
	£ million	
Potential industrial diseases claims	(28)	(10)
Post Office Limited separation – IT costs	(20)	–
Postal Services Act costs	(10)	(24)
Other exceptional items (including Romec transformation costs) <sup>(1)</sup>	1	(16)
Impairments	(20)	(7)
<b>Total other operating exceptional items</b>	<b>(77)</b>	<b>(57)</b>

**Note:**

(1) Romec transformation costs relate to a re-organisation of the company.



Other operating exceptional items relate to UKPIL, except for £15 million in FYE 2012, which related to Romec's transformation costs. Other operating exceptional costs were £77 million in FYE 2013, compared with £57 million in FYE 2012, an increase of £20 million. This increase was primarily due to increases in provisions for industrial diseases claims (discussed below) and IT costs related to the separation of POL (£20 million in FYE 2013, compared with nil in FYE 2012). Approximately £14 million of this provision is expected to be utilised in FYE 2014, with the remainder to be utilised in the following year.

A provision relating to industrial disease claims of £28 million in FYE 2013 increased by £18 million from FYE 2012. This relates to the build-up of a provision in the balance sheet which is assessed on an annual basis and at 31 March 2013 stood at £67 million (FYE 2012: £39 million). The Group's liability in respect of potential industrial disease claims from former employees arose in 2010 as a result of a Court of Appeal judgment that held the Group liable for disease claims relating to asbestosis brought by individuals who were employed in the General Post Office telecommunications division and whose employment ceased prior to October 1981. Consequently, a provision was first recognised in FYE 2011. The Group has determined its current provision on estimates and ranges calculated by its actuaries which themselves are based on current experience of claims and an assessment of potential future claims. Most claims are expected to be received over the next 25 to 30 years, as there can be a long period (potentially up to 50 years) between exposure to asbestos and the development of asbestos-related diseases. The Directors expect current provisions to be adequate over this period. In FYE 2013, the cash spent on these claims was £1 million (FYE 2012: £3 million; FYE 2011: nil).

Impairments mainly relating to property assets increased to £20 million in FYE 2013 from £7 million in FYE 2012 primarily due to a £15 million impairment in relation to a large distribution centre. Costs relating to the implementation of the Postal Services Act decreased to £10 million in FYE 2013, compared with £24 million in FYE 2012, due to a reduction in activities related to the implementation of the new legislative and regulatory framework. In addition, there was a release of costs relating to other items, mainly comprising amounts in relation to the Romec transformation of £1 million in FYE 2013, compared with a cost of £16 million in FYE 2012.

**(F) Other exceptional items**

	Reported 53 weeks 2013	Reported 52 weeks 2012
	£ million	
Profit on disposal of property, plant & equipment	4	156
Profit on disposal of business	–	26
<b>Total other exceptional items</b>	<b>4</b>	<b>182</b>

Other exceptional items were a profit of £182 million in FYE 2012, compared with a profit of £4 million in FYE 2013. Profit on disposal of property declined in FYE 2013 compared with FYE 2012 largely due to a higher level of transactions in FYE 2012 and the sale of the West End distribution and administration office (Rathbone) in FYE 2012, which realised a profit of £104 million. The profit on sale of businesses primarily related to the sale of the Group's investment in Romec Services Limited (a subsidiary of Romec Limited) (£25 million). The sale of properties and business assets was completed as part of the Restructuring Plan implemented in connection with the 2012 State Aid Decision, which required RMG, among other things, to divest assets.

**(G) EBIT**

EBIT was £367 million in FYE 2013, compared with £277 million in FYE 2012, an increase of £90 million or 32 per cent. This increase was primarily due to an increase in operating profit of £268 million (up 282 per cent. in FYE 2013 compared with FYE 2012). EBIT was positively affected in FYE 2012 as the Group recorded a profit on the disposal of property, plant and equipment and businesses of £182 million compared with £4 million in FYE 2013.

**(H) Net finance costs and net pension interest**

	Reported 53 weeks 2013	Reported 52 weeks 2012
	£ million	
Finance costs	(104)	(112)
Finance income	27	12
Net finance costs (excluding net pension interest)	(77)	(100)
Net pension interest credit/(charge)	30	(230)
<b>Net finance costs and net pension interest costs</b>	<b>(47)</b>	<b>(330)</b>

Net finance costs and net pension interest costs were £47 million in FYE 2013, compared with £330 million in FYE 2012, an improvement of £283 million. Net finance costs and net pension interest costs comprised £30 million net pension interest credit in FYE 2013, compared with a £230 million charge in FYE 2012, and net finance costs (excluding net pension interest) of £77 million relating to net debt in FYE 2013, compared with net finance costs (excluding net pension interest) of £100 million in FYE 2012. Finance costs decreased in FYE 2013 to £104 million, compared with £112 million in FYE 2012, whereas finance income increased in FYE 2013 to £27 million, compared with £12 million in FYE 2012. The increase in finance income in FYE 2013 was due in part to a £22 million one-off gain from the sale of gilts which had been held in escrow to provide security to the trustee of RMPP to support pension-related payments. The pension interest credit/cost is a non-cash item and reflects the change during the period in the net defined liability or asset that arises from the passage of time calculated by applying the discount rate.

Finance costs of £104 million in FYE 2013 included £82 million of interest (£91 million in FYE 2012) relating to average loans and borrowings of £972 million (FYE 2012: £1,478 million). The reduction in the average loans and borrowings in the year was due to the repayment in April and May 2012 of the £600 million Mails Facilities (senior debt facility (term loan)), which was used for general purposes and working capital. The lower principal amount outstanding during the year was offset by a higher average interest rate of 8.4 per cent. over the period (FYE 2012: 6.2 per cent.). Of the £82 million charge, £51 million (FYE 2012: £45 million) relates to the Subordinated Facility (shareholder loan) used for general purposes and working capital (see table below). This is an unsecured facility that has preconditions to any early repayment, and the interest is payable at maturity or on early repayment.

At 31 March 2013, the Group had the following facilities available and amounts drawn as set out below:

	Loans and borrowings £m	Further committed facility £m	Total facility £m	Average interest rate of loan drawn down %	Average maturity date of drawn loans	Average maturity date of facility
Senior debt facility (term loan) <sup>(1)</sup>	–	600	600	–	–	2014
Senior debt facility (revolver)	–	300	300	–	–	2014
GLS funding loan <sup>(2)</sup>	500	–	500	5.8	2023	2023
Shareholder loan <sup>(2)</sup>	473	–	473	12.0	2016	2016
<b>Total loans</b>	<b>973</b>	<b>900</b>	<b>1,873</b>	<b>8.8</b>		

**Notes:**

(1) On 30 March 2012, the Group agreed an amendment to this facility to permit repayment and reborrowing. The outstanding balance was repaid during April and May 2012. Since then no further drawdowns have been made.

(2) These facilities will be repaid in full on Admission.

**(I) Current taxation**

The following table shows the Group's income tax charges over the periods indicated below.

	Reported 53 weeks 2013	Reported 52 weeks 2012
	£ million	
UK corporation taxation	(11)	2
Foreign taxation	(28)	(36)
Current income taxation charge	(39)	(34)
Amounts over/(under) provided in earlier years	1	(2)
<b>Total current income taxation</b>	<b>(38)</b>	<b>(36)</b>

The current income tax charge of £39 million (FYE 2012: £34 million) represented an effective rate on profit before taxation of 12 per cent. (5 per cent. rate in the UK) due to current year UK taxable profit being offset by previous years' trading tax losses, which arose both due to trading and, up to FYE 2011, the annual deficit contributions of nearly £300 million to fund the historical pension deficit of RMPP. The reason for the overall UK tax credit is that no deferred tax asset had previously been recognised for these tax losses.

GLS's current taxation rate of 26 per cent. reflects no tax relief being recorded for losses by GLS France due to uncertainty over the timing of future profits of GLS France.

**(J) Deferred taxation**

The Pensions Transfer in April 2012, which eliminated the need for further RMPP deficit contributions, and improved operating performance, contributed to the generation of a taxable profit in FYE 2013 by the UK businesses. The Directors expect the UK businesses will continue to generate taxable profits in the future. Consequently, the net deferred tax credit of £284 million in the income statement in FYE 2013 includes £290 million relating to UK tax, mainly to recognise the future tax reliefs associated with carried forward tax reliefs (including capital allowances) of approximately £2.8 billion. These tax reliefs have accumulated because the UK businesses had not generated sufficient profit in prior years to utilise the potential deductions. As a result, these tax reliefs will be carried forward and may be utilised in the future. The deferred tax in relation to GLS in FYE 2013 was a charge of £6 million.

**(K) Profit/(Loss) for the period**

For the reasons outlined above, profit for the period was £566 million in FYE 2013, compared with a loss of £104 million in FYE 2012, an increase of £670 million.

**8.3 Comparison of the financial results of UKPIL for FYE 2013 and FYE 2012**

The following table presents the results of operations for UKPIL for the periods indicated, including the adjusted 52 weeks for FYE 2013.

	<b>Reported 53 weeks 2013</b>	<b>Adjusted 52 weeks 2013 £ million</b>	<b>Reported 52 weeks 2012</b>
Revenue	7,766	7,633	7,189
Operating costs before transformation and other exceptional items	(7,240)	(7,144)	(6,927)
<b>Operating profit before exceptional items</b>	<b>526</b>	<b>489</b>	<b>262</b>
Transformation costs – operating exceptional items	(195)	(195)	(229)
<b>Operating profit after transformation costs before other operating exceptional items</b>	<b>331</b>	<b>294</b>	<b>33</b>
Other operating exceptional items	(77)	(77)	(42)
<b>Operating profit</b>	<b>254</b>	<b>217</b>	<b>(9)</b>
<b>Operating profit margin after transformation costs (%)</b>	<b>4.3</b>	<b>3.9</b>	<b>0.5</b>

## (A) Revenue

The tables below provide certain information for the periods indicated with respect to the revenue and mail volumes of UKPIL.

	Reported 53 weeks 2013	Adjusted 52 weeks 2013 £ million	Reported 52 weeks 2012
<b>Revenue</b>			
Letters <sup>(1)</sup>	4,787	4,700	4,585
Parcels	2,979	2,933	2,604
<b>Total UKPIL revenue</b>	<u>7,766</u>	<u>7,633</u>	<u>7,189</u>
	Reported 53 weeks 2013	Adjusted 52 weeks 2013 million	Reported 52 weeks 2012
<b>Volumes</b>			
<b>Parcels</b>			
Royal Mail Core Network	1,010	994	950
Parcelforce Worldwide	71	70	66
<b>Total UKPIL parcels</b>	<u>1,081</u>	<u>1,064</u>	<u>1,016</u>
<b>Letters</b>			
Addressed letters (including International)	14,079	13,869	15,147
Unaddressed letters	3,307	3,258	3,077

### Note:

- (1) Includes marketing mail (FYE 2013: £1,135 million, £1,118 million on an adjusted 52-week basis; FYE 2012: £1,100 million). Marketing mail revenue is monitored separately by management because volume growth is principally driven by growth in advertising spending generally, whereas addressed letter volumes are principally affected by the decline in letters due to e-substitution.

Total UKPIL revenue was £7,766 million in FYE 2013, compared with £7,189 million in FYE 2012, an increase of £577 million. On a like-for-like basis, revenue increased by six per cent. UKPIL revenue is divided into two principal categories: letters and parcels.

### Letters

Letter revenue was £4,787 million in FYE 2013 compared with £4,585 million in FYE 2012, an increase of £202 million. On a like-for-like basis, letters revenue increased by three per cent. in FYE 2013. This increase was attributable to a price and product mix increase of nine per cent., an increase of six per cent. in unaddressed letter volume (which consists entirely of marketing mail), which together offset an eight per cent. decline in addressed letter volumes, in each case on a like-for-like basis. The revenue increase attributable to price and mix was primarily due to price increases implemented in April 2012, which were partially offset by an adverse change in product mix related to migration of business mail volumes to marketing mail as a result of the price increases.

Addressed letter volumes were 14.1 billion in FYE 2013 compared with 15.1 billion in FYE 2012. On a like-for-like basis, addressed letter volumes declined by eight per cent. in FYE 2013, primarily due to e-substitution. Addressed letter revenue was £4,615 million in FYE 2013, compared with £4,412 million in FYE 2012. On a like-for-like basis, addressed letter revenue increased by three per cent.

Unaddressed letter volumes were 3.3 billion in FYE 2013 compared with 3.1 billion in FYE 2012. On a like-for-like basis, unaddressed letter volumes increased by six per cent. due to a number of one-off mailings in the year, including from the Electoral Commission as a result of the Police Commissioner elections in November 2012, and increased volume from sales channel partners who sell unaddressed products on Royal Mail's behalf. The resulting revenue was £134 million in FYE 2013, compared with £122 million in FYE 2012. On a like-for-like basis, unaddressed letter revenue increased by nine per cent.

Marketing mail revenue are predominantly derived from addressed letters, but include a small proportion in relation to unaddressed letters, as unaddressed letters are priced at a significantly lower average revenue per unit. Marketing mail revenue was £1,135 million in FYE 2013 compared with £1,100 million in FYE 2012, an increase of £35 million. On a like-for-like basis, marketing mail revenue increased by two per cent. in FYE 2013. The increase in revenue growth was primarily due to price increases in certain advertising products, which was partially offset by the migration of some business customers to cheaper advertising mail products.

## Parcels

Parcel revenue was £2,979 million in FYE 2013 compared with £2,604 million in FYE 2012, an increase of £375 million. On a like-for-like basis, parcel revenue increased by 13 per cent. in FYE 2013. This increase was attributable to a five per cent. growth in volumes and an eight per cent. growth attributable to price increases and changes in product mix. The increase attributable to price and mix was largely due to an increase in the average prices of eight per cent., with little impact due to product mix.

Parcel volumes in the Royal Mail Core Network were 1,010 million in FYE 2013 compared with 950 million in FYE 2012, an increase of six per cent. On a like-for-like basis, parcel volumes in the Royal Mail Core Network increased by five per cent. in FYE 2013, primarily due to growth in e-commerce.

Parcel volumes in Parcelforce Worldwide were 71 million in FYE 2013 compared with 66 million in FYE 2012. On a like-for-like basis, parcel volumes in Parcelforce Worldwide increased by six per cent. This was primarily due to growth in e-commerce.

## (B) Operating costs

The table below provides certain information, for the periods indicated, with respect to the operating costs of UKPIL.

	Reported 53 weeks 2013	Adjusted 52 weeks 2013 £ million	Reported 52 weeks 2012
People costs	(4,711)	(4,641)	(4,477)
Distribution and conveyance operating costs	(864)	(850)	(805)
Infrastructure costs (property, IT, depreciation/amortisation)	(956)	(951)	(959)
Other operating costs	(709)	(702)	(686)
<b>Total</b>	<b>(7,240)</b>	<b>(7,144)</b>	<b>(6,927)</b>

Operating costs were £7,240 million in FYE 2013, compared with £6,927 million in FYE 2012, an increase of £313 million. On a like-for-like basis, operating costs increased by three per cent. due to an increase in people costs (up four per cent.), which consisted of (i) a 3.5 per cent. pay increase to frontline employees pursuant to the Business Transformation Agreement (approximately £190 million); (ii) higher pension costs associated with an increase of the regular future service contribution rate from 17.1 per cent. to 18.2 per cent. (£34 million) in relation to the RMPP; and (iii) costs relating to the implementation of the Agency Workers Directive, which provides improved basic working and employment conditions for agency workers who provide temporary help during peak periods (approximately £23 million). These cost increases were offset in part by a reduction in the average number of FTEs by 1.9 per cent. resulting in cost savings of £83 million.

Non-people costs increased by two per cent. on a like-for-like basis, which was mainly attributable to higher distribution and conveyance operating costs attributable to vehicle maintenance, fuel, hire and leasing costs due to expansion of the fleet as part of the Transformation Programme (approximately £35 million). At FYE 2013, UKPIL operated a fleet of approximately 40,000 vehicles compared with approximately 37,000 vehicles at FYE 2012.

## (C) Transformation costs – operating exceptional items

	Reported 53 weeks 2013 <sup>(1)</sup> £ million	Reported 52 weeks 2012
Incentive payments		
Business transformation milestone payments/bonus	(22)	(87)
Restructuring costs		
Voluntary redundancy	(78)	(77)
Other costs charged – projects and property	(95)	(65)
<b>Total transformation costs</b>	<b>(195)</b>	<b>(229)</b>

### Note:

(1) There are no adjustments to transformation costs as a result of the 53-week year in FYE 2013.

For a discussion of the transformation costs for FYE 2013 and FYE 2012, see section 8.2(C) of this Part.



**(D) Operating profit after transformation costs/operating profit margin after transformation costs**

Operating profit after transformation costs was £331 million in FYE 2013 compared with £33 million in FYE 2012. On an adjusted 52-week basis, operating profit after transformation costs increased to £294 million. This increase was due to the increase in revenue of six per cent. (on a like-for-like basis), which grew at a faster rate than the increase in operating costs including transformation costs, which grew by three per cent. (on a like-for-like basis).

The combination of revenues growing at a higher rate than costs improved the operating profit margin after transformation costs. Consequently, the operating profit margin after transformation costs increased to 3.9 per cent. in FYE 2013 on a 52-week adjusted basis from 0.5 per cent. in FYE 2012.

**(E) Other operating exceptional items**

	Reported 53 weeks 2013	Reported 52 weeks 2012
	£ million	
Potential industrial diseases claims	(28)	(10)
Post Office Limited separation – IT costs	(20)	–
Postal Services Act costs	(10)	(24)
Other exceptional items	1	(1)
Impairments	(20)	(7)
<b>Total other operating exceptional items</b>	<b>(77)</b>	<b>(42)</b>

For a discussion of other operating exceptional items for FYE 2013 and FYE 2012, see section 8.2(E) of this Part.

**(F) Operating profit**

Operating profit was £254 million in FYE 2013 compared with a loss of £9 million in FYE 2012. The increase in operating profit was mainly due to the improvement in operating profit after transformation costs offset only in part by higher other operating exceptional items in FYE 2013 compared to FYE 2012.

**8.4 Comparison of the financial results of GLS for FYE 2013 and FYE 2012**

The following tables present the results of operations for GLS for the periods indicated in both Pounds Sterling and Euro. The following analysis uses GLS's functional currency, the Euro, to provide a comparison and eliminate currency fluctuations. GLS reports on the basis of a 52-week year so no adjustment at this level is necessary for the results for FYE 2013 to be comparable with FYE 2012.

	Reported 52 weeks 2013	Reported 52 weeks 2012
	£ million	
Revenue	1,498	1,562
Operating costs	(1,397)	(1,434)
<b>Operating profit</b>	<b>101</b>	<b>128</b>
<b>Operating margin (%)</b>	<b>6.7</b>	<b>8.2</b>

	Reported 52 weeks 2013	Reported 52 weeks 2012
	€ million	
Revenue	1,837	1,808
Operating costs	(1,714)	(1,660)
<b>Operating profit</b>	<b>123</b>	<b>148</b>

**(A) Revenue**

Underlying revenue was €1,837 million in FYE 2013, compared with €1,808 million in FYE 2012, an increase of €29 million or two per cent. Revenue growth was achieved in all of the core countries in which GLS operates, except France. The revenue growth was attributable, in part, to an overall increase in volume of one per cent. and an increase in price of one per cent.

In FYE 2013, GLS Germany, GLS France and GLS Italy each contributed 44 per cent., 11 per cent. and 16 per cent. to GLS's revenue, compared with 45 per cent., 13 per cent. and 15 per cent., respectively, in FYE

2012. In FYE 2013, revenue from GLS Germany increased by less than one per cent. Revenue from GLS Italy increased by eight per cent. driven by acquisitions of former franchisees and organic growth. Revenue from GLS France declined by 11 per cent. from FYE 2012 to FYE 2013 mainly due to the exit from the In Night business and continuing operational issues with the French business. Adjusting for the impact of the sale of the In Night business, revenue at GLS France declined by 1.9 per cent. between FYE 2012 and FYE 2013.

On conversion to Pounds Sterling, revenue decreased by four per cent. from £1,562 million in FYE 2012 to £1,498 million in FYE 2013 due to the weakening of the Euro relative to Pounds Sterling.

### **(B) Operating costs**

Operating costs were €1,714 million in FYE 2013, compared with €1,660 million in FYE 2012, an increase of €54 million or three per cent. The increase was primarily due to higher distribution and conveyance charges resulting from higher sub-contractor rates, mainly as a result of tight labour market conditions (particularly in Germany where the unemployment rate is at an historically low level). Labour costs also increased, due to the effect of annual pay increases, higher headcount to support volume growth and the effect of acquisitions of former franchisees in Italy.

### **(C) Operating profit/operating profit margin**

Operating profit was €123 million in FYE 2013, compared with €148 million in FYE 2012, a decline of €25 million or 17 per cent., as operating costs increased more rapidly than revenue. This was mainly due to higher distribution and conveyance costs in Germany, which were not able to be offset by price increases due to market competition. Higher sub-contractor costs in Germany were partially offset by profit growth at GLS Italy, however, GLS France continued to be loss-making with an EBITDA loss of €24 million in FYE 2013 (FYE 2012: €23 million).

For the reasons outlined above, the operating profit margin fell from 8.2 per cent. in FYE 2012 to 6.7 per cent. in FYE 2013, a decline of 1.5 percentage points.

## **8.5 Comparison of the financial results of the Group for FYE 2012 and FYE 2011**

The following table presents the Group's results of operations for the periods indicated:

	<b>Reported 52 weeks 2012</b>	<b>Reported 52 weeks 2011</b>
	<b>£ million</b>	
Revenue	8,764	8,415
Operating costs	(8,383)	(8,205)
<b>Operating profit before exceptional items</b>	381	210
Transformation costs – operating exceptional items	(229)	(192)
<b>Operating profit after transformation costs</b>	152	18
Other operating exceptional items	(57)	(48)
<b>Operating profit/(loss)</b>	95	(30)
Profit on disposal of property, plant & equipment	156	60
Profit on disposal of business	26	44
<b>Earnings before interest and taxation (EBIT)</b>	277	74
Net finance costs and pension interest	(330)	(503)
Taxation – current charge	(36)	(35)
– deferred credit/(charge)	(15)	(88)
<b>Loss for the period</b>	<b>(104)</b>	<b>(552)</b>

### **(A) Revenue**

Group revenue was £8,764 million in FYE 2012, compared with £8,415 million in FYE 2011, an increase of £349 million or four per cent. This increase was principally attributable to an 11 per cent. improvement in parcel revenue (driven by higher volumes and price increases) in UKPIL and a four per cent. increase in GLS revenue.

**(B) Operating costs**

Group operating costs were £8,383 million in FYE 2012, compared with £8,205 million in FYE 2011, an increase of £178 million or two per cent. This increase was mainly due to UKPIL where increases in non-people costs of £205 million were only partially offset by lower people costs of £81 million.

**(C) Transformation costs – operating exceptional items**

	Reported 52 weeks 2012	Reported 52 weeks 2011
	£ million	
Incentive payments		
Business transformation milestone payments/bonus	(87)	(31)
Colleague Share – “share” scheme release	–	101
Restructuring costs		
Redundancy charged through provisions	(77)	(223)
Other costs charged – one-off projects and property	(65)	(27)
Impairment of property, plant and equipment	–	(12)
<b>Total transformation costs</b>	<b>(229)</b>	<b>(192)</b>

Transformation costs were £229 million in FYE 2012, compared with £192 million in FYE 2011, an increase of £37 million or 19 per cent. This increase comprised £56 million of higher business transformation milestone payments/bonuses, including a one-off bonus in FYE 2012 introduced to replace the Colleague Share plan, for which the provision of £101 million was released in FYE 2011 and for which there was no charge in FYE 2012. There were also £38 million higher project and property costs, offset by £146 million lower voluntary redundancy costs due to the timing of redundancy announcements and lower impairment costs (FYE 2012: nil; FYE 2011: £12 million) as a result of a one-off write off of equipment in FYE 2011.

**(D) Operating profit after transformation costs/operating profit margin after transformation costs**

Operating profit after transformation costs was £152 million in FYE 2012, compared with £18 million in FYE 2011, an increase of £134 million. This increase was due to the increase in revenue of four per cent., which grew at a faster rate than the increase in operating costs including transformation costs, which grew by two per cent. In FYE 2012, UKPIL and GLS contributed 22 per cent. and 84 per cent. of the Group's operating profit after transformation costs, respectively (excluding the impact of a £9 million operating loss at UK Other). In FYE 2011, the Group's operating profit after transformation costs was primarily due to GLS's operating profit of £118 million, which offset UKPIL's operating loss after transformation costs of £110 million. For the above reasons, operating profit margin after transformation costs improved to 1.7 per cent. in FYE 2012 from 0.2 per cent. in FYE 2011.

**(E) Other operating exceptional items**

	Reported 52 weeks 2012	Reported 52 weeks 2011
	£ million	
Potential industrial diseases claims	(10)	(30)
Post Office Limited separation – IT costs	–	–
Postal Services Act	(24)	(15)
Other exceptional items (including Romec transformation costs)	(16)	–
Impairments	(7)	(3)
<b>Total other operating exceptional items</b>	<b>(57)</b>	<b>(48)</b>

All other operating exceptional items relate to UKPIL, except for £15 million in FYE 2012, which related to Romec's transformation costs.

Other operating exceptional items were £57 million in FYE 2012, compared with £48 million in FYE 2011, an increase of £9 million or 19 per cent. This increase was primarily due to the Romec transformation costs and higher Postal Services Act related costs, which relate to consultancy, legal, financial and success fees in connection with the implementation of the Postal Services Act and also the subsequent activities to secure external funding, including the State Aid application process. These were offset in part by lower costs relating to potential industrial diseases claims. The charge in FYE 2011 in relation to the potential industrial diseases claims represented the initial provision, based on actuarial valuation of potential claims, while the charge in FYE 2012 was lower as this represented the utilisation and unwinding of the discount on the provision.

**(F) Other exceptional items**

	Reported 52 weeks 2012	Reported 52 weeks 2011
	£ million	
Profit on disposal of property, plant & equipment	156	60
Profit on disposal of business	26	44
<b>Total other exceptional items</b>	<b>182</b>	<b>104</b>

Other exceptional items were a profit of £182 million in FYE 2012, compared with £104 million in FYE 2011. In FYE 2011 the profit arose on the sale of various mail centres and delivery offices and also the sale of the Group's final share of Camelot (£44 million), the lottery company.

In FYE 2012 the profit on disposal of property was largely due to the sale of the West End distribution and administration office (Rathbone) (£104 million) with the profit on sale of businesses primarily related to the sale of the Group's investment in Romec Services Limited (a subsidiary of Romec Limited) (£25 million) pursuant to the Restructuring Plan adopted in connection with the 2012 State Aid Decision.

**(G) EBIT**

EBIT was £277 million in FYE 2012, compared with £74 million in FYE 2011, an increase of £203 million or 274 per cent. This increase was primarily due to higher profit after transformation costs, and higher profit from disposal of property assets including the sale of the West End distribution and administration office (Rathbone). The profit from disposal of property assets was £156 million in FYE 2012 compared with £60 million in FYE 2011.

**(H) Net finance costs and pension interest costs**

	Reported 52 weeks 2012	Reported 52 weeks 2011
	£ million	
Finance costs	(112)	(107)
Finance income	12	23
Net finance costs (excluding net pension interest)	(100)	(84)
Net pension interest charge	(230)	(419)
<b>Net finance costs and net pension interest costs</b>	<b>(330)</b>	<b>(503)</b>

Net finance costs and pension interest costs were £330 million in FYE 2012, compared with £503 million in FYE 2011, an improvement of £173 million. Net finance costs and pension interest costs comprised £230 million net pension interest charge in FYE 2012, compared with a £419 million charge in FYE 2011 (this was mainly driven by changes in long-term pension assumptions), and net finance costs of £100 million relating to net debt in FYE 2012, compared with £84 million in FYE 2011. Finance costs increased in FYE 2012 to £112 million, compared with £107 million in FYE 2011, whereas finance income decreased in FYE 2012 to £12 million, compared with £23 million in FYE 2011.

Net finance costs of £100 million in FYE 2012 (£84 million in FYE 2011) included £91 million of interest (£79 million in FYE 2011) relating to average loans and borrowings of £1,478 million (FYE 2011: £1,283 million), with an average interest rate of 6.2 per cent. over the period (6.2 per cent. in FYE 2011). Average borrowings were higher in FYE 2012 compared with FYE 2011 as a result of capitalised interest on the Subordinated Facility (shareholder loan) and higher drawn balances on the Mails Facilities (senior debt facility (term loan)) expiring in 2014.

At 25 March 2012, the Group had the following facilities available and amounts drawn as set out below:

	Loans and borrowings £m	Further committed facility £m	Total facility £m	Average interest rate of loan drawn down %	Average maturity date of drawn loans	Average maturity date of facility
Senior debt facility (term loan)	600	–	600	2.2	2014	2014
Senior debt facility (revolver)	–	300	300	–	–	2014
GLS funding loan	500	–	500	5.8	2023	2023
Shareholder loan	422	–	422	12.0	— <sup>(1)</sup>	— <sup>(1)</sup>
<b>Total loans</b>	<b>1,522</b>	<b>300</b>	<b>1,822</b>	<b>6.1</b>		

**Note:**

- (1) Loan facilities are repayable on the later of March 2016 and the release of the pension escrow investment which had been set aside to support certain pension payments. As from 1 April 2012, following the transfer of the pre-1 April 2012 RMPP pension liabilities (based on service and pay up to that date) and certain pension assets to HM Government and the release of the pension escrow investments, the loan facilities are repayable in March 2016.

**(I) Current taxation**

The following table shows the Group's income tax charges over the periods indicated below.

	Reported 52 weeks 2012	Reported 52 weeks 2011
	£ million	
UK corporation taxation	2	(2)
Foreign taxation	(36)	(35)
Current income tax charge	(34)	(37)
Amounts over/(under) provided in earlier years	(2)	2
<b>Total current income taxation</b>	<b>(36)</b>	<b>(35)</b>

The current income tax charge was £34 million in FYE 2012, compared with £37 million in FYE 2011.

GLS's current taxation rate was 26 per cent. in FYE 2012 which reflects no tax relief being recorded for losses by GLS France due to uncertainty over the timing of future profits of GLS France.

**(J) Deferred taxation**

In FYE 2011, UK deferred tax assets were derecognised as a result of deterioration in trading performance leading to a UK deferred tax charge of £79 million and an overseas deferred tax charge of £9 million. In FYE 2012, UK deferred tax asset recognition remained negligible due to uncertainty over recoverability of any potential deferred tax asset, with the total deferred tax charge being £15 million, consisting of a UK deferred tax charge of £8 million and an overseas deferred tax charge of £7 million.

**(K) Loss for the period**

For the reasons outlined above, the loss for the period was £104 million in FYE 2012, compared with a loss of £552 million in FYE 2011, an improvement of £448 million.

**8.6 Comparison of the financial results of UKPIL for FYE 2012 and FYE 2011**

The following table presents the results of operations for UKPIL for the periods indicated.

	Reported 52 weeks 2012	Reported 52 weeks 2011
	£ million	
Revenue	7,189	6,885
Operating costs before transformation and other exceptional items	(6,927)	(6,803)
<b>Operating profit before exceptional items</b>	<b>262</b>	<b>82</b>
Transformation costs – operating exceptional items	(229)	(192)
<b>Operating profit/(loss) after transformation costs before other operating exceptional items</b>	<b>33</b>	<b>(110)</b>
Other operating exceptional items	(42)	(48)
<b>Operating loss</b>	<b>(9)</b>	<b>(158)</b>
<b>Operating margin after transformation costs (%)</b>	<b>0.5</b>	<b>nm<sup>(1)</sup></b>

**Note:**

- (1) Not meaningful.



## (A) Revenue

The table below provides certain information with respect to the revenue of UKPIL for the periods indicated.

	Reported 52 weeks 2012	Reported 52 weeks 2011
	£ million	
<b>Revenue</b>		
Letters <sup>(1)</sup>	4,585	4,537
Parcels	2,604	2,348
<b>Total UKPIL Revenue</b>	<b>7,189</b>	<b>6,885</b>
	Reported 52 weeks 2012	Reported 52 weeks 2011
	million	
<b>Volumes</b>		
<b>Parcels</b>		
Royal Mail Core Network	950	910
Parcelforce Worldwide	66	63
<b>Total UKPIL Parcels</b>	<b>1,016</b>	<b>973</b>
<b>Letters</b>		
Addressed letters (including International)	15,147	16,230
Unaddressed letters	3,077	3,181

### Note:

(1) Includes marketing mail (FYE 2012: £1,100 million; FYE 2011: £1,033 million).

Total UKPIL revenue was £7,189 million in FYE 2012, compared with £6,885 million in FYE 2011, an increase of £304 million or four per cent.

### Letters

Letter revenue was £4,585 million in FYE 2012 compared with £4,537 million in FYE 2011, an increase of £48 million or one per cent. This increase was attributable to a price and product mix increase of seven per cent. (which was in part attributable to an increase in marketing mail revenue), offset by a three per cent. decline in unaddressed letter volumes, and a seven per cent. decline in addressed letter volumes.

Addressed letter volumes were 15.1 billion in FYE 2012, as compared with 16.2 billion in FYE 2011, a seven per cent. decline. This was primarily due to the continued structural decline in addressed letter volumes due to e-substitution. Addressed letter revenue was £4,412 million in FYE 2012, compared with £4,371 million in FYE 2011, an increase of one per cent.

Unaddressed letter volumes were 3.1 billion in FYE 2012, as compared with 3.2 billion in FYE 2011, a decrease of three per cent. due primarily to decreased levels of advertising spending as a result of weak economic conditions in the UK. Unaddressed letter revenue was £122 million in FYE 2012, compared with £121 million in FYE 2011, an increase of one per cent.

Marketing mail revenue was £1,100 million in FYE 2012, compared with £1,033 million in FYE 2011, an increase of £67 million or six per cent. The increase was primarily due to price increases, which were partially offset by a reduction in volumes of one per cent.

### Parcels

Parcel revenue was £2,604 million in FYE 2012 compared with £2,348 million in FYE 2011, an increase of £256 million or 11 per cent. This increase was attributable to a five per cent. growth in volumes and six per cent. growth attributable to price increases and product mix changes. Growth in volumes was mainly driven by the growth in e-commerce and the increase attributable to price and mix was due primarily to the increase in average prices of six per cent., with little variance due to product mix changes.

Parcel volumes in the Royal Mail Core Network were 950 million in FYE 2012, compared with 910 million in FYE 2011, an increase of five per cent. This was primarily due to the growth in e-commerce.

Parcel volumes in Parcelforce Worldwide were 66 million in FYE 2012, compared with 63 million in FYE 2011, an increase of four per cent. This also was primarily due to the growth in e-commerce.

## **(B) Operating costs**

The table below provides certain information, for the periods indicated, with respect to the operating costs of UKPIL.

	<b>Reported 52 weeks 2012</b>	<b>Reported 52 weeks 2011</b>
	<b>£ million</b>	
People costs	(4,477)	(4,558)
Distribution and conveyance operating costs	(805)	(718)
Infrastructure costs (property, IT, depreciation/amortisation)	(959)	(927)
Other operating costs	(686)	(600)
<b>Total</b>	<b>(6,927)</b>	<b>(6,803)</b>

UKPIL's net operating costs were £6,927 million in FYE 2012, compared with £6,803 million in FYE 2011, an increase of £124 million or two per cent., which was attributable to an increase in non-people costs (£205 million or nine per cent.), partially offset by a decrease in people costs (£81 million or two per cent.).

The reduction in people costs mainly related to the cost impact of taking hours out of the operations of approximately £146 million and approximately £68 million of savings from the Group reorganisation (average FTEs reduced by 3.4 per cent.). In addition, the regular future service contribution rate in relation to RMPP decreased from 17.8 per cent. in FYE 2011 to 17.1 per cent. in FYE 2012. These reductions were offset in part by higher pay costs of £168 million, comprising a 1.4 per cent. pay increase, the move to a shorter week resulting in less hours worked (but which did not result in any corresponding change in wages) once local modernisation targets were achieved and also a 100 per cent. payout of bonus compared with a payout of approximately 40 per cent. in FYE 2011.

The increase in non-people costs consisted of higher distribution and conveyance costs due to higher vehicle maintenance, fuel, hire and leasing costs (£87 million), higher infrastructure costs (mainly depreciation/amortisation and IT) (£32 million), including an increase in depreciation of £17 million to £269 million (in line with a marginal increase in capital expenditure) and an increase in other costs (£86 million), which included £20 million related to a mail centre and small equipment consumables and £13 million related to the increase in the sales commission paid to POL due to the increase in prices. The increase in non-people costs was partially offset by procurement savings of approximately £63 million.

## **(C) Transformation costs – operating exceptional items**

	<b>Reported 52 weeks 2012</b>	<b>Reported 52 weeks 2011</b>
	<b>£ million</b>	
Incentive payments		
Business transformation milestone payments/bonuses	(87)	(31)
Colleague Share – “share” scheme release	–	101
Restructuring costs		
Redundancy charged through provisions	(77)	(223)
Other costs charged – one-off projects and property	(65)	(27)
Impairment of property, plant and equipment	–	(12)
<b>Total transformation costs</b>	<b>(229)</b>	<b>(192)</b>

For a discussion of the transformation costs for FYE 2012 and FYE 2011, see section 8.5(C) of this Part.

## **(D) Operating profit/(loss) after transformation costs/Operating profit margin after transformation costs**

Operating profit after transformation costs was £33 million in FYE 2012 compared with a loss of £110 million in FYE 2011, an improvement of £143 million. This increase was due to the growth in revenue, which grew at a faster rate than operating costs, offset in part by the higher level of transformation costs for the reasons described above. As a result, the operating profit margin after transformation costs improved to 0.5 per cent. in FYE 2012 following a loss in FYE 2011.

**(E) Other operating exceptional items**

	Reported 52 weeks 2012	Reported 52 weeks 2011
	£ million	
Potential industrial diseases claims	(10)	(30)
Post Office Limited separation – IT costs	–	–
Postal Services Act	(24)	(15)
Other exceptional items	(1)	–
Impairments	(7)	(3)
<b>Total other operating exceptional items</b>	<b>(42)</b>	<b>(48)</b>

For a discussion of the other operating exceptional items for FYE 2012 and FYE 2011, see section 8.5(E) of this Part.

**(F) Operating loss**

For the reasons outlined above, operating loss was £9 million in FYE 2012 compared with a loss of £158 million in FYE 2011.

**8.7 Comparison of the financial results of GLS for FYE 2012 and FYE 2011**

The following tables set out the results of operations for GLS for the periods indicated in both Pounds Sterling and Euro. The following discussion uses GLS's functional currency, the Euro, to provide a comparison and eliminate currency fluctuation:

	Reported 52 weeks 2012	Reported 52 weeks 2011
	£ million	
Revenue	1,562	1,485
Operating costs	(1,434)	(1,367)
<b>Operating profit</b>	<b>128</b>	<b>118</b>
<b>Operating margin (%)</b>	<b>8.2</b>	<b>7.9</b>

	Reported 52 weeks 2012	Reported 52 weeks 2011
	€ million	
Revenue	1,808	1,746
Operating costs	(1,660)	(1,607)
<b>Operating profit</b>	<b>148</b>	<b>139</b>

**(A) Revenue**

Revenue was €1,808 million in FYE 2012, compared with €1,746 million in FYE 2011, an increase of €62 million or four per cent. The increase was primarily due to a three per cent. increase in overall volume, with growth in all countries except France, and a one per cent. increase in prices.

In FYE 2012, GLS Germany, GLS France and GLS Italy each contributed 45 per cent., 13 per cent. and 15 per cent. to GLS's revenue, compared with 46 per cent., 14 per cent. and 14 per cent., respectively, in FYE 2011.

On conversion to Pounds Sterling, revenue increased by five per cent. from £1,485 million in FYE 2011 to £1,562 million in FYE 2012 due to the strengthening of the Euro over the period, relative to Pounds Sterling.

**(B) Operating costs**

Operating costs were €1,660 million in FYE 2012, compared with €1,607 million in FYE 2011, an increase of €53 million or three per cent. The increase was primarily due to higher distribution and conveyance charges resulting from higher sub-contractor costs driven by higher volumes as well as low levels of unemployment in Germany. Labour costs also increased, due to the effect of annual pay increases, additional headcount to support volume growth and the effect of acquisitions of former franchisees in Italy.

### **(C) Operating profit/operating profit margin**

Operating profit was €148 million in FYE 2012, compared with €139 million in FYE 2011, an increase of €9 million or six per cent. Operating profit increased as the growth in revenue exceeded the increase in operating costs, for the reasons outlined above. In FYE 2012, GLS France incurred an EBITDA loss of €23 million, compared to €24 million in FYE 2011.

For the reasons outlined above, operating profit margin increased from 7.9 per cent. in FYE 2011 to 8.2 per cent. in FYE 2012.

### **8.8 Comparison of the financial results of the Group for Q1 FYE 2014 and Q1 FYE 2013**

Following this Offering the Group intends to report on an annual and a half-yearly basis and to issue interim management statements in accordance with the Disclosure and Transparency Rules. The presentation of and level of disclosure contained in this Part with respect to the Group's results for Q1 FYE 2014 and Q1 FYE 2013 have been included to comply with the Listing Rules and are not intended to be representative of how the Group intends to report its financial results on an interim basis in future periods. Financial information from Q1 FYE 2013 is unaudited.

The following table presents the Group's results of operations for the periods indicated:

	<b>Q1 FYE 2014</b>	<b>Q1 FYE 2013</b>
	<b>£ million</b>	
Revenue	2,304	2,168
Operating costs	(2,109)	(2,065)
<b>Operating profit before exceptional items</b>	195	103
Transformation costs – operating exceptional items	(31)	(39)
<b>Operating profit after transformation costs</b>	164	64
Other operating exceptional items	(21)	(2)
<b>Operating profit</b>	143	62
Profit on disposal of property, plant & equipment	17	1
Profit on disposal of business	2	–
<b>Earnings before interest and taxation (EBIT)</b>	162	63
Net finance costs and pension interest	(17)	5
Taxation – current charge	(19)	(13)
Deferred (charge)/credit	(18)	317
<b>Profit for the period</b>	108	372

### **(A) Revenue**

Group revenue was £2,304 million in Q1 FYE 2014, compared with £2,168 million in Q1 FYE 2013, an increase of £136 million. Adjusting for the revenue impact of the two additional working days in Q1 FYE 2014 for UKPIL and foreign exchange movements, revenue increased by three per cent. This increase was principally attributable to revenue growth at UKPIL (up three per cent. in Q1 FYE 2014 compared with Q1 FYE 2013) which, in turn, was due to an 11 per cent. increase in parcel revenue (£752 million in Q1 FYE 2014 compared with £657 million in Q1 FYE 2013), partially offset by a two per cent. decline in letter revenue (£1,146 million in Q1 FYE 2014 compared with £1,141 million in Q1 FYE 2013). Adjusting for foreign exchange movements, GLS revenue increased by six per cent. in Q1 FYE 2014 compared with Q1 FYE 2013.

### **(B) Operating costs**

Group operating costs were £2,109 million in Q1 FYE 2014, compared with £2,065 million in Q1 FYE 2013, an increase of £44 million, primarily due to GLS, which contributed £33 million. Adjusting for the impact of foreign exchange movements, operating costs increased by one per cent. This increase was primarily due to increases in distribution and conveyance costs (up six per cent. in Q1 FYE 2014) and people costs (up two per cent. in Q1 FYE 2014), which were partially offset by a decrease in infrastructure costs (down one per cent. in Q1 FYE 2014), other costs (down 16 per cent. in Q1 FYE 2014) and an improvement in productivity (up 1.4 per cent. in Q1 FYE 2014).

**(C) Transformation costs – operating exceptional items**

	Q1 FYE 2014	Q1 FYE 2013
	£ million	
Incentive payments		
Business transformation milestone payments/bonus	(3)	(14)
Restructuring costs		
Voluntary redundancy	(2)	–
Other costs charged – projects and property	(26)	(25)
<b>Total transformation costs</b>	<b>(31)</b>	<b>(39)</b>

Transformation costs were £31 million in Q1 FYE 2014, compared with £39 million in Q1 FYE 2013, a decrease of £8 million or 21 per cent. This decrease was primarily due to lower business transformation milestone payments compared with Q1 FYE 2013.

**(D) Operating profit after transformation costs/Operating profit margin after transformation costs**

Operating profit after transformation costs was £164 million in Q1 FYE 2014, compared with £64 million in Q1 FYE 2013, an increase of £100 million. This increase was due to an increase in revenue of three per cent., which grew at a faster rate than the increase in operating costs including transformation costs, which grew by one per cent. In Q1 FYE 2014, UKPIL contributed 80 per cent. of the Group's operating profit after transformation costs compared with 56 per cent. in Q1 FYE 2013. In Q1 FYE 2014, GLS contributed 19 per cent of the Group's operating profit after transformation costs compared with 40 per cent. in Q1 FYE 2013.

For the above reasons, the operating profit margin after transformation costs was 7.1 per cent. in Q1 FYE 2014. Adjusting for the revenue impact of an additional two working days in Q1 FYE 2014 for UKPIL and foreign exchange movements, the operating profit margin after transformation costs was five per cent. in Q1 FYE 2014, compared with three per cent. in Q1 FYE 2013.

**(E) EBIT**

EBIT was £162 million in Q1 FYE 2014, compared with £63 million in Q1 FYE 2013, an increase of £99 million. This increase was primarily due to improved operating performance at UKPIL, which resulted in an increase in operating profit after transformation costs at UKPIL (Q1 FYE 2014: £132 million; Q1 FYE 2013: £36 million), and a £17 million profit from disposal of property (Q1 FYE 2013: £1 million). Other operating exceptional items increased from £2 million in Q1 FYE 2013 to £21 million in Q1 FYE 2014, which included an accrual for historical employment costs and an increase in Postal Services Act related costs.

**(F) Net finance costs and pension interest costs**

	Q1 FYE 2014	Q1 FYE 2013
	£ million	
Finance costs	(27)	(27)
Finance income	1	23
<b>Net finance costs (excluding net pension interest)</b>	<b>(26)</b>	<b>(4)</b>
Net pension interest credit	9	9
<b>Net finance costs and net pension interest costs</b>	<b>(17)</b>	<b>5</b>

Net finance costs and pension interest costs were £17 million in Q1 FYE 2014, compared with a credit of £5 million in Q1 FYE 2013, a change of £22 million. Net finance costs and pension interest costs comprised a net pension interest credit of £9 million in Q1 FYE 2014, unchanged from Q1 FYE 2013, and net finance costs (excluding net pension interest) of £26 million relating to net debt in Q1 FYE 2014, compared with net finance costs (excluding net pension interest) of £4 million in Q1 FYE 2013. Finance costs of £27 million in Q1 FYE 2014 remain unchanged from Q1 FYE 2013, whereas finance income decreased in Q1 FYE 2014 to £1 million, compared with £23 million in Q1 FYE 2013. In Q1 FYE 2013, net finance costs benefited from a one-off gain of £22 million relating to the sale of pension escrow investments.

Finance costs of £27 million in Q1 FYE 2014 comprised £21 million of interest (Q1 FYE 2013: £21 million) relating to average loans and borrowings of £973 million (Q1 FYE 2013: £1,118 million). As noted above the Group repaid in full its £600 million Mails Facilities (senior debt facility (term loan)) in full during April and May 2012. The lower principal amount outstanding during Q1 FYE 2014 was offset by a higher average interest rate of 8.6 per cent. over the period (Q1 FYE 2013: 7.5 per cent) as a larger proportion of the outstanding loan balances related to the Subordinated Facility (shareholder loan) which has an interest rate (payable at maturity or early repayment) of 12 per cent. For more information on the Subordinated Facility, see section 9.4 of this Part.



At 30 June 2013, the Group had the following facilities available and amounts drawn as set out below:

	Loans and borrowings £m	Further committed facility £m	Total facility £m	Average Interest rate of loan drawn down %	Average maturity date of drawn loans	Average maturity date of facility
Senior debt facility (term loan)	–	600	600	–	–	2014
Senior debt facility (revolver)	–	300	300	–	–	2014
GLS funding loan	500	–	500	5.8	2023	2023
Shareholder loan	473	–	473	12.0	2016	2016
<b>Total loans</b>	<b>973</b>	<b>900</b>	<b>1,873</b>	<b>8.8</b>		

#### (G) Current taxation

The following table shows the Group's income tax charges over the periods indicated below.

	Q1 FYE 2014	Q1 FYE 2013
	£ million	
UK corporation taxation	(10)	(5)
Foreign taxation	(8)	(8)
Current income taxation charge	(18)	(13)
Amounts over/(under) provided in earlier years	(1)	–
<b>Total current income taxation</b>	<b>(19)</b>	<b>(13)</b>

The current income tax charge of £18 million (Q1 FYE 2013; £13 million) represented an effective rate on profit before taxation of 12 per cent. (nine per cent. rate in the UK) due to the charge on current year profit being partly offset by claims for capital allowances and past years' losses.

GLS's Q1 FYE 2014 current tax rate was approximately 26 per cent., which reflects no tax relief being recorded for losses by GLS France due to uncertainty over the timing of future profits of GLS France.

#### (H) Deferred taxation

In Q1 FYE 2014, the deferred tax charge was £18 million, which consisted of a £16 million charge in respect of the UK businesses (representing the expected movement on the brought forward assets and liabilities) and a £2 million charge in respect of GLS, compared with a credit of £317 million in Q1 FYE 2013, which included £319 million relating to UK tax, mainly to recognise the future tax reliefs (including capital allowances) of approximately £2.8 billion. Due to the Pensions Transfer in April 2012 and improved operating performance, the Group was able to recognise these net deferred tax credits.

#### (I) Profit for the period

For the reasons outlined above, in particular the deferred tax credit recognised in Q1 FYE 2013, profit for the period was £108 million in Q1 FYE 2014, compared with £372 million in Q1 FYE 2013, a decrease of £264 million.

### 8.9 Comparison of the financial results of UKPIL for Q1 FYE 2014 and Q1 FYE 2013

The following table presents the results of operations for UKPIL for the periods indicated.

	Q1 FYE 2014	Q1 FYE 2013
	£ million	
Revenue	1,898	1,798
Operating costs before transformation and other exceptional items	(1,735)	(1,723)
<b>Operating profit before exceptional items</b>	<b>163</b>	<b>75</b>
Transformation costs – operating exceptional items	(31)	(39)
<b>Operating profit after transformation costs before other operating exceptional items</b>	<b>132</b>	<b>36</b>
Other operating exceptional items	(21)	(1)
<b>Operating profit</b>	<b>111</b>	<b>35</b>
<b>Operating profit margin after transformation costs (%)<sup>(1)</sup></b>	<b>4.4</b>	<b>2</b>

Note:

(1) Operating profit margin after transformation costs for Q1 FYE 2014 is adjusted for the impact of two additional working days in Q1 FYE 2014.

## (A) Revenue

The table below provides certain information for the periods indicated with respect to the revenue of UKPIL.

	Q1 FYE 2014	Q1 FYE 2013
	(£ million)	
Revenue		
Letters <sup>(1)</sup>	1,146	1,141
Parcels	752	657
<b>Total UKPIL Revenue</b>	<b>1,898</b>	<b>1,798</b>

### Note:

(1) Includes marketing mail. Marketing mail revenue has not been separately calculated for these periods.

Total UKPIL revenue was £1,898 million in Q1 FYE 2014, compared with £1,798 million in Q1 FYE 2013, an increase of £100 million. Adjusting for the impact of the two additional working days in Q1 FYE 2014, UKPIL's revenue increased by three per cent.

### Letters

Letter revenue was £1,146 million in Q1 FYE 2014 compared with £1,141 million in Q1 FYE 2013, an increase of £5 million. Adjusting for the impact of the two additional working days in Q1 FYE 2014, letter revenue declined by two per cent., which was primarily attributable to a six per cent. decline in addressed letter volumes, offset by a price and product mix increase.

### Parcels

Parcel revenue was £752 million in Q1 FYE 2014 compared with £657 million in Q1 FYE 2013, an increase of £95 million. Adjusting for the impact of the two additional working days in Q1 FYE 2014, parcel revenue increased by 11 per cent., which was attributable to a two per cent. growth in volumes and an increase in price and product mix. Size-based pricing, which was introduced in April 2013, reduced year-on-year volumes in the consumer channels, but increased volumes in account parcels and Parcelforce Worldwide. Volume reduction in the consumer channels, where some prices doubled, was slightly greater than expected.

## (B) Operating costs

The table below provides certain information, for the periods indicated, with respect to the operating costs of UKPIL.

	Q1 FYE 2014	Q1 FYE 2013
	£ million	
People costs	(1,172)	(1,146)
Distribution and conveyance operating costs	(204)	(191)
Infrastructure costs (property, IT, depreciation/amortisation)	(227)	(230)
Other operating costs	(132)	(156)
<b>Total</b>	<b>(1,735)</b>	<b>(1,723)</b>

Operating costs were £1,735 million in Q1 FYE 2014, compared with £1,723 million in Q1 FYE 2013, an increase of £12 million. The increase was primarily due to higher people costs (up two per cent.) attributable to an accrual for a frontline pay increase and an increase in the regular future service contribution rate for the RMPP from 18.2 per cent. to 20.3 per cent. These cost increases were offset in part by a reduction in the average number of FTEs of 1.9 per cent. Productivity improved by 1.4 per cent., which was driven by a reduction in workload of 1.6 per cent. and a reduction of hours of 2.9 per cent.

Distribution and conveyance costs increased by seven per cent., largely due to higher parcel volumes, particularly international parcels, which resulted in higher terminal dues. Other operating costs decreased by 15 per cent., largely due to a reduction in commissions payable on the sale of stamps. This was due to the public buy forward of stamps following the price increases in April 2012, which resulted in lower stamp sales in Q1 FYE 2014.

**(C) Transformation costs – operating exceptional items**

	Q1 FYE 2014	Q1 FYE 2013
	£ million	
Incentive payments		
Business transformation milestone payments/bonuses	(3)	(14)
Restructuring costs	(2)	–
Voluntary redundancy		
Other costs charged – projects and property	(26)	(25)
<b>Total transformation costs</b>	<b>(31)</b>	<b>(39)</b>

For a discussion of the transformation costs for Q1 FYE 2014 and Q1 FYE 2013, see section 8.8(C) of this Part.

**(D) Operating profit after transformation costs/Operating profit margin after transformation costs**

Operating profit after transformation costs was £132 million in Q1 FYE 2014 compared with £36 million in Q1 FYE 2013, an increase of £96 million, which was due to revenue growing at a faster rate than operating costs including transformation costs.

For the above reasons, adjusting for the revenue impact of the two additional working days in Q1 FYE 2014, the operating profit margin after transformation costs increased to 4.4 per cent. in Q1 FYE 2014 from two per cent. in Q1 FYE 2013.

**(E) Operating profit**

For the reasons outlined above, operating profit increased to £111 million in Q1 FYE 2014 from £35 million in Q1 FYE 2013.

**8.10 Comparison of the financial results of GLS for Q1 FYE 2014 and Q1 FYE 2013**

The following tables present the results of operations for GLS for the periods indicated in both Pounds Sterling and Euro.

	Q1 FYE 2014	Q1 FYE 2013
	£ million	
Revenue	402	364
Operating costs	(371)	(338)
<b>Operating profit</b>	<b>31</b>	<b>26</b>
<b>Operating margin (%)</b>	<b>7.7</b>	<b>7.1</b>

	Q1 FYE 2014	Q1 FYE 2013
	€ million	
Revenue	473	447
Operating costs	(437)	(415)
<b>Operating profit</b>	<b>36</b>	<b>32</b>

**(A) Revenue**

Revenue was €473 million in Q1 FYE 2014, compared with €447 million in Q1 FYE 2013, an increase of €26 million or six per cent. The revenue growth was attributable to an overall increase in volume of six per cent. with no material impact from changes in price and product mix.

In Q1 FYE 2014, revenue from GLS Germany increased by four per cent. primarily due to volume growth. Revenue from GLS Italy increased by 13 per cent. due to franchise acquisitions and organic growth. Revenue from GLS France remained flat in Q1 FYE 2014 compared with Q1 FYE 2013.

On conversion to Pounds Sterling, revenue increased by 10 per cent. from £364 million in Q1 FYE 2013 to £402 million in Q1 FYE 2014 for the reasons noted above and due to the strengthening of the Euro relative to Pounds Sterling.

### **(B) Operating costs**

Operating costs were €437 million in Q1 FYE 2014, compared with €415 million in Q1 FYE 2013, an increase of €22 million or five per cent. The increase was primarily attributable to an increase in distribution and conveyance costs resulting from an increase in volumes as well as higher sub-contractor costs, principally in Germany.

### **(C) Operating profit/Operating profit margin**

Operating profit was €36 million in Q1 FYE 2014, compared with €32 million in Q1 FYE 2013, an increase of €4 million or 13 per cent., as revenue increased more rapidly than operating costs. An EBITDA loss of €5 million at GLS France was lower, compared with a loss of €6 million in Q1 FYE 2013.

For the reasons outlined above, operating profit margin increased from 7.1 per cent. in Q1 FYE 2013 to 7.7 per cent. in Q1 FYE 2014.

## **8.11 Current trading and prospects**

Trading in the first quarter of FYE 2014 was slightly ahead of the Group's expectations. The Group's trading typically begins strongly at the beginning of the financial year but then slows due to the summer holiday season. The Group's year-on-year parcel volume growth in the second quarter of FYE 2014 is expected to be further impacted by a temporary slow-down in online retailing due to the good summer weather in the UK, as well as the reaction to the introduction of size-based pricing by Royal Mail as discussed above (see section 8.9 (A) of this Part). Consequently, with respect to the first half of FYE 2014, the Group anticipates that UKPIL's parcel revenue will be substantially ahead of the same period last year while UKPIL's parcel volumes are expected to remain broadly unchanged compared with the same period last year. Historically, the Group has experienced stronger parcel growth in the third quarter of its financial year due to Christmas, and in the UK, Royal Mail is well placed to take advantage of increases in trading and online retailing in the run-up to Christmas 2013.

There are several one-time exceptional items associated with the Offer and Admission, which, together with the Pensions Reform, will impact the Group's reported results for the first half of FYE 2014 and for the full year. These one-time exceptional items include the expenses associated with the Offer and Admission and certain charges associated with the accounting treatment of the Employee Free Shares Offer. In addition, the Pensions Reform will result in a material one-time non-cash exceptional credit to be recorded in the first half of FYE 2014. The Group's key value drivers remain the objectives for the Group.

For a discussion of possible national industrial action please refer to sections 1.10 and 1.11 of the Risk Factors and section 10.2 of Part II (*The Business*).

## 9. LIQUIDITY, CAPITAL RESOURCES AND FUNDING

### 9.1 Free cash flow

The following table presents free cash flow for the periods indicated. The Group uses free cash flow to monitor and manage its cash performance. This free cash flow presentation eliminates inflows/outflows between net debt items which is discussed below. See Schedule III (*Historical Financial Information*) for a presentation of the IFRS cash flow statement.

	Q1 FYE 2014	Q1 FYE 2013	Reported 53 weeks 2013 £ million	Reported 52 weeks 2012	Reported 52 weeks 2011
EBITDA before exceptional items	258	172	915	681	493
Working capital	(83)	241	142	(19)	(58)
Other UK Pension					
– ongoing – difference between profit and loss and cash flow rates	20	7	25	(1)	15
– deficit correction payments	(3)	(2)	(28)	(8)	(278)
– pension costs relating to redundancy	–	–	–	(36)	(29)
Transformation investment in UKPIL					
– voluntary redundancy	(13)	(23)	(75)	(129)	(110)
– business transformation payments/bonus	(5)	(15)	(55)	(60)	(95)
– capital expenditures	(7)	(25)	(177)	(185)	(166)
– one-off project costs	(26)	(22)	(100)	(55)	(8)
Total transformation investment in UKPIL	(51)	(85)	(407)	(429)	(379)
Other non-transformation spend (IT (incl. software), GLS and business as usual UKPIL spend)	(40)	(28)	(258)	(150)	(176)
Total investment	(91)	(113)	(665)	(579)	(555)
Other exceptional items	(8)	(10)	(26)	(37)	(5)
Other:					
– Taxation paid	(8)	(4)	(37)	(35)	(36)
– Net finance costs paid	(3)	(6)	(44)	(56)	(32)
Dividends from associates	2	–	–	4	9
Total other	(9)	(10)	(81)	(87)	(59)
Cash inflow before disposal of assets and non-core business	84	285	282	(86)	(476)
Disposal of property and non-core business	26	4	52	240	230
<b>Free cash inflow/(outflow) as used internally by management</b>	<b>110</b>	<b>289</b>	<b>334</b>	<b>154</b>	<b>(246)</b>

#### (A) EBITDA before exceptional items

EBITDA before exceptional items was £915 million in FYE 2013, compared with £681 million in FYE 2012, an increase of £234 million, and £493 million in FYE 2011. The increase in FYE 2013 compared with FYE 2012 and FYE 2011 was attributable to the improved operating performance of the Group, particularly UKPIL.

EBITDA before exceptional items was £258 million in Q1 FYE 2014, compared with £172 million in Q1 FYE 2013, an increase of £86 million, which was attributable to an improved operating performance of the Group.

#### (B) Working capital

The Group's working capital inflow of £142 million in FYE 2013 moved from an outflow of £19 million in FYE 2012, which had decreased from an outflow of £58 million in FYE 2011. The inflow in FYE 2013 was primarily due to the increased advance customer payments at March 2013 (which represented an increase of £83 million from FYE 2012) as a result of the April 2012 public buy forward of stamps in advance of the implementation of significant price increases for first and second class stamps on 1 April 2012, the increase in trade creditors and accruals and the increase in the VAT creditor as a result of the change in legislation of VAT over applicable postal services performed by UKPIL as standard rate VAT was applied to some postal services (while those relating to the USO, including access services, remained exempt from VAT).

The decrease in working capital from FYE 2011 to FYE 2012 reflects primarily the prepayment of pension contributions to RMPP of £190 million, offset by an increase in the advance customer payments and VAT creditor due to an increase in the number of products and services no longer subject to the USO area and therefore subject to VAT.



The Group's working capital outflow of £83 million in Q1 FYE 2014 compared to an inflow of £241 million in Q1 FYE 2013. The working capital inflow in Q1 FYE 2013 was impacted by the partial release of a pension prepayment, the public buy forward of stamps in April 2012 (as explained above) and an increase in the VAT creditor (as explained above), none of which were repeated in Q1 FYE 2014. This, combined with payments of bonuses/LTIP and the seasonal trading slow-down in June led to a working capital outflow in Q1 FYE 2014.

### **(C) Pension**

Pension outflows primarily relate to regular future service contributions to the main UK defined benefit scheme (the Royal Mail Section of RMPP) and to the UK defined contribution scheme (RMDCP), together with contributions relating to the historical pension deficit in RMSEPP and pension costs relating to redundancies.

Regular future service pension contributions increased in FYE 2013 to £409 million from £401 million in FYE 2012, with contributions in FYE 2011 of £422 million. The pension contribution rate for the Royal Mail Section has remained consistent across each year at 17.1 per cent., with the fluctuations arising being due to the changes in pensionable pay in each of the corresponding years.

Deficit contributions decreased from £278 million in FYE 2011 to £8 million in FYE 2012 and £28 million in FYE 2013. In FYE 2012 and FYE 2013, there was no deficit contributions in respect of RMPP as a result of the transfer of the pre-1 April 2012 pension liabilities (based on service and pay up to that date for active members) and certain pension assets of the RMPP on 1 April 2012. Deficit contributions, however, continued to be made to RMSEPP, which was unaffected by the transfer in April 2012. Furthermore, in FYE 2013, £20 million was invested in a money market fund, held in escrow for RMSEPP.

Pension cost of redundancies relates to the immediate payment of pension benefits accrued to date upon redundancy to all employees over the age of 55 who have accepted voluntary redundancy. As such, the cost fluctuates with the age profile of those employees accepting redundancy. In FYE 2011 and FYE 2012, the pension cost of redundancies was £29 million and £36 million, respectively, but in FYE 2013, an equivalent payment of £19 million was included in exceptional transformation charges.

In Q1 FYE 2014, regular future service pension contributions were £106 million compared with £104 million in Q1 FYE 2013. The difference between profit and loss and cash flow pension contribution rates for the Royal Mail Section increased to £20 million in Q1 FYE 2014 from £7 million in Q1 FYE 2013 due to the increase in the profit and loss contribution rate to 20.3 per cent., while the cash flow contribution rate remained at 17.1 per cent.

### **(D) Transformation investment in UKPIL**

Transformation costs of £407 million in FYE 2013 primarily related to capital expenditure of £177 million, one-off project costs of £100 million and voluntary redundancy costs of £75 million.

The voluntary redundancy costs related to headcount reductions as part of the Transformation Programme. In FYE 2011 and FYE 2012, the costs were higher due to the timetable of the redundancy programme.

Business transformation milestone payments/bonus relate to the Business Transformation Agreement under which frontline employees received payments of up to £1,000 based on specific milestones and specific bonuses with respect to modernising the network. In FYE 2013, FYE 2012 and FYE 2011, business transformation milestone payments and bonuses were £55 million, £60 million and £95 million, respectively.

Capital expenditure has been driven by the timing of capital expenditure on transformation projects. In FYE 2013, the expenditure included mail centre rationalisation and the delivery and collection programmes, including the "Delivery Method" programme, increasing the number of motor vehicles. In FYE 2012 and FYE 2011, a greater proportion of the expenditure was incurred in connection with the automation programmes to bring more advanced technology to the mail centres.

One-off project costs of £100 million in FYE 2013 and £55 million in FYE 2012 related to key business transformation projects. In both FYE 2013 and FYE 2012, most of the expenditure related to mail centres and delivery costs, although the increase in total one-off project costs (which were not capitalised) in FYE 2013 was primarily attributed to delivery costs. In FYE 2011 one-off project costs were £8 million, reflecting a lower level of investment in one-off projects during that period.

Transformation costs were £51 million in Q1 FYE 2014 compared with £85 million in Q1 FYE 2013. In Q1 FYE 2014, voluntary redundancy costs were £13 million (Q1 FYE 2013: £23 million), business transformation

payments were £5 million (Q1 FYE 2013: £15 million), capital expenditure was £7 million (Q1 FYE 2013: £25 million) and one-off project costs were £26 million (Q1 FYE 2013: £22 million).

**(E) Other non-transformational spend**

Other non-transformational spend increased by £108 million in FYE 2013, primarily due to an additional £47 million spent on replacing and upgrading the Group's vehicle fleet and approximately £35 million in relation to the expansion of Parcelforce Worldwide, which commenced increasing sites and personnel in FYE 2013. Included in other non-transformational spend are capital expenditures by GLS of £53 million, £61 million and £51 million for FYE 2013, FYE 2012 and FYE 2011, respectively. These expenditures primarily related to new depots and investment in handheld scanners. Other non-transformational spend decreased by £26 million in FYE 2012 due to a £24 million reduction in IT project-related costs.

In Q1 FYE 2014, other non-transformational spend increased to £40 million, compared to £28 million in Q1 FYE 2013, primarily due to investment in Parcelforce Worldwide, which did not commence until the second half of FYE 2013.

**(F) Other exceptional items**

Other exceptional items decreased in FYE 2013 to £26 million from £37 million in FYE 2012. This decrease was due to the £15 million incurred in FYE 2012 in relation to the Romec transformation costs (no similar costs in FYE 2013), which were offset in part by an increase in FYE 2013 in payments in relation to activities to secure external funding and lower POL separation costs. In FYE 2012, other exceptional items increased by £32 million from £5 million in FYE 2011, due to the £15 million Romec transformation costs and an increase in Postal Services Act related payments.

In Q1 FYE 2014, other exceptional items decreased to £8 million, compared with £10 million in Q1 FYE 2013.

**(G) Dividends from associates**

Dividends received from associates were nil in FYE 2013, £4 million in FYE 2012 and £9 million in FYE 2011.

**(H) Disposal of property and non-core businesses**

In FYE 2011 and FYE 2012, UKPIL pursued a programme of property disposals and sale and leaseback transactions to free up capital as part of the Restructuring Plan implemented pursuant to the 2012 State Aid Decision, raising £153 million in FYE 2011 and £200 million in FYE 2012. In FYE 2012, disposal proceeds included the West End distribution and administration office (Rathbone) which raised £120 million in proceeds. In addition, in FYE 2011 the Group disposed of its share in Camelot and in FYE 2012 it disposed of Romec Services Limited.

In FYE 2013 the disposal of properties under the Restructuring Plan continued and UKPIL disposed of a further 27 buildings with total proceeds of £50 million. The most significant of these were Kensington Delivery Office for £15 million and Reading Mail Centre for £12 million.

Disposal of property proceeds were £26 million in Q1 FYE 2014, compared with £4 million in Q1 FYE 2013. Properties disposed of included Chelmsford (£6 million), Watford MC (£3 million), Berkhamsted (£3 million) and Sutton Coldfield (£4 million).

**(I) Free cash inflow/(outflow)**

For the reasons outlined above, free cash flow was a cash inflow of £334 million in FYE 2013, £154 million in FYE 2012 and a cash outflow of £246 million in FYE 2011. In Q1 FYE 2014, free cash flow was a cash inflow of £110 million compared with a cash inflow of £289 million in Q1 FYE 2013.

## (J) Reconciliation of consolidated statement of cash flows to free cash flow

The following table reconciles 'net cash inflow/(outflow) before financing activities' in the Group's consolidated statement of cash flows to 'free cash inflow/(outflow)' for the periods presented:

	Q1 FYE 2014	Q1 FYE 2013	Reported 53 weeks 2013 £ million	Reported 52 weeks 2012	Reported 52 weeks 2011
Net cash inflow before financing activities	114	445	542	188	(104)
Net (sale)/purchase of financial asset investments (non-current)	—	(149)	(129)	4	(88)
Net (sale)/purchase of financial asset investments (current)	—	—	(30)	30	—
Finance costs paid	(4)	(7)	(49)	(68)	(54)
Free cash inflow (outflow) for the period	110	289	334	154	(246)

See Note 7 of Schedule III (*Historical Financial Information*) for additional information on the Group's cash flow statement.

## 9.2 Summary balance sheet

The following table provides a summary of the balance sheet for the periods presented:

	As at 30 June 2013	As at 31 March 2013	As at 25 March 2012	As at 27 March 2011
	£ million			
Net operating assets	1,409	1,397	1,456	1,465
Net debt	(796)	(906)	(1,186)	(1,272)
<b>Operating assets less net debt</b>	<b>613</b>	<b>491</b>	<b>270</b>	<b>193</b>
Net deferred taxation assets/(liabilities)	116	89	(9)	(2)
Retirement benefit asset/(liability)	647	825	(2,716) <sup>(1)</sup>	(4,185) <sup>(1)</sup>
<b>Net assets/(liabilities)</b>	<b>1,376</b>	<b>1,405</b>	<b>(2,455)</b>	<b>(3,994)</b>

### Note:

(1) Represented net liability of RMPP prior to transfer of the pre-1 April 2012 pension liabilities (based on service and pay up to that date) in relation to RMPP to HM Government on 1 April 2012.

## 9.3 Net debt

Net debt is a useful indicator of the Group's finances in netting the value of its financial liabilities against its cash and other liquid assets.

The following table presents net debt position and movements as at each of the dates indicated:

	As at 30 June 2013	As at 31 March 2013	As at 25 March 2012	As at 27 March 2011
	£ million			
Pension escrow investments <sup>(1)</sup>	20	20	149	87
Bank deposits	—	—	—	44
Financial assets – short-term deposits	1	1	31	1
Cash and cash equivalents:				
– Cash at bank and in hand	163	136	172	100
– Cash equivalent investments: short-term bank and local authority deposits/money market fund investments	325	215	301	219
Financial liabilities – obligations under finance leases (current)	(80)	(79)	(86)	(61)
Financial liabilities – interest bearing loans and borrowings (non-current)	(973)	(973)	(1,522)	(1,478)
Financial liabilities – obligations under finance leases (non-current)	(252)	(226)	(231)	(184)
<b>Net debt</b>	<b>(796)</b>	<b>(906)</b>	<b>(1,186)</b>	<b>(1,272)</b>

### Note:

(1) Pension escrow investments had been set aside to support certain pension-related payments.

## 9.4 Banking facilities and loans

The Group's principal sources of borrowings are set out below.

*Senior Debt/Mails Facilities:* RMG (and the Selling Shareholder as a guarantor) originally entered into the Mails Facilities (£1,044 million senior credit facility) on 20 December 2002 with the Secretary of State, as lender. This was amended on 19 March 2007 with RME also becoming a guarantor. On 24 March 2011, the financial covenants under the Mails Facilities were amended. On 30 March 2012, the Mails Facilities were also amended to permit repayment and further redrawing and the outstanding balance was repaid during April and May 2012. The maximum amount that is currently available under the facilities is £900 million (consisting of a £600 million term loan and £300 million under a revolving credit facility). Both the term loans and the revolving credit facility are currently undrawn and are due to expire in March 2014. If utilised, they would attract interest at LIBOR plus a margin (currently one per cent.) based on covenant tests. Commitment fees are paid based on the applicable margin. Under the Mails Facilities, the lender has a fixed charge over the shares in RMG and in RME and a floating charge over RMG's and RME's property, assets, rights and revenue (excluding certain rights and interests).

*GLS Facility:* RMG entered into the GLS Facility (£500 million credit facility) on 7 February 2003 with the Secretary of State as lender. The GLS Facility is guaranteed by the Selling Shareholder. The maximum amount that can be borrowed under this facility is £500 million, which was advanced on 6 February 2001 and is repayable in £25 million instalments with various maturity dates between 2021 and 2025. The average interest rate is approximately 5.8 per cent. The GLS Facility is secured by a share pledge of RMIL's shares in GLS B.V. and a floating charge over certain non-regulated assets of RMG. As of 30 June 2013, £500 million was outstanding under the GLS Facility.

*Shareholder Loan/Subordinated Facility:* RMG has entered into the Subordinated Facility (£300 million subordinated term loan facility) on 19 March 2007 with the Secretary of State as lender. The maximum amount that can be borrowed under the Subordinated Facility is £300 million, which was fully drawn in March 2009. Interest is payable at 12 per cent. each year on a cumulative basis, with all interest payable at maturity or repayment. The maturity date of the Subordinated Facility is 19 March 2016. The debt under the Subordinated Facility is not secured and is subordinate to all present and future liabilities of RMG. As of 30 June 2013, the outstanding loan balance including accumulated interest was £473 million.

The Mails Facilities and each of the GLS Facility and the Subordinated Facility (together the “**Existing Facilities**”) contain various potential Events of Default (including non-payment, insolvency and breach of covenant relating to interest and total indebtedness) and are repayable in full earlier than their scheduled maturity or expiry date with interest on the occasion of a Change of Control (assumed to be where HM Government falls below 50 per cent. ownership) or any initial public offering. No other break costs are envisaged to be payable on repayment.

All outstanding principal along with any accrued but unpaid interest on each of the Mails Facilities, the GLS Facility and the Subordinated Facility will be repaid in full on Admission by a combination of RMG's cash resources and by drawing down on the New Facilities described below.

On 12 September 2013, RMG entered into the New Facilities Agreement (£1,400,000,000 term loan and revolving credit facilities agreement) between certain financial institutions (including some of the Underwriters and/or their affiliates who, in their capacity as lenders, were not and will not be involved in determining the terms of the Offer) and The Royal Bank of Scotland plc (as agent). The New Facilities Agreement includes two term loan facilities of £300,000,000 each and a £800,000,000 revolving credit facility. Interest will be payable on the New Facilities at an applicable margin plus LIBOR and the termination dates range from between three and five years from the date of signing. The New Facilities are unsecured and are for the general corporate and working capital purposes of the Group and the repayment of existing debt including the Mails Facilities, the GLS Facility and the Subordinated Facility. The Company will accede to the New Facilities Agreement as an additional borrower and as an additional guarantor (subject to the satisfaction of certain customary conditions precedent) on or prior to the date of Admission. The New Facilities Agreement contains customary warranties, representations, covenants (including restrictions on debt incurrence, change of control, financial covenants and a negative pledge), as further described in section 16.5(D) of Part XI (*Additional Information*), and events of default. The New Facilities will lead to a significant reduction in the Group's overall cost of debt.

For further descriptions of the Group's credit facilities, including their key covenants, see section 16.5 of Part XI (*Additional Information*). Also see the table under section 8.8(F) of this Part and Note 14 (*Loans and borrowings*) to Schedule III (*Historical Financial Information*).

## 9.5 Contractual obligations and commitments

Set forth below is a description of the contractual cash obligations and commitments as at 31 March 2013:

	Total	2013–2014	2013–2018	2018 and beyond
		£ million		
Loans and borrowings (including interest)	1,464	29	781	654
Finance lease obligations (including interest)	417	87	208	122
Operating lease obligations	1,075	146	422	507
Capital commitments	42	42	–	–
<b>Total</b>	<b>2,998</b>	<b>304</b>	<b>1,411</b>	<b>1,283</b>

## 9.6 Other off-balance sheet arrangements (excluding operating leases described above)

In 2000, Royal Mail entered into a lease of certain automation equipment and prepaid the lease payments into an investment fund. Following the general falls in credit ratings, a letter of credit (LOC) has been required to provide, on behalf of Royal Mail, additional support to the lessor in the event of default by the investment fund holder. The chances of this LOC being called upon are considered to be remote so no liability to reimburse the bank that has provided the LOC has been included in the balance sheet for Royal Mail. The current value of the LOC is £40 million and it is currently not collateralised.

## 10. CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of the consolidated historical financial information requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. However, the historical information presented is based on conditions that existed at the reporting date. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Summarised below are those critical accounting policies that require management to make significant estimates, judgements or assumptions and which could result in materially different results under different assumptions or conditions. See Note 28 (*Significant accounting policies*) in Schedule III (*Historical Financial Information*) for further details on accounting policies that require management's judgements, estimates and assumptions.

### *Deferred taxation*

Assessment of the deferred taxation asset requires an estimation of future profitability. Such estimation is inherently uncertain in a market subject to various competitive pressures. Should estimates of future profitability change in future years, the amount of deferred taxation recognised will also change accordingly. The carrying values of the deferred taxation assets and liabilities are included within Note 6 in Schedule III (*Historical Financial Information*).

### *Provisions*

Due to the nature of provisions, a significant part of their determination is based upon estimates and judgements concerning the future.

Restructuring provisions, including for redundancy and property costs, are derived based upon the most recent business plan for direct expenditure, where plans are sufficiently detailed and appropriate communication to those affected has been undertaken. This includes the expected number of employees affected, rate of compensation per employee, rental costs and expected period of properties remaining vacant and dilapidation costs. The industrial diseases claims provision is based on the best information available as at the year-end, including independent expert advice.

### *Pensions*

The value of pension plan assets and liabilities is determined by long-term actuarial assumptions which include salary growth, inflation rates, returns on investments and mortality rates. Differences arising from



actual experience or future changes in assumptions will be reflected in the Group's consolidated statement of comprehensive income. The Group exercises its judgement in determining the assumptions to be adopted, after discussion with its Actuary.

The impact of the Pensions Transfer on 1 April 2012 was recognised directly in equity as, in management's judgement, this transaction was undertaken with HM Government in its capacity as the owner of Royal Mail Holdings plc, the Company's parent company, rather than in its capacity as HM Government.

#### *Deferred revenue*

The Group recognises advance customer payments on its balance sheet (see Note 24 in Schedule III (*Historical Financial Information*)) relating to stamps and meter credits purchased by customers but not used at the balance sheet date. The valuation of this deferred revenue is based on a number of different estimation and sampling methods using external specialist resources as appropriate, the results of which are reviewed by management to make a judgement of the carrying amount of the accrual.

### **11. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK**

The Group is principally exposed to market risks arising from interest rate risk, foreign currency risk, commodity price risk, credit risk and liquidity risk. For a discussion of these market risks, see Note 11 (*Financial assets and liabilities – introduction, summary and management of financial risk*) in Schedule III (*Historical Financial Information*).

## PART VIII

### UNAUDITED PRO FORMA FINANCIAL INFORMATION

#### 1. UNAUDITED PRO FORMA STATEMENT OF FINANCIAL POSITION

The unaudited pro forma statement of financial position of the Group as at 30 June 2013 set out below has been prepared to illustrate the effect of the Corporate Reorganisation, the expenses of the Offer incurred by the Group and the refinancing of certain Group debt on the financial position of Royal Mail Group Limited and its subsidiaries as if each of the foregoing had taken place or, in the case of the expenses of the Offer, been incurred on 30 June 2013. The unaudited pro forma statement of financial position is based on the audited historical financial information of Royal Mail Group Limited for the 13 weeks ended 30 June 2013 contained in Schedule III (*Historical Financial Information*) to this document. The unaudited pro forma statement of financial position has been prepared on a basis consistent with the accounting policies of the Company and on the basis set out in the notes below, and in accordance with Annex I and Annex II to the Prospectus Directive Regulation. It should be read in conjunction with the notes below.

The unaudited pro forma statement of financial position of the Group has been prepared for illustrative purposes only and, because of its nature, addresses a hypothetical situation and, therefore, does not represent the Group's actual financial position or results. It may not, therefore, give a true picture of the Group's financial position or results nor is it indicative of the results that may or may not be expected to be achieved in the future.

Ernst & Young LLP's report on the unaudited pro forma financial information is set out at the end of this Part.

	Royal Mail Group Limited as at 30 June 2013 (note 1) £m	Adjustments			Pro forma Group statement of Group financial position as at 30 June 2013 £m
		The Corporate Reorganisation (note 2) £m	Offer expenses (note 3) £m	Refinancing of Group debt (note 4) £m	
<b>Non-current assets</b>					
Property, plant and equipment	1,892	—	—	—	1,892
Leasehold land payment	3	—	—	—	3
Goodwill	198	—	—	—	198
Intangible assets	147	—	—	—	147
Investments in associates	2	—	—	—	2
Financial assets					
pension escrow	20	—	—	—	20
Investments					
bank deposits	—	—	—	—	—
derivatives	2	—	—	—	2
Retirement benefit asset net of IFRIC 14 adjustment	647	—	—	—	647
Other receivables	7	—	—	—	7
Deferred taxation assets	140	—	—	—	140
	<u>3,058</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>3,058</u>
<b>Current assets</b>					
Inventories	24	—	—	—	24
Trade and other receivables	1,009	—	—	—	1,009
Financial assets					
derivatives	3	—	—	—	3
short-term deposits	1	—	—	—	1
Cash and cash equivalents	488	—	(14)	(373)	101
	<u>1,525</u>	<u>—</u>	<u>(14)</u>	<u>(373)</u>	<u>1,138</u>
<b>Total assets</b>	<u>4,583</u>	<u>—</u>	<u>(14)</u>	<u>(373)</u>	<u>4,196</u>
<b>Current liabilities</b>					
Trade and other payables	(1,562)	—	—	—	(1,562)
Financial liabilities					
obligations under finance leases	(80)	—	—	—	(80)
derivatives	(5)	—	—	—	(5)
Income taxation payable	(24)	—	—	—	(24)
Provisions	(113)	—	—	—	(113)
	<u>(1,784)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(1,784)</u>

	Adjustments				
	Royal Mail Group Limited as at 30 June 2013 (note 1) £m	The Corporate Reorganisation (note 2) £m	Offer expenses (note 3) £m	Refinancing of Group debt (note 4) £m	Pro forma Group statement of Group financial position as at 30 June 2013 £m
<b>Non-current liabilities</b>					
Financial liabilities					
interest bearing					
loans and borrowings	(973)	—	—	373	(600)
obligations under finance leases	(252)	—	—	—	(252)
derivatives	(4)	—	—	—	(4)
Provisions	(120)	—	—	—	(120)
Retirement benefit obligation					
pension deficit	—	—	—	—	—
Other payables	(50)	—	—	—	(50)
Deferred taxation liabilities	(24)	—	—	—	(24)
	(1,423)	—	—	373	(1,050)
<b>Total liabilities</b>	<b>(3,207)</b>	<b>—</b>	<b>—</b>	<b>373</b>	<b>(2,834)</b>
<b>Net assets/(liabilities)</b>	<b>1,376</b>	<b>—</b>	<b>(14)</b>	<b>—</b>	<b>1,362</b>
<b>Equity</b>					
Share capital	—	10	—	—	10
Share premium	—	—	—	—	—
Retained earnings	1,299	(10)	(14)	—	1,275
Other reserves	73	—	—	—	73
Equity attributable to equity holder					
of parent company	1,372	—	(14)	—	1,358
Non-controlling interest	4	—	—	—	4
<b>Total Equity</b>	<b>1,376</b>	<b>—</b>	<b>(14)</b>	<b>—</b>	<b>1,362</b>

**Notes:**

- (1) The consolidated statement of financial position of Royal Mail Group Limited at 30 June 2013 has been extracted without material adjustment from Schedule III (*Historical Financial Information*) to this document.
- (2) The Company was incorporated on 6 September 2013 with share capital of £150 divided into 100 ordinary shares of 150 pence each. In connection with Admission, the Group undertook the Corporate Reorganisation between 12 September 2013 and 19 September 2013 that included the Company becoming the holding company of the Group. The Corporate Reorganisation included the following steps:
  - (A) pursuant to a transfer scheme made in accordance with section 8 of the Postal Services Act 2011 on 12 September 2013, the transfer of all ordinary shares in RMG by the Selling Shareholder to the Company, and, in consideration for such transfer, the allotment and issue of 999,999,900 ordinary shares of 150 pence each in the capital of the Company to the Selling Shareholder; and
  - (B) the share capital of the Company was reduced from £1,500 million to £10 million by the cancellation of 149 pence from the nominal value of each issued ordinary share of the Company. The reduction of capital created distributable reserves of £1,490 million in the Company, which, on consolidation, are offset against the £1,500 million carrying value of the investment in RMG, with the remaining £10 million deducted from retained earnings. On Admission, the Company's share capital will comprise 1,000 million Ordinary Shares with a nominal value of 1p each and an aggregate nominal value of £10 million.
- (3) As a result of, or incidental to, the Admission and Offer, the Group estimates that it has incurred additional expenses of £14 million, which were not accrued as at 30 June 2013.
- (4) On Admission and as set out in section 16.5 of Part XI (*Additional Information*), drawn amounts under the Mails Facilities, the GLS Facility and the Subordinated Facility (the "**Existing Facilities**") will be repaid in full. This will be funded by a combination of the Group's existing cash resources and drawing down under the New Facilities. The New Facilities comprise two term loan facilities of £300 million each and an £800 million revolving credit facility, further details of which are set out in section 16.5(D) of Part XI (*Additional Information*). Based on the level of draw down on the Existing Facilities at Admission, which is not expected to be materially different from that as at 30 June 2013, the Group's cash balance will decrease by £373 million and non-current interest bearing loans will reduce to £600 million. The £600 million balance on non current interest bearing loans and borrowings is drawn down from the total £1.4 billion available under the New Facilities. However, the actual amount of cash available to the Group at the time of Admission will depend on operational cash requirements and, as a result, there may be a need to draw down further under the New Facilities.
- (5) In connection with the Employee Free Share Offer, as set out in Part IV (*Employee Free Shares Offer*) of the Securities Note, 10 per cent. of the issued share capital of the Company plus an additional 160,000 Ordinary Shares will be transferred to the trustee of the Royal Mail Share Incentive Plan on or immediately after Admission. This will be accounted for as a capital contribution by the Company, at the fair value of the shares transferred to the trustee, with an equal and offsetting amount shown as a deduction within equity as Treasury shares. At this stage, it is not possible to determine the fair value of the relevant shares and therefore the amount of any adjustment. There will be no impact on assets, liabilities or total equity.
- (6) No adjustment has been made to reflect any trading or other transactions undertaken by the Company or Royal Mail Group Limited since 30 June 2013.

## 2. IMPACT ON EARNINGS

Had the Company become the holding company of Royal Mail Group Limited, the debt facilities been refinanced, Admission taken place and the Employee Free Share Offer been entered into on 1 April 2013,

the Directors believe that the consolidated income statement of the Group for the 13 weeks ended 30 June 2013 would have been impacted as follows.

There would have been a reduction in interest expense because the rate of interest paid by the Group on outstanding borrowings on the New Facilities is lower than the rates that were charged on the existing loan facilities that are being replaced and the overall level of drawn down borrowings would have reduced. Details of the refinancing are set out in section 16.5 of Part XI (*Additional Information*). Additionally, as part of the above refinancing, the repayment of cash would have reduced the amount of cash available to be placed on deposit and therefore the interest income earned by the Group would have been reduced.

As a result of awards under the Employee Free Shares Offer and the Royal Mail Share Incentive Plan, as set out in section 11 of Part XI (*Additional Information*), there would have been a charge to compensation expense. This charge would have been based on the fair value of the employees free shares award at the time of the grant, with the equivalent credit to reserves.

As a result of, or incidental to, the Admission and Offer, the Group has incurred additional expenses as set out in section 11 of Part VIII (*Additional Information*) of the Securities Note.

The impact of the items referred to above may lead to additional associated taxation charges and credits.

This statement should not be taken to mean that the earnings per share of the Group will necessarily match or exceed the historical reported earnings per share of the Group and no forecast is intended or implied.

### 3. REPORT FROM ERNST & YOUNG LLP ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION



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The Board of Directors  
Royal Mail plc  
100 Victoria Embankment  
London  
EC4Y 0HQ

27 September 2013

Dear Sirs

We report on the pro forma financial information (the “**Pro Forma Financial Information**”) set out in Part VIII of the Registration Document of the Prospectus dated 27 September 2013 of Royal Mail plc, which has been prepared on the basis described in notes 1 to 6, for illustrative purposes only, to provide information about how the Corporate Reorganisation, the expenses of the Offer and the refinancing of certain Group debt might have affected the financial information presented on the basis of the accounting policies adopted by Royal Mail plc being those adopted in preparing the Royal Mail Group Limited historical financial information for the period ended 30 June 2013 included in the Prospectus. This report is required by item 20.2 of Annex I of Commission Regulation (EC) No 809/2004 and is given for the purpose of complying with that item and for no other purpose.

Save for any responsibility arising under Prospectus Rule 5.5.3R (2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 23.1 of Annex I to Commission Regulation (EC) No 809/2004, consenting to its inclusion in the Prospectus.

#### **Responsibilities**

It is the responsibility of the directors of Royal Mail plc to prepare the Pro Forma Financial Information in accordance with item 20.2 of Annex I of Commission Regulation (EC) No 809/2004.

It is our responsibility to form an opinion, as required by item 7 of Annex II of the Commission Regulation (EC) No 809/2004, as to the proper compilation of the Pro Forma Financial Information and to report that opinion to you.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro Forma Financial Information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

#### **Basis of opinion**

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence



supporting the adjustments and discussing the Pro Forma Financial Information with the directors of Royal Mail plc.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro Forma Financial Information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of Royal Mail plc.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

### **Opinion**

In our opinion:

- the Pro Forma Financial Information has been properly compiled on the basis stated; and
- such basis is consistent with the accounting policies of Royal Mail plc.

### **Declaration**

For the purposes of Prospectus Rule 5.5.3R (2)(f) we are responsible for this report as part of the Prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with item 1.2 of Annex I of Commission Regulation (EC) No 809/2004.

Yours faithfully

**Ernst & Young LLP**

## PART IX

### TAXATION

#### 1. UK TAXATION

The following statements do not constitute tax advice and are intended only as a general guide to current UK law as applied in England and Wales and HMRC published practice, which may not be binding on HMRC, as at the date of this document (which are both subject to change at any time, possibly with retrospective effect). They relate only to certain limited aspects of the UK taxation treatment of Shareholders in connection with the Offer (including the Employee Priority Offer) and are intended to apply only, except to the extent stated below, to persons who are resident and, if individuals, domiciled in the UK for UK tax purposes, who are absolute beneficial owners of the Ordinary Shares (otherwise than through an Individual Savings Account or a Self Invested Personal Pension) and who hold the Ordinary Shares as investments (and not as securities to be realised in the course of a trade).

They may not apply to certain Shareholders, such as dealers in securities, insurance companies and collective investment schemes, Shareholders who are exempt from taxation and Shareholders who have (or are deemed to have) acquired their Ordinary Shares by virtue of an office or employment. Such persons may be subject to special rules. The Employee Free Shares Offer is not part of the Offer, and Eligible Employees who are awarded Employee Free Shares fall into this category.

**Any person who is in any doubt as to their tax position, or who is subject to taxation in any jurisdiction other than the UK, should consult their own professional adviser without delay.**

##### 1.1 Taxation of dividends

###### (A) General

There is no UK withholding tax on dividends, including cases where dividends are paid to a Shareholder who is not resident (for tax purposes) in the UK.

###### (B) Individual Shareholders

When the Company pays a dividend to a Shareholder who is an individual resident (for tax purposes) in the UK, the Shareholder will be entitled to a tax credit equal to one-ninth of the dividend received. The dividend received plus the related tax credit (the “**gross dividend**”) will be part of the Shareholder’s total income for UK income tax purposes and will be regarded as the top slice of that income. However, in calculating the Shareholder’s liability to income tax in respect of the gross dividend, the tax credit (which equates to 10 per cent. of the gross dividend) is set off against the tax chargeable on the gross dividend.

###### *Basic rate taxpayers*

In the case of a Shareholder who is liable to income tax at the basic rate, the Shareholder will be subject to tax on the gross dividend at the rate of 10 per cent. The tax credit will, in consequence, satisfy in full the Shareholder’s liability to income tax on the gross dividend.

###### *Higher rate taxpayers*

In the case of a Shareholder who is liable to income tax at the higher rate, the Shareholder will be subject to tax on the gross dividend at the higher rate of 32.5 per cent., to the extent that the gross dividend falls above the threshold for the higher rate of income tax but below the threshold for the additional rate of income tax when it is treated (as mentioned above) as the top slice of the Shareholder’s income. This means that the tax credit will satisfy only part of the Shareholder’s liability to income tax on the gross dividend, so that the Shareholder will have to account for income tax equal to 22.5 per cent. of the gross dividend (which equates to 25 per cent. of the dividend actually received). For example, a dividend of £90 from the Company would represent a gross dividend of £100 (after the addition of the tax credit of one-ninth of £90, i.e. £10) and the Shareholder would be required to account for income tax of £22.50 on the dividend, being £32.50 (i.e. 32.5 per cent. of £100) less £10 (the amount of the tax credit).

#### *Additional rate taxpayers*

In the case of a Shareholder who is liable to income tax at the additional rate, the Shareholder will be subject to tax on the gross dividend at the dividend additional rate of 37.5 per cent., to the extent that the gross dividend falls above the threshold for the additional rate of income tax when it is treated (as mentioned above) as the top slice of the Shareholder's income. This means that the tax credit will satisfy only part of the Shareholder's liability to income tax on the gross dividend, so that the Shareholder will have to account for income tax equal to 27.5 per cent. of the gross dividend (which equates to approximately 30.6 per cent. of the dividend actually received). For example, a dividend of £90 from the Company would represent a gross dividend of £100 (after the addition of the tax credit of one-ninth of £90, i.e. £10) and the Shareholder would be required to account for income tax of £27.50 on the dividend, being £37.50 (i.e. 37.5 per cent. of £100) less £10 (the amount of the tax credit).

#### **(C) Corporate Shareholders**

Shareholders within the charge to UK corporation tax which are "small companies" (for the purposes of UK taxation of dividends) will not generally expect to be subject to tax on dividends from the Company.

Other Shareholders within the charge to UK corporation tax will not be subject to tax on dividends from the Company so long as the dividends fall within an exempt class and certain conditions are met. In general, (i) dividends paid on shares that are not redeemable and do not carry any present or future preferential rights to dividends or to a company's assets on its winding up and (ii) dividends paid to a person holding less than, among other things, 10 per cent. of the issued share capital of the payer (or any class of that share capital) are examples of dividends that fall within an exempt class.

#### **(D) Tax credit**

Other than as set out below, a Shareholder (whether an individual or a company) who is not liable to tax on dividends from the Company will not be entitled to claim payment of the tax credit in respect of those dividends.

The right of a Shareholder who is not resident (for tax purposes) in the UK to a tax credit in respect of a dividend received from the Company and to claim payment of any part of that tax credit will depend on the existence and terms of any double taxation convention between the UK and the country in which the holder is resident, although generally no such payment will be available.

### **1.2 Taxation of chargeable gains**

#### **(A) Individual Shareholders**

A disposal of Ordinary Shares may give rise to a chargeable gain (or allowable loss) for the purposes of UK capital gains tax, depending on the circumstances and subject to any available exemption or relief.

#### **(B) Corporate Shareholders**

Where a Shareholder is within the charge to corporation tax, including cases where it is not resident (for tax purposes) in the UK, a disposal of Ordinary Shares may give rise to a chargeable gain (or allowable loss) for the purposes of UK corporation tax, depending on the circumstances and subject to any available exemption or relief. Indexation allowance may reduce the amount of chargeable gain that is subject to corporation tax, but may not create or increase any allowable loss.

#### **(C) Non-resident Holders**

A Shareholder that is not resident in the UK (and is not temporarily non-resident) for UK tax purposes and whose Ordinary Shares are not held in connection with carrying on a trade, profession or vocation in the UK generally will not be subject to UK tax on chargeable gains on the disposal of Ordinary Shares.

### **1.3 Stamp Duty and Stamp Duty Reserve Tax ("SDRT")**

**The comments in this section relating to stamp duty and SDRT apply whether or not a Shareholder is resident or domiciled in the UK.**

#### **(A) Sale of Ordinary Shares pursuant to the Offer**

The Selling Shareholder has agreed to pay any stamp duty chargeable on a transfer on sale of Ordinary Shares or SDRT chargeable on an agreement to transfer Ordinary Shares arising in the UK (currently at a

rate of 0.5 per cent.) on the initial sale of Ordinary Shares to Investors pursuant to the Offer and Over-allotment Arrangements. The Selling Shareholder will not assume any liability in relation to any element of any stamp duty or SDRT arising in the UK on a transfer of Ordinary Shares to a clearance service or to a depositary receipt issuer or to any agent or nominee thereof (currently imposed at a rate of 1.5 per cent.).

#### **(B) Subsequent dealings in Ordinary Shares**

Dealings in Ordinary Shares will generally be subject to stamp duty or SDRT in the normal way.

An instrument effecting the transfer on sale of Ordinary Shares will generally be liable to stamp duty at the rate of 0.5 per cent. (rounded up, if necessary, to the nearest multiple of £5) of the amount or value of the consideration payable. However, where the amount or value of the consideration is £1,000 or less, and provided that the transfer does not form part of a larger transaction or series of transactions where the combined consideration exceeds £1,000, such instrument should be exempt from charge upon certification of such facts.

An unconditional agreement to transfer Ordinary Shares will generally be liable to SDRT at the rate of 0.5 per cent. of the amount or value of the consideration payable, but such liability will be cancelled, or a right to a repayment (generally, with interest) in respect of the payment of such SDRT liability will arise, if the agreement is completed by a duly stamped or exempt transfer within six years of the agreement having become unconditional. Stamp duty and SDRT are normally the liability of the purchaser.

Subject to certain exemptions, a charge to stamp duty or SDRT will arise on the transfer of Ordinary Shares to a person providing a clearance service, its nominee or agent, or to an issuer of depositary receipts, its nominee or agent, where that transfer is not an integral part of an issue of share capital. The rate of stamp duty or SDRT, as the case may be, in such circumstances will generally be 1.5 per cent. of the amount or value of the consideration for the transfer or, in some circumstances, the value of the Ordinary Shares concerned, in the case of stamp duty rounded up, if necessary, to the nearest multiple of £5.

No stamp duty or SDRT will arise on a transfer of Ordinary Shares into the CREST system provided that the transfer is not for money or money's worth. Paperless transfers of Ordinary Shares within CREST are liable to SDRT (at a rate of 0.5 per cent. of the amount or value of the consideration payable) rather than stamp duty, and SDRT arising on the agreement to transfer Ordinary Shares under relevant transactions settled within the system or reported through it for regulatory purposes will generally be collected by CREST.

It should be noted that certain categories of person, including specified market intermediaries, are entitled to an exemption from stamp duty and SDRT in respect of purchases of securities in specified circumstances.

## **2. US FEDERAL INCOME TAX CONSIDERATIONS**

**This disclosure is limited to the US federal tax issues addressed herein. Additional issues may exist that are not addressed in this disclosure and that could affect the US federal tax treatment of the Ordinary Shares. This tax disclosure was written in connection with the promotion or marketing (within the meaning of Treasury Department Circular 230) of the Ordinary Shares by the Company, and it cannot be used by any person for the purpose of avoiding penalties under the US Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"). Prospective investors should seek their own advice based on their particular circumstances from independent tax advisers.**

The following is a description of certain US federal income tax consequences to a US Holder described below of owning and disposing of Ordinary Shares, but it does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a particular person's decision to acquire Ordinary Shares. The discussion applies only to a US Holder that holds Ordinary Shares as capital assets for US federal income tax purposes. In addition, it does not describe all of the tax consequences that may be relevant in light of a US Holder's particular circumstances, including alternative minimum tax, the provisions of the Internal Revenue Code known as the Medicare contribution tax on net investment income or tax consequences applicable to US Holders subject to special rules, such as:

- certain financial institutions;
- dealers or traders in securities;
- persons holding Ordinary Shares as part of a straddle, wash sale, conversion transaction or integrated transaction, or persons entering into a constructive sale with respect to the Ordinary Shares;
- persons whose functional currency for US federal income tax purposes is not the US Dollar;

- entities classified as partnerships for US federal income tax purposes;
- tax-exempt entities, including “individual retirement accounts” and “Roth IRAs”;
- persons that own or are deemed to own 10 per cent. or more of the Company’s voting stock; or
- persons holding Ordinary Shares in connection with a trade or business conducted outside the United States.

If an entity that is classified as a partnership for US federal income tax purposes owns Ordinary Shares, the US federal income tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. Partnerships owning Ordinary Shares and partners therein should consult their tax advisers as to the particular US federal income tax consequences of owning and disposing of the Ordinary Shares.

This discussion is based on the Internal Revenue Code, administrative pronouncements, judicial decisions and final, temporary and proposed Treasury regulations, all as of the date hereof, any of which is subject to change, possibly with retroactive effect.

US Holders should consult their tax advisers concerning the US federal, state, local and foreign tax consequences of purchasing, owning and disposing of Ordinary Shares in their particular circumstances.

A “**US Holder**” is a beneficial owner of Ordinary Shares that is, for US federal income tax purposes:

- a citizen or individual resident of the United States;
- a corporation, or other entity taxable as a corporation, created or organised in or under the laws of the United States, any state therein or the District of Columbia; or
- an estate or trust, the income of which is subject to US federal income taxation regardless of its source.

This discussion assumes that the Company is not, and will not become, a “passive foreign investment company” for US federal income tax purposes (a “**PFIC**”), as described in section 2.3 of this Part.

## 2.1 Taxation of distributions

Distributions paid on the Ordinary Shares, other than certain *pro rata* distributions of Ordinary Shares, will generally be treated as dividends to the extent paid out of the Company’s current or accumulated earnings and profits, as determined under US federal income tax principles. Because the Company does not maintain calculations of earnings and profits under US federal income tax principles, it is expected that distributions generally will be reported to US Holders as dividends.

Dividends will be included in a US Holder’s income on the date of receipt and generally will be treated as foreign-source income for purposes of the foreign tax credit rules. Dividends will not be eligible for the dividends-received deduction generally allowed to US corporations under the Internal Revenue Code. If a dividend is paid in Pounds Sterling, the amount that a US Holder will be required to include in income will equal the US Dollar value of the Pounds Sterling, calculated by reference to the exchange rate in effect on the date of receipt, regardless of whether the payment is in fact converted into US Dollars. If the dividend is converted into US Dollars on the date of receipt, a US Holder generally should not be required to recognise foreign currency gain or loss in respect of the dividend income. A US Holder may have foreign currency gain or loss (which will be US-source gain or loss for foreign tax credit purposes) if the dividend is converted into US Dollars after the date of its receipt.

Subject to applicable limitations, dividends paid to certain non-corporate US Holders may be taxable at favourable rates. US Holders should consult their tax advisers regarding the availability of the reduced tax rate on dividends in their particular circumstances.

## 2.2 Sale or other taxable disposition of Ordinary Shares

For US federal income tax purposes, gain or loss realised on the sale or other taxable disposition of Ordinary Shares will be capital gain or loss, and will be long-term capital gain or loss if the US Holder held the Ordinary Shares for more than one year. The amount of the gain or loss will equal the difference between the US Holder’s tax basis in the Ordinary Shares disposed of and the amount realised on the disposition, in each case as determined in US Dollars. Any gain or loss will generally be US-source for purposes of the foreign tax credit rules. The deductibility of capital losses is subject to limitations.



### 2.3 Passive Foreign Investment Company Rules

The Company does not expect to be a PFIC for its current taxable year or in the foreseeable future. However, because a company's PFIC status depends on the composition of the company's income and assets and the market value of its assets from time to time, there can be no assurance that the Company will not be a PFIC for any taxable year.

In general, if the Company were a PFIC for any taxable year during which a US Holder held Ordinary Shares, gain recognised by the US Holder on a sale or other disposition (including certain pledges) of the Ordinary Shares, and income from certain "excess distributions," would be allocated ratably over the US Holder's holding period for the Ordinary Shares. The amounts allocated to the taxable year of the sale or other disposition or the excess distribution and to any year before the Company became a PFIC would be taxed as ordinary income. The amount allocated to each other taxable year would be subject to tax at the highest tax rate in effect for individuals or corporations, as applicable, for that taxable year, and an interest charge would be imposed on the resulting tax liability for each such year. Certain elections may be available that would result in alternative treatments (such as mark-to-market treatment). If the Company were a PFIC for the taxable year in which it paid a dividend or the prior taxable year, the favourable rates discussed above with respect to dividends paid to certain non-corporate US Holders would not apply. Prospective purchasers should consult their tax advisers regarding the potential application of the PFIC rules.

### 2.4 Information reporting and backup withholding

Payments of dividends on and proceeds from the sale of Ordinary Shares that are made within the United States or through certain US-related financial intermediaries generally are subject to information reporting and may be subject to backup withholding unless (i) the US Holder is a corporation or other "exempt recipient" or (ii) in the case of backup withholding, the US Holder provides a correct taxpayer identification number and certifies that it is not subject to backup withholding. The amount of any backup withholding from a payment to a US Holder will be allowed as a credit against the holder's US federal income tax liability and may entitle the US Holder to a refund, provided that the required information is timely furnished to the Internal Revenue Service. US Holders should consult their tax advisers as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption.

US Holders who are individuals (and under proposed regulations, certain entities controlled by individuals) may be required to report information relating to the holding of certain foreign financial assets, including securities issued by non-US entities, if the aggregate value of all of these assets generally exceeds \$50,000 at the end of the taxable year or \$75,000 at any time during the taxable year, unless such assets are held in an account at a financial institution (in which case the account may be reportable if maintained by a foreign financial institution). US Holders should consult their tax advisers regarding the application of this legislation.

## 3. EEA PASSPORTED JURISDICTIONS

The following statements do not constitute tax advice and are intended only as a general guide to current law as applied in the EEA Passport Jurisdictions (which is subject to change at any time, possibly with retrospective effect). **Any person who is in any doubt as to their tax position, or who is subject to taxation in any jurisdiction other than the EEA Passport Jurisdictions, should consult their own professional adviser without delay.**

No withholding tax should arise or be payable in the EEA Passport Jurisdictions on dividends paid on Ordinary Shares where those Ordinary Shares are held by Shareholders through an account in the CREST system in the United Kingdom or in certificated form and where dividend payments are made into an account in the United Kingdom. Shareholders holding their Ordinary Shares (in the case of dematerialised Ordinary Shares) or receiving dividend payments in any account outside the United Kingdom, or through a nominee or custodian outside the United Kingdom, should seek their own independent tax advice.

## PART X

### REGULATION, STATE AID AND PROCUREMENT

#### PART A: REGULATION

##### 1. REGULATORY FRAMEWORKS APPLICABLE TO THE GROUP

The Group's activities are regulated at the UK, EU and international levels.

- Section 2 of this Part deals with the UK regulatory framework applicable to the Group (excluding the GLS Group). The UK regulatory framework is intended to implement the EU system of regulation of postal services.
- Section 3 of this Part deals with the EU and EEA regulatory framework applicable to the Group (excluding the GLS Group).
- Section 4 of this Part deals with the international regulatory framework applicable to the Group.
- Section 5 of this Part deals with certain other regulatory matters applicable to the Group.

##### 2. UK REGULATORY FRAMEWORK APPLICABLE TO THE GROUP (EXCLUDING THE GLS GROUP)

###### Introduction

The key UK legislation in relation to postal services is contained in the Postal Services Act 2000 and the PSA.

The PSA, which implements the third EU Postal Directive, made a number of important changes affecting postal operators. The provisions of the PSA include:

- provisions relevant to the restructuring of the Group;
- provision for the Pensions Transfer; and
- the introduction of a new regulatory regime that differs in many key respects from the regime it replaced.

The new regime is summarised in more detail below but the key changes include:

- (A) as mentioned further below, Ofcom replaced Postcomm as the economic regulator for postal services in the UK;
- (B) postal operators are generally authorised to provide postal services without the need for prior authorisation by Ofcom;
- (C) Ofcom is empowered to designate a universal service provider (or, in certain circumstances, more than one universal service provider);
- (D) Ofcom is empowered to impose certain regulatory conditions and is required to make a universal postal service order describing the services that should fall within the universal postal service and the standards expected of those services;
- (E) Ofcom is required to carry out its functions in relation to postal services in a way that it considers will secure the provision of a universal postal service, having regard to:
  - (i) the need for the provision of a universal postal service to be financially sustainable (including the need for a reasonable commercial rate of return. Ofcom has determined that an indicative EBIT margin range of five per cent. to 10 per cent. is appropriate and consistent with the need for a reasonable commercial rate of return); and
  - (ii) the need for the provision of a universal postal service to "be efficient before the end of a reasonable period and for its provision to continue to be efficient at all subsequent times";
- (F) in certain circumstances, Ofcom is empowered to review the extent (if any) of the financial burden for a universal service provider of complying with its USO and to recommend certain steps to deal with any such burden. This review cannot take place before 1 October 2016 without a direction from the

Secretary of State, and further restrictions apply to any recommended action (for example, there cannot be a procurement determination until 2021 absent a change to primary legislation or Royal Mail's consent); and

(G) a special postal administration regime was created.

The new regulatory regime is lighter-touch than the former regime. It gives the Group a greater degree of commercial freedom than it enjoyed under the previous regulatory regime, when restrictions meant that the Group needed to obtain Postcomm's approval for many pricing and other commercial proposals.

Ofcom has powers to regulate postal services and all postal operators to some degree. Different aspects of the Group's business are subject to different levels of regulation. For example, the provision of USO services using the Group's core network is subject to a higher level of regulation than other aspects of the Group's activities, and many of the Group's activities, such as Parcelforce Worldwide, fall outside the scope of this industry regulation.

## **2.1 Ofcom's duties and the universal postal service**

The economic regulator for postal services in the UK is Ofcom, which replaced the previous regulator, Postcomm, in October 2011.

Ofcom has duties under both the PSA and the Communications Act 2003 that apply when it carries out its functions in relation to post:

- (A) Ofcom's primary duty under the PSA is to carry out its functions in relation to postal services in a way that it considers will secure the provision of a universal postal service. In discharging its duties in relation to the provision of the universal service, the PSA also requires Ofcom to have regard to the need for the provision of a universal postal service to be financially sustainable, including the need for any universal service provider to earn a reasonable commercial rate of return on related expenditure, and to become efficient within a reasonable time, and then remain so; and
- (B) Ofcom's principal duty under the Communications Act 2003 is to further the interests of citizens and consumers, where appropriate by promoting competition.

In the case of a conflict between these duties, Ofcom's primary duty is to carry out its functions in relation to postal services in a way that it considers will secure the provision of a universal postal service.

Ofcom is responsible for, among other things: imposing regulatory conditions (including limits on certain of the Group's charges); ongoing monitoring of the Group's costs; performance and competitive behaviour; and resolving regulatory disputes between the Group and other postal operators. Ofcom also has concurrent competition law powers with the OFT under the Competition Act 1998.

The PSA further required Ofcom to make a universal postal service order. This sets out the scope of the services falling within the universal service. In March 2012, Ofcom made the first universal postal service order, which came into effect in April 2012.

## **2.2 Regulatory conditions**

Under the PSA operators are generally authorised to provide postal services without the need for prior authorisation by Ofcom. RMG is designated as the universal service provider in the UK.

Ofcom has powers to impose regulatory conditions (either just on the universal service provider and/or on all or some postal operators) from a defined list of types of regulatory conditions in certain circumstances.

In March 2012, Ofcom published a decision document setting out the new regulatory conditions binding the Group and other postal operators for seven years from 27 March 2012. The decision imposed the following regulatory conditions:

### ***Designated universal service provider condition***

The universal service obligation is defined widely in the EU Directives in relation to postal services. Member States therefore have some flexibility to further define certain aspects of the universal service, including frequency and speed of delivery.

The PSA sets out the services that must, as a minimum, be included in a universal postal service. A “postal packet” is defined within the PSA as a “letter, parcel, packet or other article transmissible by post”. The minimum requirements are, in summary:

- **Requirement 1:** at least one delivery of letters every Monday to Saturday, and at least one delivery of “other postal packets” every Monday to Friday, to the home or premises of every individual or other person in the United Kingdom, or to such identifiable points for the delivery of postal packets as Ofcom may approve. (This includes the delivery of letters or other postal packets posted outside the United Kingdom.)
- **Requirement 2:** at least one collection of letters every Monday to Saturday, and at least one collection of other postal packets every Monday to Friday, from every access point in the United Kingdom used for the purpose of receiving postal packets, or any class of them, for onward transmission (including to outside the United Kingdom) in connection with the provision of a universal postal service.
- **Requirement 3:** a service of conveying postal packets from one place to another (including to places outside the United Kingdom) by post (including the incidental services of receiving, collecting, sorting and delivering them) at affordable prices determined in accordance with a public tariff which is uniform throughout the United Kingdom.
- **Requirement 4:** a registered items service at affordable prices determined in accordance with a public tariff which is uniform throughout the United Kingdom.
- **Requirement 5:** an insured items service at affordable prices determined in accordance with a public tariff which is uniform throughout the United Kingdom.
- **Requirement 6:** the provision free of charge of postal services (as specified in the universal postal service order) to specified descriptions of blind or partially sighted persons.
- **Requirement 7:** a service of conveying free of charge qualifying legislative petitions and addresses.

RMG, as the designated universal service provider, is required to provide the universal service to specified standards. RMG’s basic obligations under this condition are to:

- (A) provide at least one delivery of letters each day Monday to Saturday, and one delivery of “other postal packets” each day Monday to Friday originating from anywhere in the world to the home/premises of every individual or other person in the UK and to delivery points approved by Ofcom. (The provisions of the condition in relation to letter deliveries therefore go further than the EU Directives strictly require in relation to postal services, as the EU Directives require delivery five days a week only);
- (B) provide at least one collection of letters each day Monday to Saturday (the EU Directives require collections five days a week), and of postal packets each day Monday to Friday, from public access points;
- (C) provide “end to end” services meeting various criteria (such as return to sender services, “end to end” international services, and services for blind and partially sighted persons). Both “standard” (second class) and “priority” (first class) services must be provided. Such “end to end” services must be provided “at affordable prices determined in accordance with a public tariff which is uniform throughout the United Kingdom”;
- (D) provide “addressee services”, such as redirections and poste restante;
- (E) provide access points (including, for example, pillar boxes) for the universal service. RMG is required to provide sufficient access points to meet the reasonable needs of users of the universal postal service. On 13 June 2013, Ofcom decided to amend the designated universal service provider condition so that RMG is required to ensure there is a pillar box within 0.5 miles by straight line distance of at least 98 per cent. of delivery points nationally, and for the remaining two per cent. of delivery points, RMG must provide sufficient access points or other means of access to the universal service to meet the reasonable needs of users; and
- (F) meet performance/quality of service targets, including in relation to delivery routes and times, collections and domestic “end to end” services.

This condition also imposes the price cap on second class letters and large letters and parcels up to two kilograms which is considered below (see sections 2.3 and 2.4 below).

### ***Universal service provider access conditions***

This condition requires RMG to offer other postal operators and users of postal services access to its delivery network at the inward mail centre for letter and large letter services where the mail is to be delivered in a minimum of two working days after collection. In effect, this allows competitor postal operators to collect mail directly from customers, trunk it around the country, and hand over to the Group at the relevant inward mail centre nearest the delivery point, where the Group processes and then delivers the mail to the recipient.

In particular, RMG is obliged, among other things, to:

- (A) offer the terms and conditions of access on a “fair and reasonable” basis;
- (B) provide prior publication and notification of standard price and non-price terms (unless otherwise agreed);
- (C) adopt a transparent process for the prior notification of those non-price changes that do not require the prior consent of the access operator (with notice periods sufficient to manage the impact of such changes);
- (D) provide access users with quality of service information for its access services based on a fair and reasonable system of monitoring; and
- (E) refrain from unduly discriminating against any particular persons or against a description of persons in relation to access matters. This includes a requirement on RMG to use all reasonable endeavours to protect the information in its possession as a result of giving access to its postal network, and in particular to ensure that no such information is either disclosed for the benefit of or used for the purpose of any trading business conducted by it or that of any related person.

This condition also imposes the regulatory margin squeeze price control which is considered below (see section 2.5 below).

### ***Universal service provider accounting conditions***

This condition imposes certain accounting obligations on the Group. The Group is required:

- (A) to maintain a separation for accounting purposes between such different matters as Ofcom may direct, including separation in relation to different services, facilities or products;
- (B) to comply with rules made by Ofcom in relation to the identification of costs, cost orientation, and the use of cost accounting systems; and
- (C) to secure that its compliance with the above is audited annually by a qualified independent auditor.

The Group is also required to provide and publish an updated costing manual (a document explaining its internal costing methodology) to Ofcom on a quarterly basis. There is also a requirement to notify Ofcom of any material changes seven days prior to the changes being made. In addition the Group has to provide to Ofcom (each quarter) an accounting methodology manual, a document setting out the rules applied by the Group in the preparation of all regulatory financial reports.

### ***Notification condition***

The PSA states that Ofcom may impose a notification condition on every person providing, or intending to provide, a service (or a service of a specified description) within the scope of the universal postal service. Such a notice may require the person to give Ofcom advance notice of that person's intention to provide a letter business on “a specified scale” (whether or not that person is currently providing a letter business or any other postal service) and, where the person is already providing a letter business on a specified scale, advance notice of the person's intention to expand the business to a specified extent. The PSA further states that the Secretary of State may at any time direct Ofcom to impose a notification condition.

The notification condition imposed by Ofcom in March 2012 requires “any person” to give at least three months' written notice to Ofcom before beginning to provide or expand a “letter business” within the scope of the universal service. This condition applies to operators who seek to provide an “end to end” letter business consisting of the delivery of at least 2.5 million letters in all or any part of the UK in the quarter following the notification period, or an existing “end to end” operator providing an “end to end” letter business consisting of the delivery of at least 2.5 million letters in the quarter following the notification period, who seek to expand



that business through the delivery of an additional 2.5 million or more letters in the quarter following the notification period in all or any part of the UK.

### **Essential condition**

The PSA states that Ofcom may impose an essential condition on every postal operator, or every postal operator of a description specified in the condition. The PSA states that an essential condition is a condition containing such obligations as Ofcom considers necessary to impose for, or in connection with, any one or more of the following purposes:

- (A) safeguarding confidentiality in connection with the sending, conveyance and delivery of letters;
- (B) safeguarding security where dangerous goods are transported;
- (C) safeguarding the confidentiality of information conveyed;
- (D) guarding against the theft or loss of or damage to postal packets; and
- (E) securing the delivery of postal packets to the intended addressees.

The essential condition imposed by Ofcom in March 2012 requires the Group (for these purposes, excluding Parcelforce Worldwide) and other regulated postal operators to comply with the Mail Integrity Code, which is a code of practice intended to protect the integrity of mail, including by minimising the exposure of relevant mail to the risk of loss, theft, damage and/or interference, and by maintaining and improving regulated postal operators' performance.

Ofcom is currently reviewing the requirement for a regulatory code for mail integrity. Ofcom has undertaken a "call for input" which sought stakeholder views on the subject and has expressed its intention to undertake a formal consultation during the summer of 2013.

### **Consumer protection condition**

This condition obliges postal operators, including the Group, to:

- (A) assume specified liability in respect of specified loss of or damage to specified postal packets;
- (B) establish and maintain procedures, standards and policies with respect to consumer protection matters; and
- (C) make payments towards the costs of Consumer Futures and the OFT.

### **Ofcom consultation on certain technical and minor amendments**

On 5 September 2013, Ofcom launched a consultation in relation to certain proposed drafting amendments to the universal postal services order and two of the regulatory conditions referred to above. These proposed amendments are very minor and, if implemented in the way currently envisaged in the consultation document, would have no material impact on the Group.

## **2.3 Key regulatory controls on pricing**

Many of the price controls previously imposed on the Group under the Postcomm licensing regime have now been removed. The current regulatory controls on the Group's pricing are:

- (A) a price cap on the price of second class letters;
- (B) a price cap covering a theoretical "basket" of products,<sup>1</sup> comprising second class large letters and second class parcels up to two kilograms;
- (C) the *ex ante* regulatory margin squeeze price control on certain second class letter and large letter products (see section 2.5 below);
- (D) a requirement that prices for mandated access products (i.e. the access products which the Group is obliged to offer under the universal service provider access condition (see above)) are set on "fair and reasonable" terms. The price of access services is also subject to the *ex ante* regulatory margin squeeze price control (see section 2.5 below); and

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<sup>1</sup> RMG has flexibility to alter the prices of individual products within the basket, provided the weighted average of those products does not exceed the cap.

- (E) a requirement that USO products be made available at prices that are affordable, uniform throughout the United Kingdom and set at a “fair and reasonable” level.

In addition to the above regulatory price controls, the Group’s pricing is in practice constrained by the application of general competition law (discussed further below).

## **2.4 Price cap on second class letter, large letter and parcel products**

Royal Mail is subject to the following price caps, in relation to certain second class USO products:

- (A) a direct price cap (55p for the “First Relevant Year”<sup>2</sup> and pegged to CPI) on the price of second class letters to protect vulnerable customers; and
- (B) the safeguard single “basket” price cap on second class large letters and parcels up to two kilograms (based on a weighted average increase relative to 2011/12 prices for the seven-year period of the regulatory framework, increasing with CPI inflation).

The price of a second class stamp for a letter (up to 100 grams) in 2012/13 was 50p and this is unchanged in 2013/14.

## **2.5 Regulatory margin squeeze price control**

A “margin squeeze” may arise where the margin between the Group’s access and retail prices is insufficient to enable access customers to compete effectively with the Group. As set out above, an *ex ante* regulatory margin squeeze price control applies to the prices charged by the Group to prevent a margin squeeze in relation to certain second class bulk letter and large letter products. This control comprises two elements:

- (A) a margin squeeze basket, requiring that the Group have a reasonable expectation of recovering relevant upstream fully allocated costs through its revenue across the basket of products within the scope of the control; and
- (B) a ‘per contract’ control, requiring that the Group have a reasonable expectation of recovering a minimum of 50 per cent. of relevant upstream fully allocated costs for individual contracts.

## **2.6 Other conditions currently not imposed by Ofcom**

Ofcom has powers to impose the following types of regulatory conditions under the Act, but did not actually impose these in March 2012:

- (A) general universal service conditions (summarised further below); and
- (B) general access conditions, under which one or more postal operators may be required to give access to other postal operators, or users of postal services, to their postal infrastructure or to any service which forms part of the universal service which they provide, and to maintain accounting separation for those services.

## **2.7 General universal service conditions**

Ofcom may impose a general universal service condition on every postal operator providing a service within the scope of the universal postal service. General universal service conditions are generally applicable and are not specifically attached to an individual operator.

A general universal service condition is a condition under which Ofcom may impose such obligations as it considers necessary to secure the provision of a universal postal service, or such obligations as Ofcom considers necessary to impose for the purposes of requiring contributions to a contributions fund (explained in more detail in section 2.11 below).

Subject to a number of statutory limitations, a general universal service condition could take a wide range of forms (provided Ofcom was satisfied that it met the specified requirements as to proportionality, objective justification, discrimination and transparency). It could, for example, require postal operators to deliver to a certain specification, such as a minimum number of days per week or a specified geographic area.

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2 FYE 2013.

## **2.8 Ofcom's statement on "end to end" competition**

On 27 March 2013, Ofcom published a statement and guidance on its approach to assessing the impact of "end to end" competition in the UK on the provision of the universal service. As explained further in section 8.1(F) of Part II (*The Business*), "end to end" (or, as it is sometimes known, direct delivery) competition arises where a postal operator other than Royal Mail collects, transports, sorts and delivers mail directly to the end-recipient without using any part of the Royal Mail network. Ofcom has acknowledged that direct delivery competition has the potential to affect the provision of the universal service, both positively and negatively. Ofcom takes the view that the current evidence does not suggest there is an immediate need to conduct a review of the impact of direct delivery competition, given Ofcom's understanding of the scale of competitors' plans. However, as discussed below, Ofcom has committed to commence a full review of the impact of direct delivery towards the end of 2015 if a review (and potentially intervention) has not already been undertaken by that time.

Ofcom will also continue to monitor developments, including any notifications made under the notification condition (discussed above) and has also said it will consider initiating a review before the end of 2015 if circumstances change materially in the meantime.

Ofcom will review the need to intervene if its active monitoring of the postal sector identifies a potential market threat to the provision of the universal service – for example, as a result of a significant new party entering or growing in the market, or a change in the expected level of Royal Mail's future revenue or costs. If Ofcom anticipates that Royal Mail's returns will fall below five to 10 per cent. EBIT margin on a sustained basis, it has stated that it would expect to intervene unless Ofcom concludes that this is due to Royal Mail failing to take appropriate steps to respond to the challenge posed by competition, such as failing to improve efficiency levels. In these circumstances, Ofcom might intervene, for example, to impose a general universal service condition (discussed in more detail above) on postal operators other than the Group. Ofcom's determination that an EBIT margin in the range of five to 10 per cent. would be appropriate and consistent with the need for RMG to earn a reasonable commercial rate of return commensurate with the level of risk within the business is based on an assessment of market evidence, analysis undertaken by consultants at Ofcom's request and regulatory precedent. In particular, Ofcom had regard to benchmark returns achieved by other major privatised European universal service providers, such as Deutsche Post, Austrian Post and Post NL.

## **2.9 Ofcom's statement on user needs**

On 27 March 2013 Ofcom published a statement concluding its review in relation to user needs pursuant to its obligation to do so within 18 months of taking over responsibility for postal regulation. In summary, this statement concludes that:

- the postal sector is currently meeting the reasonable needs of users;
- the postal sector is highly valued by residential users and businesses across the UK; and
- Ofcom concluded, therefore, that it had decided not to change the scope of the universal service.

The statement also recognised that postal users' needs, preferences and expectations are evolving and that, as a result, the extent to which the postal sector meets current reasonable needs varies in some areas. In particular, postal users would value greater flexibility in respect of delivery options for packets. Responding to these changing needs might involve extended delivery office opening hours or evening deliveries, but Ofcom recognised that such change is better brought about through innovation than by regulatory intervention.

Ofcom indicated that, generally, it will keep this issue under review.

## **2.10 Ofcom's monitoring, enforcement and dispute resolution regime**

### *Monitoring and Royal Mail's reporting obligations*

Ofcom plans to monitor the following four areas of the Group's activity, and of UK postal services more generally:

- (A) financial performance;
- (B) operating performance;
- (C) customers and consumers; and
- (D) competition.

Ofcom proposes to do this using a combination of regular internal Ofcom analysis, market-specific information from stakeholders, and the regulatory financial reports and certain other data it receives from the Group.

The Group has a number of financial reporting obligations in relation to monthly, annual and quarterly reports, including quarterly and annual income statements, quarterly and annual product profitability statements, quarterly costing and accounting methodology manuals, an annual strategic business plan, an annual budget and quarterly cash flow projections. Ofcom has stated that it will also rely on, among other things, the Group's quality of service reports to monitor the Group's operational performance, and price and non-price changes for universal services over time to monitor the Group's performance with regard to customers and consumers.

The Group believes that Ofcom's main areas of focus will be quality of service, efficiency and affordability.

#### *Reopening the regulatory regime*

Although the new regulatory framework was set by Ofcom for seven years from March 2012 (until 2019), Ofcom has the ability to reopen the regulatory regime if necessary. In the Decision, Ofcom determined that explicit thresholds were not necessary to trigger a regulatory review, given the active monitoring regime, but indicated that it would intervene "if there are persistent concerns that our duties in relation to post will not be met".

#### *Enforcement of the regulatory conditions*

Ofcom is also responsible for enforcement of the regulatory conditions, including performance/quality of service targets under the designated universal service provider condition. Where Ofcom finds that there are reasonable grounds for believing that a condition is being, or has been, breached, it will issue a notification setting out its preliminary view on the breach. In certain circumstances Ofcom may, where it has reasonable grounds to believe that a regulatory condition is being, or has been, breached by the Group or another postal operator:

- (A) issue an enforcement notification either requiring a postal operator to take such steps to comply with the condition as may be specified and/or requiring an operator to take such steps to remedy the consequences of the breach of condition as may be specified; and/or
- (B) impose a financial penalty of up to 10 per cent. of the turnover of the recipient's postal services business for the relevant period.

#### *Access disputes*

The PSA makes provision for Ofcom to hear and resolve disputes about access to the Group's delivery network. Ofcom has indicated that it will make use of its existing dispute resolution guidelines, subject to recognising any appropriate differences, and it published a supplement to those guidelines in April 2012 to address those differences. These guidelines provide a mechanism by which disputes in relation to mandated access can be investigated and resolved. For example, the guidelines provide an indication of the factors Ofcom will consider when deciding whether to exercise its discretion to hear a dispute, an indicative timetable for resolving such disputes and an outline of remedies which may be considered when resolving such disputes.

#### *Appeals of Ofcom's regulatory and competition decisions*

The appeals framework for Ofcom's decisions in the postal services sector is set out in the PSA. On 19 June 2013, the Department for Business, Innovation and Skills ("**BIS**") opened a consultation on options for reform of regulatory and competition law appeals generally in the UK. In the context of grounds of appeal, BIS has noted that certain options for reform of regulatory and competition law appeals may result in amendments to the PSA. The consultation closed on 11 September 2013. Following the close of the consultation period, the Government will publish all of the responses received. HM Government will, within three months of the close of the consultation, publish the consultation response. This response will take the form of decisions made in light of the consultation, a summary of the views expressed and reasons given for decisions finally taken. This document will be published on the BIS website.

### 2.11 Measures Ofcom can take if the USO burden is unfair

Ofcom may initiate a review of the extent (if any) of the financial burden for the Group of complying with its USO after an initial period of five years following the coming into force of the PSA (i.e. from October 2016 onwards), or earlier if directed to do so by the Secretary of State.

In undertaking its review, Ofcom must consider the extent to which the Group is complying with its USO in a cost-efficient manner. Following a finding that there is a financial burden, Ofcom is required to determine whether it considers that “it is or would be unfair for the provider to bear, or continue to bear, the whole or a part of the burden” of complying with the USO.

If the conclusion of the review is that it is or would be unfair, Ofcom must then submit a report to the Secretary of State setting out the recommended course of action (if any) that Ofcom considers ought to be taken to deal with the burden. Ofcom may recommend one or more of the following courses of action:

- (A) a review of the minimum requirements of the universal service;
- (B) the establishment of a contributions fund (i.e. a fund to which either postal operators and/or users of postal services would contribute, to help reduce such an unfair financial burden on the Group); or
- (C) the making of a procurement determination (i.e. a determination that a particular postal operator, or operators, could provide any of the services within the USO in a way that reduced or removed an unfair financial burden on the Group).

The Secretary of State is then required to review Ofcom’s report and determine what action, if any, Ofcom should take. The Secretary of State cannot direct Ofcom to make a procurement determination before October 2021 unless Royal Mail consents to it or there is a change in primary legislation. If the Secretary of State determines that a contributions fund should be established, the regulations set out by Ofcom for implementation of the fund can provide for contributions to be made by either or both of: (a) postal operators providing services within the scope of the universal service; and/or (b) users of services within the scope of the universal service. The regulations must be approved by both Houses of Parliament.

### 2.12 The special administration regime

The PSA provides for a special administration regime for the universal service provider. Under this regime, the Secretary of State, or Ofcom with the consent of the Secretary of State, may apply to the courts for a postal administration order in relation to the universal service provider, in order to maintain the provision of a universal postal service. The court may make a postal administration order only if it is satisfied either that the company is unable, or is likely to be unable, to pay its debts, or that it would be just and equitable to wind up the company in the public interest. The effect of such an order would be to appoint a person (the “**postal administrator**”) to manage the company’s affairs, business and property while the order is in force.

The objectives of a postal administration order are to secure that a universal postal service is provided in accordance with applicable standards, and that it becomes unnecessary for the postal administration order to remain in place for that purpose. The second objective may be achieved by the rescue as a going concern of the company concerned and/or its transfer as a going concern to another company/ies of so much of the relevant company’s business as it is appropriate to transfer for the purpose of achieving the objective of the postal administration. The PSA provides that the objectives of a postal administration may be achieved by such a transfer to the extent only that, among other things:

- (A) the rescue of the company as a going concern is not reasonably practicable (for example, without the transfer); or
- (B) the transfer would, without prejudicing the interests of the company’s creditors as a whole, produce a result for the company’s members as a whole that is better than the result that would be produced without them.

The postal administrator is required to exercise and perform all the powers and duties conferred or imposed on him/her so as to achieve the objectives of the postal administration order as quickly and as efficiently as is reasonably practicable. Further, the postal administrator must also exercise and perform his/her powers and duties in a way which, so far as is consistent with the objective of the postal administration, best protects the interests of the company’s creditors as a whole and, subject to those interests, the interests of the company’s members as a whole.



Where a postal administration order is made, the Secretary of State may, following consultation, modify Ofcom's universal postal service order and/or modify or revoke regulatory conditions if the Secretary of State considers it appropriate to do so for, or in connection with, achieving the objective of the postal administration.

The PSA places restrictions on the ability of a person other than the Secretary of State to petition for the winding up of a company which is a universal service provider.

Procedural rules relating to the special administration regime will be set out in secondary legislation.

### **2.13 Role of the Secretary of State**

The Secretary of State has a number of statutory functions under the current regulatory regime. These functions include:

- (A) For the first five years of the PSA, Ofcom is unable to initiate a review of the extent (if any) of the financial burden for Royal Mail of complying with its Universal Service Obligation unless directed to do so by the Secretary of State.
- (B) In the event of such a review of the financial burden for Royal Mail (regardless of whether that review was initiated at the direction of the Secretary of State) leading to a finding by Ofcom that there is a financial burden and it would be unfair for Royal Mail to bear that burden, Ofcom must submit a report to the Secretary of State setting out a recommended course of action. In that eventuality, the Secretary of State is then required to review Ofcom's report and determine the action (if any) that Ofcom should take.
- (C) The Secretary of State, or Ofcom with the consent of the Secretary of State, may apply to the courts for a postal administration order in relation to a universal service provider (see section 2.11 above) in order to maintain the provision of a universal postal service. In the event that a postal administration order is granted, the Secretary of State may, after consultation, modify Ofcom's universal postal service order, or modify or revoke regulatory conditions.
- (D) The Postal Services Act 2000, as amended by the PSA, provides that the Secretary of State may give directions to Ofcom and/or to postal operators where the Secretary of State considers it necessary or expedient to do so in the interests of national security, or in the interests of encouraging or maintaining the UK's relations with another country or territory. Such directions could, for example, include suspension or postponement of some or all postal services. Further, where the Secretary of State considers that an EU obligation under the Postal Services Directive (Directive 97/67 EC, as amended by Directive 2002/39 EC) is not being complied with, or that it is likely that any such obligation will not be complied with, and the Secretary of State has been unable to obtain relevant undertakings, the Secretary of State has a wide power by order to make such provision as he considers appropriate to ensure that the obligation is or will be complied with. Before making such an order, the Secretary of State is required to consult with any postal operator on whom a requirement is to be imposed by virtue of the order.
- (E) The PSA empowers the Secretary of State to give a direction to a universal service provider requiring the provider to issue UK postage stamps bearing the Queen's image and in relation to the design and other features of such stamps. Such directions must include a provision for relevant stamps not to be issued without the approval of the Queen.

The powers of the Secretary of State under the PSA can be exercised by any secretary of state, albeit that responsibility currently rests with the Secretary of State. It is possible that responsibility could move to another secretary of state in the future.

### **2.14 The requirements of the Postal Services Act 2000 in relation to the Postcode Address File**

The Group manages, maintains, verifies, updates and invests in a comprehensive database of postal addresses in the UK – the Postcode Address File ("PAF"). The Postal Services Act 2000 requires PAF to be made available to any person wishing to use it on reasonable terms.

Following a review of PAF in 2007, the previous regulator, Postcomm, set a voluntary target profit cap on PAF of eight to 10 per cent. above operating costs. This cap was maintained following a subsequent review by Postcomm in 2010/11.

Ofcom has recently reviewed PAF following a consultation in February 2013. Ofcom confirmed that Royal Mail should continue to recover the cost of PAF from licensees. It also recommended that the existing licensing regime should be simplified. This process is currently under way and a market consultation was launched at the end of July 2013. The results of the market consultation will be reviewed and taken into account when the new licensing regime is finalised.

A voluntary profit cap on PAF revenue has been in place since 2007 (as agreed with the previous regulator Postcomm). However, Ofcom's February consultation raised concerns about the profit cap and the impact it had on efficiencies and incentives to grow the take up and use of PAF.

In a further statement published by Ofcom on 22 July 2013, Ofcom recommended that the voluntary profit cap on PAF revenue therefore be removed with immediate effect. Ofcom is currently awaiting the conclusions of the PAF licensing framework review and may consider the issue of an alternative to the profit cap if this is deemed necessary.

Royal Mail launched a market consultation in July 2013 on the proposed simplification of the PAF licensing regime, as recommended by Ofcom. Following input from HM Government and market representatives, Royal Mail is proposing a licensing framework that:

- is permissive, rather than the current restrictive licence, and simplifies licensing concepts such as derived data;
- focuses on the direct licensee and replaces the indirect licensing model;
- minimises on-licensing and places fewer requirements on licensees than exist at present;
- simplifies pricing, from nearly 40 price points, and instead presents a small number of licensing choices; and
- replaces the 60 pages of licensing terms and conditions with approximately 10 pages and uses clear, simple language.

## **2.15 UK and EU competition regime**

### *Introduction*

The most significant provisions of competition law for these purposes are:

- (A) the Chapter I prohibition of the Competition Act 1998 and Article 101 of the Treaty on the Functioning of the European Union ("TFEU"), which prohibit anti-competitive agreements/arrangements; and
- (B) the Chapter II prohibition of the Competition Act 1998 and Article 102 TFEU, which prohibit abuse of a dominant position.

### *Anti-competitive agreements*

Some of the most serious examples of infringing agreements/arrangements include:

- (A) fixing prices with competitors (including exchanging sensitive pricing information);
- (B) market/customer sharing; and
- (C) agreements limiting output.

In addition, other types of anti-competitive agreements that are not included in the list above, but which have a restrictive effect on competition (such as long-term exclusive agreements, for example) may infringe Article 101 TFEU and/or Chapter I of the UK Competition Act 1998 such that they are illegal and unenforceable.

### *Abuses of dominance*

Article 102 TFEU and Chapter II of the UK Competition Act 1998 set out a non-exhaustive list of conduct which may constitute an abuse when carried out by a dominant undertaking without an objective justification, including:

- (A) charging excessive prices;
- (B) predatory pricing (charging prices which are beneath the dominant undertaking's costs over the short term and forcing competitors to exit the market);

- (C) discriminatory conduct (treating similarly placed customers differently, for example by charging different prices);
- (D) unfair fidelity or loyalty rebates or similar pricing schemes;
- (E) margin squeeze (charging prices for its wholesale services which are sufficiently higher than the dominant undertaking charges to its own vertically integrated operations such that those customers are unable to compete effectively with the dominant undertaking at the retail level);
- (F) refusal to supply; and
- (G) tying and bundling.

#### *Enforcement and fines*

Competition law is enforced by the European Commission and by national competition authorities. Companies, including the Group, are responsible for self-assessment of agreements and conduct in order to ensure that their commercial arrangements are consistent with the competition rules. In the UK, the OFT and, in the postal services sector, Ofcom, are currently responsible for competition law enforcement. HM Government plans to replace the OFT and the Competition Commission with a single body, the Competition Markets Authority, from April 2014. The European Commission, the OFT and Ofcom have wide powers of investigation and can impose fines for competition law infringements of up to 10 per cent. of worldwide group turnover, as well as interim measures. Third parties who have suffered loss as a result of an infringement can also bring private actions for damages. Ofcom has broad inspection powers, including the power to take statements, to receive and seize relevant documents, objects and business records and to conduct a search of the premises of the Group.

For certain particularly serious infringements of competition law, the Enterprise Act 2002 creates a criminal cartel offence which can be punished by unlimited fines and imprisonment of individuals for up to five years.

#### *Franking – undertakings offered by RMG to the OFT in 2005*

In 2005, the OFT accepted undertakings from the franking machine suppliers Pitney Bowes and Neopost, as well as RMG, in relation to the supply of postal franking machines and their ink cartridges, and the provision of maintenance and inspection services.<sup>3</sup> The undertakings remain in force.

The undertakings predominantly relate to the franking machine suppliers but do also include requirements for Royal Mail relating to:

- (A) the authorisation of third party maintainers and inspectors;
- (B) the protection of franking machine dyes and security devices; and
- (C) the types of ink cartridges that can be used.

The undertakings are designed to achieve the following:

- (A) open up the supply of maintenance services by making authorisation as a third party maintainer and inspector easier;
- (B) remove some impediments to the supply of second-hand machines by being less restrictive on who can be responsible for franking machine dyes and security devices; and
- (C) remove some restrictions on independent supply of ink cartridges.

#### *Particular significance of competition law for regulated postal operators*

The OFT and the European Commission have jurisdiction to enforce competition law in the UK, regardless of the sector. However, in a number of regulated sectors, including post, the relevant sectoral regulator also has jurisdiction to apply competition law, and benefits from concurrent enforcement powers, including the power to impose fines for infringements. Ofcom benefits from such concurrent powers and has made clear that it will consider carefully whether to proceed in any given circumstances using its postal regulatory powers, or its mainstream competition law powers. In comparison with a non-sector specific competition regulator, Ofcom has a greater level of information in relation to the Group's activities as a result of its reporting obligations, which may mean that the Group's activities are subject to a higher level of scrutiny.

<sup>3</sup> See OFT Press Release 110/05, "OFT accepts postal franking machines undertakings", 17 June 2005 and Advice to the Secretary of State, 26 May 2005.

### **3. EU AND EEA REGULATORY FRAMEWORK APPLICABLE TO THE GROUP (EXCLUDING THE GLS GROUP)**

#### **3.1 EU postal directives**

The PSA is intended to implement Directive 2008/06/EC, which is the third and most recent EU postal directive (the others being Directive 97/67/EC and Directive 2002/39/EC).

The European Commission and the Courts have indicated that postal services are regarded as a service of general economic interest. The EU postal directives were introduced as part of efforts to create a single Community market in postal services and to ensure a high-quality universal postal service by opening up the sector to competition on the basis of the regulatory framework of the first Postal Directive (97/67 EC). The three main objectives of the EU postal directives have been (i) the gradual and controlled liberalisation of the postal market; (ii) ensuring universal services; and (iii) consumer protection. The EU postal directives require that Member States ensure that a minimum offering of postal services is provided to customers at a sufficient level of quality and at generally affordable prices throughout their national territory.

As amended by the third Postal Directive, the EU postal directives introduce, *inter alia*:

- (A) minimum characteristics of the universal service to be guaranteed by each Member State (on its territory);
- (B) definition of the principles for tariffs applicable to the universal service;
- (C) definition of the principles for the transparency of the accounts of the universal service provider;
- (D) quality of service standards for national and intra-Community cross-border services; and
- (E) a requirement to ensure that national regulatory authorities are independent of postal operators.

As explained above, the EU postal directives are implemented in the UK via the Postal Services Act 2000 and the PSA.

#### *Possible future developments*

On 29 November 2012, the European Commission published a Green Paper consultation on creating an integrated parcel market, with special emphasis on cross-border issues and e-commerce needs. The Green Paper posed a series of questions, including whether it would be appropriate to introduce a universal service obligation for parcels, which markets would benefit from more competition, and whether *ex ante* regulation, such as access requirements and price controls, should be imposed on postal operators with significant market power.

Although European Commission officials have indicated that the European Commission has no plans to follow up the Green Paper with formal legislation, there is a risk that it may ask postal operators to adopt a range of practical measures to assist in market integration. Working with European and international postal trade associations, the Group is discussing the issues raised in the Green Paper consultation with the European Commission.

### **4. INTERNATIONAL REGULATORY FRAMEWORK APPLICABLE TO THE GROUP (EXCLUDING THE GLS GROUP)**

#### **4.1 Universal Postal Union**

RMG, as the UK's designated universal postal service provider, represents HM Government at the United Nations' Universal Postal Union. The Universal Postal Union is a specialised agency for international postal services, which acts as a forum for cooperation between its member countries on the rules and standards for international mail exchanges.

The Universal Postal Union establishes rules for international mail exchanges among its member countries, including, in particular, provisions governing operational standards and remuneration of delivery costs for international mail through the terminal dues system (under which fees are payable between member countries according to the difference in the total weight of mail between them). As the UK's "designated operator" under the Universal Postal Union, RMG is party to a number of multi-lateral and bilateral agreements with national postal operators in most other European countries relating to the reciprocal payment of terminal dues for handling and delivering one another's cross-border mail. In addition to these agreements, RMG relies on the Universal Postal Union's terminal dues system with respect to other

international postal operators. Under the terminal dues system, postal operators pay each other for handling and delivering cross-border mail that originates in another national postal operator's country.

Members of the Universal Postal Union, including RMG, sign up to the Universal Postal Convention and the regulations of the Universal Postal Union.

The General Regulations relate to the general application of the Universal Postal Convention and the overall workings of the Universal Postal Union. The Universal Postal Convention, the Letter Post Regulations and the Parcel Post Regulations contain further rules applicable to letter post and parcel post. The agreements of the Universal Postal Union and the accompanying regulations regulate services other than the letter post and the parcel post services between the member countries party to those agreements.

RMG may in certain circumstances depart from these rules by concluding bilateral or multilateral arrangements with postal operators outside the UK and has done so in some instances.

Universal Postal Union Congresses are held every four years. The main purpose of the Congresses is to examine proposals to amend the Acts of the Universal Postal Union. The most recent Congress was held in 2012.

The Universal Postal Union also makes recommendations to modernise products and services, stimulate mail volume growth and improve the quality of service for customers.

RMG's position as HM Government's representative at the Universal Postal Union is subject to ongoing scrutiny by HM Government and is reviewed from time to time.

## **5. OTHER REGULATORY MATTERS**

### **5.1 Security and customs**

There are a number of multilateral and unilateral measures in relation to transport security at the UPU, EU and country level. Public postal operators, including RMG, are subject to simplified procedures, for both the transport of mail and parcels within the European Union and customs security.

At the EU level, the EU Customs Code requires "summary declarations" or customs declarations in a prescribed form to be made to relevant customs authorities where goods are to be brought into or out of the customs territory of the European Union. According to the EU Customs Code, customs declarations (entry summary declarations and/or the lodging of a customs declaration) are not required in relation to letters, postcards and printed matter and goods transported under the provisions of the UPU Convention.

In relation to cargo, advance electronic reporting requirements are in place for all cargo entering, passing through or leaving the EU (the requirements differ according to whether the cargo is being imported or exported, and by mode of transport).

The European Commission may abolish the simplified procedures for movement of goods under the UPU Convention described above. A new Union Customs Code is currently being developed which contains provisions in relation to security, safety and clearance. Postal operators and the UPU and in coordination with the World Customs Organization, the International Civil Aviation Organization and the International Air Transport Association, have worked together to arrive at joint principles for mail and air cargo security, with comparable features. Such a system may require information to be provided prior to departure.

National legislation also specifies the respective responsibilities and obligations of customs and of the postal service in connection with customs treatment of postal items.

Regulatory provisions relating to aviation security, such as those imposed by the International Civil Aviation Organization, also affect postal services. Specific regulations also apply at the EU level (Regulation no. 300/2008 of March 11, 2008 and Regulation no. 185/2010 of 4 March 2010), and national level. Under the EU framework, all cargo and mail is subject to security controls prior to being loaded on to aircraft.

### **5.2 Dangerous goods and aviation security**

In addition to the regulatory oversight conducted by Ofcom described above (and in particular the provisions of the essential condition which deal with dangerous goods), the Group is subject to additional regulatory requirements in the UK and Europe in relation to, among other things, the transportation of dangerous goods and aviation security.



As a general rule, most dangerous goods cannot be carried by mail as a result of transport regulations in the UK. However, the Group has been granted exemptions to enable consumers and businesses to send small quantities of certain items classified as dangerous goods by post, including: aerosols (for personal grooming and medicinal purposes), certain alcoholic beverages (between 24 and 70 per cent. alcohol by volume), lithium batteries sent connected to, or with, equipment, nail varnish and perfume/aftershave, which are all currently prohibited. Under the terms of the exemptions, such goods must be sent in compliance with quantity, volume, packaging and labelling requirements. The relevant exemptions came into effect in January 2013 for international and domestic business customers and for domestic consumers in July 2013.

## **PART B: STATE AID**

### **1. EU STATE AID REGIME**

#### **1.1 Introduction**

European State Aid rules aim to ensure a level playing field for businesses active within the European Union by ensuring that businesses are not given an unfair competitive advantage as a result of state assistance, otherwise known as “State Aid”.

“State Aid” is defined as an economic advantage in any form whatsoever given on a selective basis to businesses by the state or through state resources which distorts, or threatens to distort, competition and affects trade between Member States.

State Aid is prohibited under Article 107(1) of the TFEU unless it falls within the scope of one of the exemptions set out in the TFEU.

#### **1.2 Enforcement**

The European Commission has exclusive competence to investigate and adjudicate upon the compatibility of State Aid measures with the TFEU. Member States have an obligation to notify the European Commission of any plans to grant State Aid (unless an exemption from the notification applies) and may not implement such State Aid prior to receiving authorisation from the European Commission. The European Commission has extensive investigative and decision-making powers, including the power to order the state to recover from the recipient of such aid (with interest) State Aid which is found to be incompatible with the TFEU. In addition, the European Commission also has the power to order the state to recover authorised aid that has been misused after the granting of the aid. Misuse of aid can include non-compliance with any conditions imposed by the European Commission in connection with the approval of State Aid, such as the failure to implement a restructuring plan associated with the approval of restructuring aid.

### **2. STATE AID GRANTED TO RMG**

#### **2.1 Grant of State Aid**

In March 2012, the European Commission approved HM Government’s proposal to grant State Aid to RMG to (i) address the historic pension deficit under the Royal Mail Pension Plan by assuming the pre-1 April 2012 pension liabilities (based on service and pay up to that date) that had accrued under the Royal Mail Pension Plan as a result of RMG’s past status as a public sector monopoly (which is referred to as the Pensions Transfer), and (ii) strengthen RMG’s balance sheet by writing off certain debt owed by RMG to HM Government (together, the “**2012 State Aid Decision**”). The European Commission approved most of the Pensions Transfer on the basis that it represented “legacy pension costs” in line with previous decisions of the European Commission. The Debt Write-off and the remaining part of the Pensions Transfer were approved as restructuring aid in accordance with the European Commission’s 2004 Guidelines on State Aid for Rescuing and Restructuring Firms in Difficulty (“**R&R Guidelines**”).

As set out in section 11.2 of Part II (*The Business*), the Pensions Transfer, including the relief authorised as restructuring aid, took effect on 1 April 2012. The Pensions Transfer resulted in pension liabilities and assets being transferred to HM Government, leaving assets valued at £2.2 billion in the Royal Mail Pension Plan (Royal Mail Section: approximately £2.1 billion and Post Office Section: approximately £0.1 billion) to match the value of the remaining liabilities at that date.

The relief of the majority of these liabilities was authorised directly under Article 107(3)(c) of the TFEU, with the European Commission deciding that RMG should, following the legacy costs relief, retain a pension deficit of £150 million, on an accounting basis, on its balance sheet. The European Commission noted that this

deficit should be understood to relate to all pension schemes sponsored by RMG as at the date of the 2012 State Aid Decision, including the RMPP and the RMSEPP.<sup>4</sup>

The European Commission authorised relief of the remaining RMPP deficit as eligible financial restructuring costs necessary for RMG to regain long-term viability. HM Government thus applied £124 million of the approved restructuring aid to achieve its stated policy objective of clearing the entire historic RMPP pension deficit, with RMG retaining responsibility for the remaining £26 million RMSEPP deficit. Debt write-off was authorised up to an aggregate limit of £1,089 million of total restructuring aid, with the exact timing and quantum being dependent on the timing of a future sale of RMG. Following the use of the £124 million of restructuring aid as part of the Pensions Transfer, £965 million of the restructuring aid remained available for debt write-off. As at the date of this document, HM Government has not written off any further debt as authorised in the 2012 State Aid Decision.

The period for challenge in the General Court by third parties of the 2012 State Aid Decision has expired.

## **2.2 State Aid restructuring plan**

The European Commission's authorisation of the restructuring aid, which included the £124 million tranche of the Pensions Transfer, was conditional upon (i) RMG implementing the Restructuring Plan that accompanied the 2012 State Aid Decision in full and (ii) HM Government reporting annually to the European Commission on the implementation of the Restructuring Plan (until the end of the Restructuring Plan period in 2015). HM Government is under an obligation to ensure full implementation of the Restructuring Plan. The UK Government can ask the European Commission to agree to changes to the Restructuring Plan during the Restructuring Plan period if necessary (pursuant to section 3.2.3 of the R&R Guidelines).

Failure to implement the Restructuring Plan in full or unapproved changes to the Restructuring Plan or non-compliance with the conditions imposed by the European Commission may constitute a misuse of aid (see section 2.9 of the section of this document entitled "Risk Factors" for an overview of the possible consequences of such a finding).

Pursuant to the Restructuring Plan, RMG has committed to a series of restructuring measures to be implemented over the five-year plan period (2010-2015). RMG started taking significant measures in FYE 2011 to improve the efficiency of its letter business by dealing with overstaffing, lack of automation and having too many sorting centres. Through the implementation of labour, capacity and IT restructuring measures, the Restructuring Plan is intended to allow RMG to catch up to industry standards and earn a sufficient return from its letter operations. The labour restructuring costs include redundancy payments triggered by the closure of sorting centres and rationalisation of outdoor delivery, and travel and outplacement costs for retained staff who have transferred to alternative locations. Capacity restructuring consists of the rationalisation of RMG's mail centre network, automation of sorting centres and introduction of new delivery methods to achieve more efficient operations. In addition, RMG has committed to support the restructuring costs from its own resources by divesting assets through sale, or sale and leaseback. As at the end of Q1 FYE 2014, the Group has raised nearly 96 per cent. of the financing to be funded by the sale or sale and leaseback of assets, resulting in proceeds of approximately £842 million. As a result, the Group has a remaining commitment under the Restructuring Plan to the sale or sale and leaseback of assets of approximately £40 million in order to reach the total level of contribution from own resources required by the European Commission.

As described in section 2.9 of the section of this document entitled "Risk Factors", HM Government submitted a report to the European Commission on 22 July 2013 covering the financial year to 31 March 2013. This report detailed certain variations from the targets set out in the plan. Such variations have arisen as a result of, *inter alia*, increased growth in parcel volumes, changes to RMG's delivery modernisation programme, regulatory change and increased efficiency with regard to management of travel and outplacement costs. In particular, progress with and expenditure on labour restructuring was not as great as forecast over this period; progress with capacity restructuring was ahead of schedule in certain respects and behind the plan in others; and expenditure for IT costs was below that forecast.

In its report, HM Government indicated that RMG has made good progress with the implementation of the Restructuring Plan and is making significant progress towards returning to long-term viability. Further, HM Government stated that, in light of its strong intention not to apply any further restructuring aid to the Company on the basis of its sooner than anticipated return to long-term viability, it does not consider that the variations to the Restructuring Plan described in the report of 22 July 2013 provide a cause for concern

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<sup>4</sup> The RMSEPP deficit of £26 million was calculated on an accounting (IAS19) basis (based on liabilities of £330 million and assets of £304 million).

regarding RMG's long-term viability. RMG also understands that the European Commission's Directorate General for Competition has confirmed to HM Government that, based on submitted information, it does not consider that RMG's implementation of the Restructuring Plan gives rise to competition concerns at this stage.

### **2.3 Admission**

In the period since the 2012 State Aid Decision, the Group has made good progress in implementing the Restructuring Plan. HM Government does not intend to apply any further authorised restructuring aid prior to Admission and cannot after Admission as the remaining restructuring aid was authorised to be applied specifically as debt write-off and the Group's existing debt owed to HM Government will be repaid in full at Admission using a combination of the Group's cash resources and by drawing down on the New Facilities.

### **PART C: PROCUREMENT LAW RELEVANT TO RMG**

The Utilities Directive (Directive 2004/17/EC) and the Public Contracts Directive (Directive 2004/18/EC), adopted in 2004, regulate the purchase by certain utilities and public sector bodies, respectively, of certain higher-value contracts for goods, works or services. The Directives apply common principles of transparency, open competition and sound procedural management to public contract award procedures which are likely to be of interest to suppliers across the single market. They have been implemented in the UK by the Utilities Contracts Regulations 2006 and the Public Contracts Regulations 2006.

Where these rules apply, a contract that RMG intends to procure will have to be procured following a tender process in accordance with these rules unless (i) the value of the contract does not exceed the relevant thresholds; or (ii) the contract is otherwise of a type excluded from the rules.

In addition, RMG is subject to certain general principles of EU law when running a procurement process even when the procurement rules do not apply. These include the principles of equal treatment and non-discrimination; transparency; and proportionality. In practice, this may require a degree of advertising from RMG regarding its intentions to award a contract.

## PART XI

### ADDITIONAL INFORMATION

#### 1. RESPONSIBILITY STATEMENT

The Directors, whose names appear in section 1 of Part IV (*Directors, Senior Managers, Corporate Governance and Remuneration*), and the Company accept responsibility for the information contained in this document. To the best of the knowledge of the Directors and the Company, each having taken all reasonable care to ensure that such is the case, the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

#### 2. INCORPORATION AND ACTIVITY OF THE COMPANY

The Company was incorporated and registered in England and Wales under the Companies Act as a private company limited by shares on 6 September 2013 with the name “Royal Mail Limited” and the registered number 08680755. On 19 September 2013, the Company was re-registered as a public limited company and changed its name to “Royal Mail plc”.

The principal legislation under which the Company operates is the Companies Act and regulations made thereunder.

The Company is domiciled in the UK with its registered and head office at 100 Victoria Embankment, London EC4Y 0HQ, United Kingdom. The telephone number of the Company’s registered office is +44 (0) 207 449 8000.

The Company has, since 12 September 2013, been the holding company of the Group.

#### 3. SHARE CAPITAL OF THE COMPANY

##### 3.1 Issued share capital of the Company

The issued share capital of the Company as at the date of this document is, and on Admission will be, as follows:

	Nominal value	Number of shares issued	Aggregate nominal value
Ordinary Shares	1p	1,000,000,000	£10,000,000

##### 3.2 History of the share capital

The Company was incorporated with share capital of £150, divided into 100 ordinary shares of 150 pence each, which were issued to the Selling Shareholder (being the subscriber to the Company’s Pre-Admission Articles). Since then, the following changes have occurred in the Company’s issued share capital:

- (A) on 12 September 2013, the aggregate nominal value of the Company’s share capital was increased from £150 to £1,500,000,000 by the allotment and issue of 999,999,900 ordinary shares of 150 pence each; and
- (B) on 18 September 2013, the aggregate nominal value of the Company’s ordinary shares was reduced from £1,500,000,000 to £10,000,000 by the cancellation of 149 pence from the nominal value of each issued ordinary share of the Company (the “**Reduction of Capital**”).

##### 3.3 Corporate Reorganisation

In connection with Admission, the Group undertook a corporate reorganisation that included the Company becoming the holding company of the Group (the “**Corporate Reorganisation**”). The Corporate Reorganisation occurred between 12 September 2013 and 19 September 2013. It consisted of the following principal steps:

- (A) the redemption and cancellation of the fully paid special rights redeemable preference share in RMG that was at that point issued to the Secretary of State;
- (B) pursuant to a transfer scheme made in accordance with section 8 of the Postal Services Act 2011 on 12 September 2013, the transfer of all shares in RMG by the Selling Shareholder to the Company, and, in consideration for such transfer, the allotment and issue of 999,999,900 ordinary shares of 150 pence each by the Company to the Selling Shareholder;

- (C) the Reduction of Capital;
- (D) the re-registration of the Company from a private limited company to a public limited company; and
- (E) the adoption of the Articles of Association.

The Corporate Reorganisation did not affect the Group's operations, which will continue to be carried out through its operating subsidiaries. An organisational structure diagram showing the Group's corporate structure at the date of this document after giving effect to the Corporate Reorganisation is provided at section 6 of this Part.

### **3.4 Authorisations relating to the share capital of the Company**

By resolutions of the Selling Shareholder passed on 25 September 2013, it was resolved that, subject to and conditional upon Admission:

- (A) the Board be generally and unconditionally authorised, in substitution for (with effect from Admission) all subsisting authorities, to exercise all of the powers of the Company to allot shares in the Company and to grant rights to subscribe for or to convert any security into shares in the Company:
  - (i) up to an aggregate nominal amount of £3,333,333 (such amount to be reduced by the nominal amount of any shares in the Company allotted or rights to subscribe for or to convert any security into shares in the Company granted under sub-paragraph (ii) below in excess of such sum); and
  - (ii) comprising equity securities (as defined in section 560(1) of the Companies Act) up to an aggregate nominal amount of £6,666,666 (such amount to be reduced by any allotments of any shares in the Company or grants of rights to subscribe for or to convert any security into shares in the Company made under sub-paragraph (i) above) in connection with an offer by way of a rights issue:
    - (a) to holders of Ordinary Shares in proportion (as close as may be practicable) to their existing holdings; and
    - (b) to holders of other equity securities as required by the rights of those securities or as the Board otherwise considers necessary,

and so that the Board may impose any limits or restrictions and make any arrangements which it considers necessary or appropriate to deal with treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter,

such authorities to apply until the end of the next annual general meeting of the Company (or, if earlier, until the close of business on 31 December 2014) but, in each case, during this period the Company may make offers and enter into agreements which would, or might, require shares to be allotted or rights to subscribe for or convert securities into shares to be granted after the authority ends and the Board may allot shares or grant rights to subscribe for or convert securities into shares in the Company under any such offer or agreement as if the authority had not ended;

- (B) the Board be given the power, in substitution for all subsisting powers, to allot equity securities (as defined in section 560(1) of the Companies Act) for cash under the authority given by the resolution described in section 3.4(A) of this Part and/or to sell Ordinary Shares held by the Company as treasury shares for cash as if section 561 of the Companies Act did not apply to any such allotment or sale, such power to be limited:
  - (i) to the allotment of equity securities and sale of treasury shares for cash in connection with an offer of, or invitation to apply for, equity securities (but in the case of the authority granted under paragraph (ii) of the resolution described at section 3.4(A) of this Part, by way of a rights issue only):
    - (a) to holders of Ordinary Shares in proportion (as nearly as may be practicable) to their existing holdings; and
    - (b) to holders of other equity securities, as required by the rights of those securities, or as the Board otherwise considers necessary as permitted by the rights of those securities,



and so that the Board may impose any limits or restrictions and make any arrangements which it considers necessary or appropriate to deal with treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter; and

- (ii) in the case of the authority granted under paragraph (i) of the resolution described at section 3.4(A) of this Part and/or in the case of any sale of treasury shares for cash, to the allotment (otherwise than under paragraph (i) above) of equity securities or sale of treasury shares up to a nominal amount of £500,000,

such power to apply until the end of the next annual general meeting of the Company (or, if earlier, until the close of business on 31 December 2014) but, in each case, during this period the Company may make offers and enter into agreements which would, or might, require equity securities to be allotted (and treasury shares to be sold) after the power ends and the Board may allot equity securities (and sell treasury shares) under any such offer or agreement as if the power had not ended; and

- (C) the Company be authorised for the purposes of section 701 of the Companies Act to make one or more market purchases (as defined in section 693(4) of the Companies Act) of its Ordinary Shares, such power to be limited:

- (i) to a maximum number of 100,000,000 Ordinary Shares;
- (ii) by the condition that the minimum price which may be paid for an Ordinary Share is 1p and the maximum price which may be paid for an Ordinary Share is the highest of:
  - (a) an amount equal to five per cent. above the average market value of an Ordinary Share for the five Business Days immediately preceding the day on which that Ordinary Share is contracted to be purchased; and
  - (b) the higher of the price of the last independent trade and the highest current independent bid on the trading venue where the purchase is carried out,

in each case, exclusive of expenses,

such power to apply until the end of the next annual general meeting of the Company (or, if earlier, 31 December 2014) but, in each case, so that the Company may enter into a contract to purchase Ordinary Shares which will or may be completed or executed wholly or partly after the power ends and the Company may purchase Ordinary Shares pursuant to any such contract as if the power had not ended.

### **3.5 Confirmations**

At the date of this document, and save as otherwise disclosed in this Part:

- (A) no share or loan capital of the Company has, since the incorporation of the Company, been issued or agreed to be issued, or is now proposed to be issued, fully or partly paid, either for cash or for a consideration other than cash, to any person;
- (B) no commission, discounts, brokerages or other special terms have been granted by the Company in connection with the issue or sale of any share or loan capital;
- (C) no share or loan capital of the Company is under option or agreed, conditionally or unconditionally, to be put under option; and
- (D) the Company held no treasury shares (as defined in the Companies Act).

## **4. RIGHTS ATTACHED TO THE ORDINARY SHARES**

Subject to the provisions of the Companies Act, any equity securities issued by the Company for cash must first be offered to Shareholders in proportion to their holdings of Ordinary Shares. The Companies Act and the Listing Rules allow for the disapplication of pre-emption rights which may be waived by a special resolution of the Shareholders, either generally or specifically, for a maximum period not exceeding five years. Please refer to section 3.4 of this Part for a description of the waivers that will apply on Admission.

Except in relation to dividends which have been declared and rights on a liquidation of the Company, the Shareholders have no rights to share in the profits of the Company.

The Ordinary Shares are not redeemable. However, the Company may purchase or contract to purchase any of the Ordinary Shares on- or off-market, subject to the Companies Act and the requirements of the Listing Rules. The Company may purchase Ordinary Shares only out of distributable reserves or the proceeds of a new issue of shares made for the purpose of funding the repurchase. Please refer to section 3.4 of this Part for a description of the authorisations relating to the purchase of Ordinary Shares that will apply from Admission.

Further details of the rights attached to the Ordinary Shares in relation to attendance and voting at general meetings, entitlements on a winding-up of the Company and transferability of shares are set out in the Articles, which are summarised in section 5 of this Part and available for inspection at the locations and times specified in section 25 of this Part.

Further details of the voting and dividend rights attaching to Ordinary Shares that are the subject of awards under the Royal Mail Share Incentive Plan are set out in section 6 of Part VIII (*Additional Information*) of the Securities Note.

## **5. SUMMARY OF THE ARTICLES**

The Articles, which were adopted on 25 September 2013 subject to and with effect upon Admission, contain (among others) provisions to the following effect.

### **5.1 Unrestricted objects**

The objects of the Company are unrestricted.

### **5.2 Limited liability**

The liability of the Company's members is limited to any unpaid amount on the shares in the Company respectively held by them.

### **5.3 Change of name**

The Articles allow the Company to change its name by resolution of the Board. This is in addition to the Company's statutory ability to change its name by special resolution under the Companies Act.

### **5.4 Share rights**

Subject to any rights attached to existing shares, shares may be issued with such rights and restrictions as the Company may by ordinary resolution decide, or (if there is no such resolution or so far as it does not make specific provision) as the Board may decide. Such rights and restrictions shall apply as if they were set out in the Articles. Redeemable shares may be issued, subject to any rights attached to existing shares. The Board may determine the terms and conditions and the manner of redemption of any redeemable share so issued. Such terms and conditions shall apply to the relevant shares as if they were set out in the Articles. Subject to the Articles, any resolution passed by the Shareholders and other Shareholders' rights, the Board may decide how to deal with any shares in the Company.

### **5.5 Voting rights**

Members will be entitled to vote at a general meeting or class meeting, whether on a show of hands or a poll, as provided in any applicable statutes in force from time to time concerning companies insofar as it applies to the Company (in this section, the "**Companies Acts**"). The Companies Act provides that:

- (A) 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
- (B) 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.

This is subject to any special terms as to voting which are given to any shares or on which shares are held.

In the case of joint holders of a share the vote of the senior 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.

## **5.6 Restrictions**

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 Acts.

## **5.7 Dividends and other distributions**

The Company may by ordinary resolution from time to time declare dividends not exceeding the amount recommended by the Board. Subject to the Companies Acts, 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.

The Board may withhold payment of all or any part of any dividends or other moneys payable in respect of the Company's shares from a person with a 0.25 per cent. or greater holding, in number or nominal value, of the shares of the Company or of any class of such shares (in each case, calculated exclusive of any shares held as treasury shares) (in this section, a "**0.25 per cent. interest**") if such a person 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 Acts.

Except insofar as the rights attaching to, or the terms of issue of, any share otherwise provide, all dividends shall be apportioned and paid *pro rata* according to the amounts paid up on the share during any portion of the period in respect of which the dividend is paid. Except as set out above, dividends may be declared or paid in any currency.

The Board may, if authorised by an ordinary resolution of the Company, offer ordinary Shareholders (excluding any member holding shares as treasury shares) in respect of any dividend the right to elect to receive ordinary shares by way of scrip dividend instead of cash.

Any dividend unclaimed after a period of 12 years from the date when it was declared or became due for payment shall be forfeited and revert to the Company.

The Company may stop sending cheques, warrants or similar financial instruments in payment of dividends by post in respect of any shares or may cease to employ any other means of payment, including payment by means of a relevant system, for dividends if either (i) at least two consecutive payments have remained uncashed or are returned undelivered or that means of payment has failed or (ii) one payment remains uncashed or is returned undelivered or that means of payment has failed and reasonable enquiries have failed to establish any new postal address or account of the holder. The Company may resume sending dividend cheques, warrants or similar financial instruments or employing that means of payment if the holder requests such resumption in writing.

## **5.8 Variation of rights**

Subject to the Companies Acts, rights attached to any class of shares may be varied with the written consent of the holders of not less than three-fourths in nominal value of the issued shares of that class (calculated excluding any shares held as treasury shares), or with the sanction of a special resolution passed at a separate general meeting of the holders of those shares. At every such separate general meeting (except an adjourned meeting) the quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of the class (calculated excluding any shares held as treasury shares) or by the purchase or redemption by the Company of any of its own shares.

The rights conferred upon the holders of any shares shall not, unless otherwise expressly provided in the rights attaching to those shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* with them.

## **5.9 Transfer of shares**

The shares are in registered form. Any shares in the Company may be held in uncertificated form and, subject to the Articles, title to uncertificated shares may be transferred by means of a relevant system. Provisions of the Articles do not apply to any uncertificated shares to the extent that such provisions are inconsistent with the holding of shares in uncertificated form, with the transfer of shares by means of a relevant system, with any provision of the legislation and rules relating to uncertificated shares or with the Company doing anything by means of a relevant system.

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:

- (A) 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;
- (B) is in respect of only one class of share; and
- (C) 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.

The Board may decline to register a transfer of any of the Company's certificated shares by a person with a 0.25 per cent. interest if such a person 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 Acts, unless the transfer is shown to the Board to be pursuant to an arm's length sale (as defined in the Articles).

## **5.10 Sub-division of Share Capital**

Any resolution authorising the Company to sub-divide any of its shares may determine that, as between the shares resulting from the sub-division, any of them may have a preference, advantage or deferred or other right or be subject to any restriction as compared with the others.

## **5.11 General meetings**

The Articles rely on the Companies Act provisions dealing with the calling of general meetings. Under the Companies Act an annual general meeting must be called by notice of at least 21 days. Upon listing, the Company will be a "traded company" for the purposes of the Companies Act and as such will be required to give at least 21 days' notice of any other general meeting unless a special resolution reducing the period to not less than 14 days has been passed at the immediately preceding annual general meeting or at a general meeting held since that annual general meeting or, prior to the Company's first annual general meeting following Admission, at any other general meeting following Admission. Notice of a general meeting must be given in hard copy form, in electronic form, or by means of a website and must be sent to every member and every director. It must state the time and date and the place of the meeting and the general nature of the business to be dealt with at the meeting. As the company will be a traded company, the notice must also state the website address where information about the meeting can be found in advance of the meeting, the voting record time, the procedures for attending and voting at the meeting, details of any forms for appointing a proxy, procedures for voting in advance (if any are offered), and the right of members to ask questions at the meeting. In addition, a notice calling an annual general meeting must state that the meeting is an annual general meeting.

Each director shall be entitled to attend and speak at any general meeting. The chairman of the meeting may invite any person to attend and speak at any general meeting where he considers that this will assist in the deliberations of the meeting.

## **5.12 Directors**

### **(A) Number of Directors**

The Directors shall be not less than two and not more than 15 in number<sup>1</sup>. The Company may by ordinary resolution vary the minimum and/or maximum number of Directors.

### **(B) Directors' shareholding qualification**

A Director shall not be required to hold any shares in the Company.

### **(C) Appointment of Directors**

Directors may be appointed by the Company by ordinary resolution or by the Board. A Director appointed by the Board holds office only until the next following annual general meeting of the Company and is then eligible for reappointment.

The Board or any committee authorised by the Board may from time to time appoint one or more Directors to hold any employment or executive office for such period and on such terms as they may determine and may also revoke or terminate any such appointment.

### **(D) Retirement of Directors**

At every annual general meeting of the Company, any Director who has been appointed by the Board since the last annual general meeting, any Director who held office at the time of the two preceding annual general meetings and who did not retire at either of them, and any Director who has been in office, other than as a Director holding an executive position, for a continuous period of nine years or more at the date of the meeting shall retire from office. Any director who retires at an annual general meeting may offer himself or herself for reappointment by the members.

### **(E) Removal of Directors by special resolution**

The Company may by special resolution remove any Director before the expiration of his or her period of office.

### **(F) Vacation of office**

The office of a Director shall be vacated if:

- (i) he or she resigns or offers to resign and the Board resolves to accept such offer;
- (ii) he or she is removed by notice given by all of the other Directors and all of the other Directors are not less than three in number;
- (iii) he or she is or has been suffering from mental or physical ill health and the Board resolves that his office be vacated;
- (iv) he or she is absent without the permission of the Board from meetings of the Board (whether or not an alternate Director appointed by him attends) for six consecutive months and the Board resolves that his office is vacated;
- (v) he or she becomes bankrupt or compounds with his creditors generally;
- (vi) he or she is prohibited by a law from being a Director;
- (vii) he or she ceases to be a Director by virtue of the Companies Acts; or
- (viii) he or she is removed from office pursuant to the Company's Articles.

If the office of a Director is vacated for any reason, he or she must cease to be a member of any committee or sub-committee of the Board.

### **(G) Alternate Directors**

Any Director may appoint any person to be his or her alternate and may at his or her discretion remove such an alternate Director. If the alternate Director is not already a Director, the appointment, unless previously approved by the Board, shall have effect only upon and subject to being so approved.

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<sup>1</sup> See section 16.1(A) of this Part for a summary of the circumstances in which the Selling Shareholder will have the right to nominate a non-executive director for appointment to the Board.



**(H) Proceedings of the Board**

Subject to the provisions of the Articles, the Board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it thinks fit. The quorum necessary for the transaction of the business of the Board may be fixed by the Board and, unless so fixed at any other number, shall be two. A meeting of the Board at which a quorum is present shall be competent to exercise all the powers, authorities and discretions vested in or exercisable by the Board.

The Board may appoint a Director to be the chairman or a deputy chairman and may at any time remove him or her from that office. Questions arising at any meeting of the Board shall be determined by a majority of votes. In the case of an equality of votes the chairman of the meeting shall have a second or casting vote.

All or any of the members of the Board may participate in a meeting of the Board by means of a conference telephone or any communication equipment which allows all persons participating in the meeting to speak to and hear each other. A person so participating shall be deemed to be present at the meeting and shall be entitled to vote and to be counted in the quorum.

The Board may delegate any of its powers, authorities and discretions (with power to sub-delegate) to any committee, consisting of such person or persons as it thinks fit, provided that the majority of persons on any committee or sub-committee must be Directors. The meetings and proceedings of any committee consisting of two or more members shall be governed by the provisions contained in the Articles for regulating the meetings and proceedings of the Board so far as the same are applicable and are not superseded by any regulations imposed by the Board.

**(I) Remuneration of Directors**

Each of the Directors shall be paid a fee at such rate as may from time to time be determined by the Board, but the aggregate of all such fees so paid to the Directors shall not exceed £1 million per annum or such higher amount as may from time to time be decided by ordinary resolution of the Company. Any Director who is appointed to any executive office shall be entitled to receive such remuneration (whether by way of salary, commission, participation in profits or otherwise) as the Board or any committee authorised by the Board may decide, either in addition to or in lieu of his or her remuneration as a Director. In addition, any Director who performs services which in the opinion of the Board or any committee authorised by the Board go beyond the ordinary duties of a Director, may be paid such extra remuneration as the Board or any committee authorised by the Board may determine. Each Director may be paid his or her reasonable travelling, hotel and incidental expenses of attending and returning from meetings of the Board, or committees of the Board or of the Company or any other meeting which as a Director he or she is entitled to attend, and shall be paid all other costs and expenses properly and reasonably incurred by him or her in the conduct of the Company's business or in the discharge of his or her duties as a Director. The Company may also fund a Director's or former Director's expenditure and that of a Director or former Director of any holding company of the Company for the purposes permitted under the Companies Acts and may do anything to enable a Director or former Director or a Director or former Director of any holding company of the Company to avoid incurring such expenditure as provided in the Companies Acts.

**(J) Pensions and gratuities for Directors**

The Board or any committee authorised by the Board may exercise the powers of the Company to provide benefits either by the payment of gratuities or pensions or by insurance or in any other manner for any Director or former Director or his relations, dependants or persons connected to him, but no benefits (except those provided for by the Articles) may be granted to or in respect of a Director or former Director who has not been employed by or held an executive office or place of profit under the Company or any of its subsidiary undertakings or their respective predecessors in business without the approval of an ordinary resolution of the Company.

**(K) Directors' interests**

The Board may, subject to the provisions of the Articles, authorise any matter which would otherwise involve a Director breaching his duty under the Companies Acts to avoid conflicts of interest. Where the Board gives authority in relation to a conflict of interest or where any of the situations described in (i) to (v) below applies in relation to a Director, the Board may (a) require the relevant Director to be excluded from the receipt of information, the participation in discussion and/or the making of decisions related to the conflict of interest or situation; (b) impose upon the relevant Director such other terms for the purpose of dealing with the conflict of interest or situation as it may determine; and (c) may provide that the relevant Director will not be obliged

to disclose information obtained otherwise than through his position as a Director of the Company and that is confidential to a third party or to use or apply the information in relation to the Company's affairs, where to do so would amount to a breach of that confidence. The Board may revoke or vary such authority at any time.

Subject to the provisions of the Companies Acts, and provided he has declared the nature and extent of his interest to the Board as required by the Companies Acts, a Director may:

- (i) be party to, or otherwise interested in, any contract with the Company or in which the Company has a direct or indirect interest;
- (ii) hold any other office or place of profit with the Company (except that of auditor) in conjunction with his office of Director for such period and upon such terms, including remuneration, as the Board may decide;
- (iii) act by himself or through a firm with which he is associated in a professional capacity for the Company or any other company in which the Company may be interested (otherwise than as auditor);
- (iv) be or become a director or other officer of, or employed by or a party to a transaction or arrangement with, or otherwise be interested in any holding company or subsidiary company of the Company or any other company in which the Company may be interested; and
- (v) be or become a director of any other company in which the Company does not have an interest and which cannot reasonably be regarded as giving rise to a conflict of interest at the time of his appointment as a director of that other company.

A Director shall not, by reason of his or her office be liable to account to the Company or its members for any benefit realised by reason of having an interest permitted as described above or by reason of having a conflict of interest authorised by the Board and no contract shall be liable to be avoided on the grounds of a Director having any such interest.

#### **(L) Restrictions on voting**

No Director may vote on or be counted in the quorum in relation to any resolution of the Board concerning his or her own appointment, or the settlement or variation of the terms or the termination of his or her own appointment, as the holder of any office or place of profit with the Company or any other company in which the Company is interested save to the extent permitted specifically in the Articles.

Subject to certain exceptions set out in the Articles, no Director may vote on, or be counted in a quorum in relation to, any resolution of the Board in respect of any contract in which he or she has an interest and, if he or she does so, his or her vote shall not be counted.

Subject to the Companies Acts, the Company may by ordinary resolution suspend or relax to any extent the provisions relating to Directors' interests or the restrictions on voting or ratify any transaction not duly authorised by reason of a contravention of such provisions.

#### **(M) Borrowing and other powers**

Subject to the Articles and any directions given by the Company by special resolution, the business of the Company will be managed by the Board who may exercise all the powers of the Company, whether relating to the management of the business of the Company or not. In particular, the Board may exercise all the powers of the Company to borrow money, to guarantee, to indemnify, to mortgage or charge any of its undertaking, property, assets (present and future) and uncalled capital and to issue debentures and other securities and to give security for any debt, liability or obligation of the Company or of any third party. The Board must restrict the borrowings of the Company and exercise all voting and other rights or powers of control exercisable by the Company in relation to its subsidiary undertakings so as to secure that, save with the previous sanction of an ordinary resolution, no money shall be borrowed if the aggregate principal amount outstanding of all borrowings (as defined in the Articles) by the Group (exclusive of borrowings within the Group) then exceeds, or would as a result of such borrowing exceed, an amount equal to the higher of £4.5 billion and 3.5 times the adjusted capital and reserves (as defined in the Articles).

#### **(N) Indemnity of Directors**

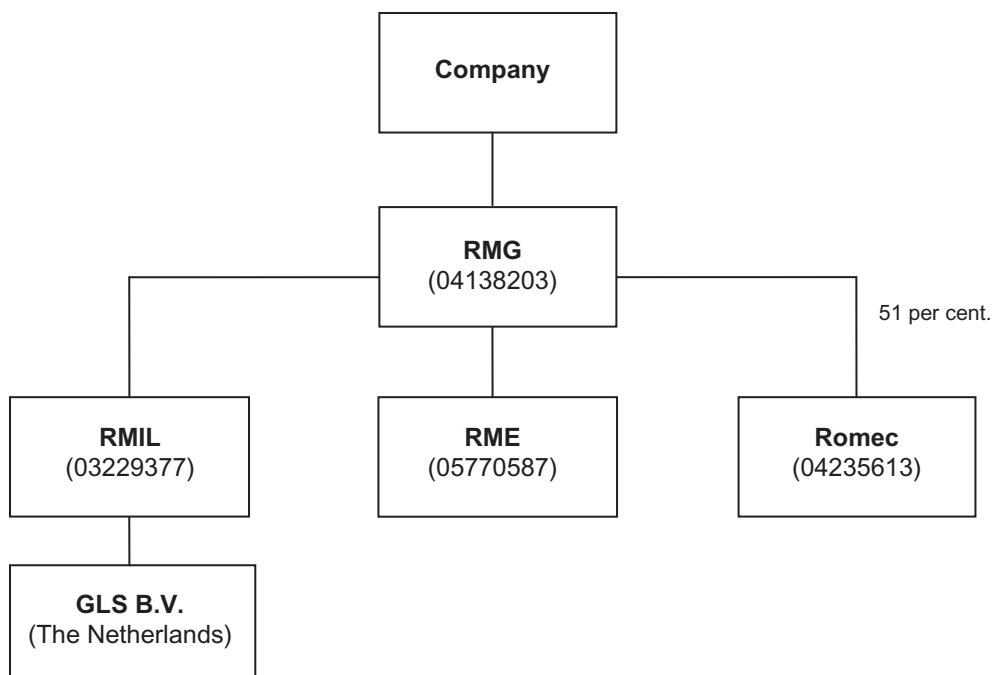
To the extent permitted by the Companies Acts, the Company may indemnify any director or former director of the Company or any associated company against any liability and may purchase and maintain for any director or former director of the Company or any associated company insurance against any liability.

### 5.13 Methods of service

Any notice, document (including a share certificate) or other information may be served on or sent or supplied to any Shareholder by the Company personally, by post, by means of a relevant system, by sending or supplying it in electronic form to an address notified by the Shareholder to the Company for that purpose, where appropriate, by making it available on a website and notifying the Shareholder of its availability, or by any other means authorised in writing by the Shareholder.

## 6. ORGANISATIONAL STRUCTURE

As at the date of this document, the Group comprises the Company and its subsidiary undertakings. The Company is the holding company of the Group. The Company has the following significant subsidiaries, all of which are, directly or indirectly, 100 per cent. owned by it, except for Romec, of which the Company indirectly owns 51 per cent.:



Company name	Country of incorporation	Principal activity
RMG	United Kingdom	Letter and parcel services
RMIL	United Kingdom	Holding company for overseas business
RME	United Kingdom	Property holdings
GLS B.V.	The Netherlands	Holding company for European parcel business
Romec	United Kingdom	Facilities management

## 7. INTERESTS OF MAJOR SHAREHOLDERS AND THE SELLING SHAREHOLDER

### 7.1 Major Shareholders

Insofar as was known to the Company as at the date of this document, the Selling Shareholder will, on Admission, be directly or indirectly interested (within the meaning of the Companies Act) in three per cent. or more of the issued share capital of the Company (being the threshold for notification of interests that will apply to Shareholders as of Admission pursuant to Chapter 5 of the Disclosure and Transparency Rules of the UK Listing Authority). On the basis that the Offer Size is set at the mid-point of the Offer Size Range, the Selling Shareholder's expected interests both immediately prior to and immediately following Admission are disclosed in the table set out below.

	Interests in Ordinary Shares immediately prior to Admission		Ordinary Shares to be sold pursuant to the Offer <sup>(2)</sup>		Ordinary Shares to be transferred to the trustee of the Royal Mail Share Incentive Plan <sup>(3)</sup>		Interests in Ordinary Shares immediately following Admission and the transfer of Ordinary Shares to the trustee of the Royal Mail Share Incentive Plan <sup>(2)</sup>	
	No.	% of total issued	No.	% of total issued	No.	% of total issued	No.	% of total issued
Selling Shareholder <sup>(1)</sup>	1,000,000,000	100	461,369,565	46.1	100,160,000	10.0	438,470,435	43.8

**Notes:**

- (1) The business address of the Selling Shareholder is 148 Old Street, London EC1V 9HQ.
- (2) In addition, the Selling Shareholder may sell up to a further 69,205,435 Ordinary Shares pursuant to the Over-allotment Arrangements (assuming that the Offer Size is set at the mid-point of the Offer Size Range).
- (3) Subject to Admission and HMRC approval of the Royal Mail Share Incentive Plan, the Secretary of State will procure that the Selling Shareholder transfers the Employee Free Shares to the trustee of the Royal Mail Share Incentive Plan on or immediately after Admission. Each Eligible Employee will then automatically be awarded a number of Employee Free Shares on or around Admission, unless the Eligible Employee completes and submits to Equiniti Limited an opt-out form by 9.00 a.m. on 7 October 2013. The Employee Free Shares Offer is not part of the Offer.

## 7.2 Other disclosures relating to Shareholders

- (A) As of Admission, the Ordinary Shares will be the only class of share capital of the Company. All Shareholders will have equal voting rights.
- (B) The Secretary of State has informed the Company that, in order to limit HM Government control over the Company, the Secretary of State and the Selling Shareholder intend, following Admission and the exercise or lapse of the Over-allotment Option, to execute a deed poll in which the Secretary of State and the Selling Shareholder undertake to limit their exercise of voting rights in the Company to a level below the retained stake of the Selling Shareholder and in any event no higher than 30 per cent. of the issued share capital of the Company from time to time. The deed poll will not be executed if the Selling Shareholder holds less than 30 per cent. or more than 50 per cent. of the issued Ordinary Shares following exercise or lapse of the Over-allotment Option. The provisions of the deed poll will terminate if the interests of the Secretary of State and the Selling Shareholder in the issued Ordinary Shares are reduced below 30 per cent. The Secretary of State will make an announcement via the Regulatory Information Service of the London Stock Exchange when the deed poll is executed.
- (C) The Selling Shareholder is the only person known to the Company who, directly or indirectly, could exercise or does exercise control over the Company.
- (D) Other than the interests of the Selling Shareholder, the Company does not consider there to be any other interests that are material to the Offer.

## 8. DIRECTORS AND SENIOR MANAGERS

### 8.1 Directorships and partnerships outside the Group

The details of those companies and partnerships outside the Group of which the Directors and Senior Managers are currently directors or partners, or have been directors or partners at any time during the five years prior to the publication of this document, are as follows:

<b>Name</b>	<b>Current directorships and partnerships</b>	<b>Previous directorships and partnerships</b>
<b>Directors</b>		
Donald Brydon	Science Museum Foundation Smiths Group Plc The Sage Group Plc Medical Research Council	Post Office Limited Postal Services Holding Company plc LME Holdings Limited The London Metal Exchange TNS Group Holdings Limited Axa Rosenberg LLP Axa Investment Managers S.A.
Orna Ni-Chionna	Soane Museum Enterprises Ltd Greenham Common Community Trust Ltd The Soil Association Limited	HMV Group Plc Northern Foods Ltd Postal Services Holding Company plc The British United Provident Association Limited Titcomb Limited
Moya Greene	Tim Hortons Inc.	Post Office Limited Postal Services Holding Company plc
Matthew Lester	Man Group Plc	Post Office Limited Postal Services Holding Company plc ICAP Group Holdings Plc Intercapital Limited ICAP Management Services Limited ICAP Plc
Mark Higson	—	Maplecrest Properties Limited MPH Developments Postal Services Holding Company plc
John Allan	Dixons Retail Plc Care UK Health & Social Care Holdings Limited The DHL UK Foundation Home Office Supervisory Board Ship Midco Limited t/a Worldpay Natakate Limited	National Grid Plc 3i Group Plc Worldpay (UK) Limited Lufthansa AG ISS A/S Deutsche Post DHL Deutsche Postbank
Jan Babiak	Walgreen Co Bank of Montreal HHM LLC	Logica Limited Ernst & Young LLP Ernst & Young LLP EY (Nemia) Limited
Nick Horler	Alderney Renewable Energy Limited Old Hall Consulting Limited Secure Electrans Limited The Go-Ahead Group Plc	Postal Services Holding Company plc Scottish Power UK plc Scottish Power Limited
Cath Keers	Home Retail Group Plc Radish Solutions Limited Liverpool Victoria Friendly Society Limited Telefonica O2 Europe	The Children's Mutual Postal Services Holding Company plc Telefonica Europe Plc
Paul Murray	Knowledge Peers Plc Naked Energy Limited Pilotlight Qinetiq Group Plc Ventive Limited	Postal Services Holding Company plc Tangent Communications Plc Ingenious Film Partners 2 LLP TNS Group Holdings Limited
Les Owen	74 Redcliffe Square Management Limited Computershare Limited CPP Group Plc Discovery Holdings Limited Dolebury Capital Limited Dolebury Management Limited Jelf Group Public Limited Company Just Retirement Solutions Limited Just Retirement Limited Just Retirement (Holdings) Limited SolVexia Pty Limited	Coverzones Limited Post Office Limited Postal Services Holding Company plc



Name	Current directorships and partnerships	Previous directorships and partnerships
<b>Senior Managers</b>		
Stephen Agar	–	–
Rico Back	Raben Group (member of the Supervisory Board)	–
Nick Landon	–	–
Jon Millidge	–	–
Mike Newnham	–	Orange FURBS Trustee Limited Orange Home UK Limited Orange Pension Trustees Limited Wanadoo Limited
Gary Simpson	–	–
Sue Whalley	–	Post Office Limited

A biography of each Director and Senior Manager is set out in section 1 of Part IV (*Directors, Senior Managers, Corporate Governance and Remuneration*).

## 8.2 Conflicts of interest

Save as set out below, there are no actual or potential conflicts of interest between the duties owed by the Directors or the Senior Managers to the Company and the private interests and/or other duties that they may also have:

- (A) Donald Brydon was appointed as Chairman of RMG by the Secretary of State pursuant to the Secretary of State's rights as a special shareholder under the previous articles of association of RMG. Until 10 September 2013, Donald Brydon was a director of the Selling Shareholder. Donald Brydon is a director of Smiths Group Plc, which sells equipment to companies in the Group and is also a patron of the British Postal Museum and Archives, which is partly funded by the Group.
- (B) Nick Horler is a director of Secure Electrans Limited, a payment software technology company, which is a potential future supplier of the Group.
- (C) Cath Keers is a director of Home Retail Group plc, a subsidiary of which is Argos Limited. Argos Limited is a retailer with its own delivery service for large and heavy items and a "click and collect" service. Argos Limited delivers smaller items using competitors of the Group.
- (D) Les Owen is a director of Just Retirement Limited, Just Retirement Solutions Limited and Just Retirement (Holdings) Limited, which provide annuity brokering services in connection with the Royal Mail Defined Contribution Plan. Les Owen is also a director of Computershare, which has a potential supply relationship with the Group.

## 8.3 Directors' and Senior Managers' confirmations

- (A) Save as set out in section 8.5 of this Part, as at the date of this document, no Director or Senior Manager has during the last five years:
  - (i) been convicted in relation to fraudulent offences;
  - (ii) been associated with any bankruptcy, receivership or liquidation while acting in the capacity of a member of the administrative, management or supervisory body or senior manager of any company;
  - (iii) been subject to any official public incrimination and/or sanctions by any statutory or regulatory authorities (including designated professional bodies); or
  - (iv) been disqualified by a court from acting as a director or member of the administrative, management or supervisory body of a company or from acting in the management or conduct of the affairs of any company.
- (B) Save as set out in section 8.2(A) of this Part in respect to Donald Brydon, none of the Directors was selected to act in such capacity pursuant to any arrangement or understanding with any shareholder, customer, supplier or any other person having a business connection with the Group.

- (C) Save as set out in section 8.2 of this Part, none of the Directors and Senior Managers has any actual or potential conflict of interest between any duties to the Company and their private interests and/or duties.
- (D) There are no family relationships between any of the Directors and Senior Managers.
- (E) There are no outstanding loans or guarantees granted or provided by any member of the Group for the benefit of any of the Directors or Senior Managers.

#### **8.4 Interests of Directors and Senior Managers in the share capital of the Company**

The Directors and Senior Managers do not hold, directly or indirectly, any interests in the Ordinary Shares as at the date of this document and will not do so in the period prior to Admission.

As part of the Employee Free Shares Offer, the Executive Directors and the Senior Managers (excluding Rico Back) will each receive as Eligible Employees the same number of Ordinary Shares (as each works full-time for RMG), as described in section 2 of Part IV (*Employee Free Shares Offer*) of the Securities Note. It is not currently possible to calculate the number (or value) of Employee Free Shares which each Executive Director and Senior Manager (excluding Rico Back) will receive, but the number of Ordinary Shares awarded to each of them, which will be the same number as is awarded to each other full-time Eligible Employee, will be announced via a Regulatory Information Service announcement shortly after that award is made. The Non-Executive Directors, while eligible to receive Employee Free Shares as part of the Employee Free Shares Offer, have each decided it would be inappropriate, as independent non-executive directors, to receive Employee Free Shares and so have opted-out of receiving Employee Free Shares.

The Directors have indicated to the Company that they intend to make applications in the Offer for an amount equal to, at least, approximately £500,000, in aggregate. The number of Ordinary Shares to be held by each Director as a result of the Offer will be published in the Pricing Statement. The Directors will not receive any priority application beyond that applicable to all Eligible Employees.

#### **8.5 Qualifications to Directors' confirmations**

In relation to the Directors' confirmation in section 8.3(A)(ii) of this Part:

- (A) Orna Ni-Chionna was a director of HMV Group plc when an administrator was appointed on 15 January 2013; and
- (B) Les Owen was a director of Coverzones Limited when an administrator was appointed on 10 May 2010.

### **9. DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT**

#### **9.1 Service contracts of the Executive Directors**

Each of the Executive Directors has a service contract with the Group (through RMG) relating to the provision of services to the Group. The service contracts with Mark Higson, Moya Greene and Matthew Lester are dated 5 November 2007, 26 May 2010 and 26 November 2010, respectively. The principal terms of the Executive Directors' contracts are summarised below.

##### **(A) General terms**

The annual basic salary payable by RMG to the Executive Directors is £498,000 for Moya Greene, £428,400 for Mark Higson and £428,000 for Matthew Lester. These salaries are reviewed, but not necessarily increased, annually. No increases have been made to basic salaries during the FYE 2013. This means that neither Moya Greene nor Matthew Lester has received an increase in their basic salary since they joined RMG in July 2010 and November 2010, respectively. Mark Higson's basic salary has not increased since 2008. Salaries are paid monthly in cash.

The Executive Directors are entitled to participate in a discretionary bonus scheme known as the Short Term Incentive Plan which provides for a cash bonus to be paid each year subject to certain targets for the previous financial year having been met. Payment of 80 per cent. of the discretionary bonus is dependent on the achievement of company performance targets for the previous financial year, as summarised in the Corporate Balanced Scorecard which lists 13 KPIs in four equally-weighted quadrants: People; Customer; Performance; and Financial. Two of the KPIs relate to the quality of service for universal service products. Payment of the remaining 20 per cent. of the discretionary bonus is dependent on the achievement of specific personal

targets. In addition to such targets, a minimum level of operating profit must be achieved before any Executive Director becomes eligible for payment. For on-target performance, the discretionary bonus is 60 per cent. of basic salary for each of Moya Greene and Matthew Lester (with the maximum being 100 per cent. of salary) and 48 per cent. of basic salary for Mark Higson (with the maximum being 80 per cent. of salary).

The Executive Directors are entitled to participate in a Long Term Incentive Plan (further details of which are set out in section 10.2 of this Part) and the Employee Free Shares Offer.

The Executive Directors are entitled to receive benefits in kind comprising a company car, death in service life assurance, family private medical insurance (or cash allowance in lieu thereof) and use of drivers for business use. The Executive Directors are also entitled to 30 days of paid leave annually in addition to bank holidays and to the reimbursement by RMG for any reasonable travelling, hotel and other out-of-pocket expenses that are properly and necessarily incurred and evidenced. In addition, Moya Greene is eligible for financial advice and two return business class flights to Canada per annum. RMG pays pension contributions, or non-pensionable retirement allowances in lieu of pension contributions, equivalent to 40 per cent. of basic salary per annum in respect of the Executive Directors.

#### **(B) Termination provisions**

The Executive Directors have service contracts with an indefinite term that may be terminated by either party on written notice. Matthew Lester's and Mark Higson's service contracts include a notice period of six months from the Executive Director and a notice period of 12 months from RMG. Moya Greene's service contract includes a notice period of six months from the Executive Director and may be terminated immediately on notice by RMG, which may give rise to an obligation to pay liquidated damages as described below.

Under Matthew Lester's and Mark Higson's service contracts, RMG may terminate the contract by making a payment in lieu of any unexpired notice period. The payment in lieu of notice is limited to the value of the Executive Director's basic salary. RMG may require all of the Executive Directors to take garden leave while serving any period of notice.

The employment of Moya Greene and Matthew Lester can be terminated summarily (i.e. immediately without notice or, if applicable, payment in lieu of notice) if such Executive Director: commits any gross misconduct or repeats or continues any other material breach of contract; engages in any conduct which in the opinion (or, in the case of Matthew Lester, reasonable opinion) of the Board of RMG is likely to affect prejudicially the interests of RMG or the Group or which is likely to cause the Executive Director's continued employment to be detrimental to the interests of RMG or the Group; is convicted of any criminal offence (which is punishable with six months or more imprisonment); commits any act of dishonesty; becomes of unsound mind; is bankrupted or makes any arrangement with creditors generally; resigns or vacates office from acting as a director of RMG or the Group; is disqualified from acting as a director; or (in the case of Moya Greene) in the opinion of the Board of RMG, is incompetent in the performance of the Executive's duties. Mark Higson's employment can be terminated summarily if at any time RMG considers that he is guilty of gross misconduct or is otherwise in fundamental breach of contract.

There are certain circumstances in which termination of employment by RMG may result in specific payments becoming due from RMG to the Executive Director under the terms of their service contract. Mark Higson's contract states that if he is removed as a director of RMG, or if RMG fails in general meeting to re-elect him as a director, his employment will terminate. Termination in these circumstances will be taken to be a breach by RMG of Mark Higson's contract of employment (unless at the time of the removal or failure to re-elect, RMG was entitled to terminate his employment summarily as mentioned in the paragraph above) and as such RMG would be required to make a payment to Mark Higson by way of damages for breach of contract. As referred to above, Moya Greene's contract may be terminated immediately on notice by RMG. However, unless RMG is entitled to terminate immediately due to the occurrence of one of the circumstances listed in the paragraph above, RMG would be required to make a payment equalling 12 months' base salary to Moya Greene by way of liquidated damages. RMG will additionally be required to pay a bonus referable to the relevant 12 month period in which the termination occurs. The assessment of such bonus shall be made by the Remuneration Committee in a manner consistent with its normal practice for determining bonuses. The Remuneration Committee has a defined policy on remuneration and mitigation, to be applied in the event of an Executive Director's contract being prematurely terminated. In the above circumstances, it would seek to take steps to ensure that poor performance of the Executive Director is not rewarded.

The Executive Directors' service contracts contain covenants, including that:

- each Executive Director is subject to non-compete restrictive covenants, where for three months (or, in the case of Mark Higson, for six months) from termination of employment the Executive Director shall not be, directly or indirectly, employed by, engaged in or perform services on behalf of any other business in competition with RMG's business with which the Executive Director was personally and materially concerned during the final year of employment with RMG;
- each Executive Director is subject to non-solicitation of customers and employees restrictive covenants (where for six months from termination of employment the Executive Director is prohibited from enticing, soliciting or inducing from RMG: (a) the custom or business of any person who during the final year of the Executive Director's employment was a customer of RMG and with whom the Executive Director had material personal contact or dealings on behalf of RMG; or (b) any person who during the Executive Director's final year of employment was a senior or key employee of RMG and with whom the Executive Director had material personal contact or dealings in performance of duties on behalf of RMG; an employee who reported to the Executive Director as part of his/her team; or an employee who the Executive Director had material personal contact or dealings with during the final year of employment and who had material personal contact or dealings on behalf of RMG with customers of RMG's business with which the Executive Director was materially concerned during the final year of employment); and
- each Executive Director is prohibited for six months from termination of employment from being employed by the Postal Services Commission or Consumer Focus (or their successor bodies) in a capacity in which it could reasonably be expected that the Executive Director would be required to disclose RMG's confidential information which is likely to be used by the regulatory bodies when dealing with any person that is in competition with RMG.

These covenants are specifically extended to apply for the benefit of the Group in respect of the service contracts of Moya Greene and Matthew Lester.

## 9.2 Non-Executive Directors' letters of appointment and fees

The Non-Executive Directors are appointed by rolling letters of appointment. The key terms of the letter of appointment are set out below.

### (A) General terms

Each of the Non-Executive Directors is entitled to receive a fee from the Company, paid monthly in cash, at a rate that is determined by the Board. Each Non-Executive Director's annual fee covers their role as a non-executive director (and Chairman in the case of Donald Brydon) and all other Board duties (including committee memberships and chairmanships). The fee levels that apply are set out in the table below.

Non-Executive Director	Committee Chairmanships	Fee (£)
Donald Brydon	Chairman of the Board and Chairman of the Nomination Committee	200,000
Orna Ni-Chionna	Senior Independent Director and Chairman of the Remuneration Committee	60,000
John Allan	—	40,000
Jan Babiak	—	40,000
Nick Horler	—	40,000
Cath Keers	—	40,000
Paul Murray	Chairman of the Audit & Risk Committee	50,000
Les Owen	Chairman of the Pensions Committee	40,000

In addition, each Non-Executive Director is entitled to be reimbursed for all reasonable travelling, hotel and incidental expenses incurred in the performance of the Non-Executive Director's duties. The Non-Executive Directors do not participate in the discretionary bonus scheme or the LTIP. The Non-Executive Directors, while eligible to receive Employee Free Shares as part of the Employee Free Shares Offer, have each decided it would be inappropriate, as independent non-executive directors, to receive Employee Free Shares and so have opted out of receiving Employee Free Shares.

## **(B) Term of office**

The Non-Executive Directors are appointed for up to three years subject to annual review and notice. The appointment of a Non-Executive Director shall terminate summarily should they: commit a material breach of their obligations under the appointment letter; commit any serious or repeated breach or non-observance of their obligations to the Company (including their obligation not to breach their statutory, fiduciary or common-law duties); be guilty of any fraud or dishonesty or acted in any manner which, in the Company's opinion, brings or is likely to bring the Non-Executive Director or the Company into disrepute or is materially adverse to the Company's interests; be convicted of an arrestable criminal offence; be declared bankrupt or have made an arrangement with or for the benefit of their creditors, or if they have a county court administration order made against them under the County Court Act 1984; be disqualified from acting as a director; or breach the Company's anti-corruption and bribery policy and procedures.

## **9.3 Indemnity insurance**

Each of the Directors has the benefit of indemnity insurance procured by the Group on their behalf indemnifying them against liabilities they may potentially incur to third parties as a result of their office as director.

## **10. REMUNERATION AND BENEFITS**

### **10.1 Directors' remuneration in FYE 2013**

The amounts of remuneration paid (including basic salary and other emoluments) and benefits in kind granted to each of the Directors by the Group for services in all capacities to the Group in respect of FYE 2013 are set out in the table below.

Director	Basic salary/ fee (£)	Cash bonus (£)	Contractual benefits (£)	Other (£)	Pension contributions (£)	Total (£)
Donald Brydon	200,000	—	—	—	—	200,000
Orna Ni-Chionna	60,000	—	—	—	—	60,000
Moya Greene	498,000	399,000	127,000 <sup>(1)</sup>	250,000 <sup>(2)</sup>	200,000 <sup>(3)</sup>	1,474,000
Matthew Lester	428,000	344,000	15,000	—	171,000 <sup>(4)</sup>	958,000
Mark Higson	428,400	245,000	15,000	—	171,000 <sup>(4)</sup>	859,400
John Allan <sup>(5)</sup>	12,000	—	—	—	—	12,000
Jan Babiak <sup>(6)</sup>	3,000	—	—	—	—	3,000
Nick Horler	40,000	—	—	—	—	40,000
Cath Keers	40,000	—	—	—	—	40,000
Paul Murray	50,000	—	—	—	—	50,000
Les Owen	40,000	—	—	—	—	40,000
David Currie <sup>(7)</sup>	17,000	—	—	—	—	17,000

#### **Notes:**

- (1) Moya Greene's other benefits include contractual relocation payments, return flights to Canada and financial advice.
- (2) RMG's Relocation Policy states that any fees or charges associated with relocation at RMG's request are subject to payment by RMG to assist any executive.

In the exceptional circumstances of Moya Greene's relocation and commitment to the UK, additional assistance, on the purchase of a home, was offered given the difference in residential costs between the UK and Canada. The Remuneration Committee, consisting of all non-executive directors of RMG at the time, determined that a single payment should be made to Moya Greene rather than an annual allowance. The additional assistance amounted to £120,000 after tax.

Moya Greene was not involved in the decision nor does she engage with HM Government about payments made to her by RMG.

The Secretary of State has advised the Remuneration Committee that this was a material variation to her remuneration and it therefore ought to have sought his prior approval. Although it had not done so, the Remuneration Committee considers it made its decision in good faith in exceptional circumstances. When she learned of this background, Moya Greene voluntarily offered to return the amount she received from this assistance. RMG has received a payment for that amount and an additional amount representing an independent professional estimate of the unrealised gain associated with the assistance received.

- (3) Moya Greene receives pension arrangements valued at 40 per cent. of basic salary, in line with other Executive Directors. As disclosed in RMG's 2012-13 Annual Report & Financial Statements, this consisted during FYE 2013 of employer contributions of up to the annual allowance (currently £50,000 per annum) into the Royal Mail Defined Contribution Plan and £150,000 cash in lieu of pension contributions. In April 2013, Moya Greene elected to draw down £281,073 in respect of the value of her previously-disclosed unfunded promise. No amount remains payable to Moya Greene under this unfunded promise. Moya Greene continues to be entitled to receive an annual non-pensionable retirement allowance based on 40 per cent. of basic salary, less the employer contributions that are payable in respect of her membership of the Royal Mail Defined Contribution Plan.
- (4) Mark Higson and Matthew Lester are not members of any Royal Mail pension scheme but they receive an annual non-pensionable retirement allowance based on 40 per cent. of basic salary.



- (5) John Allan was appointed to the Board of RMG on 14 January 2013, and did not provide services to the Group in any other capacity in FYE 2013.
- (6) Jan Babiak was appointed to the Board of RMG on 1 March 2013, and did not provide services to the Group in any other capacity in FYE 2013.
- (7) David Currie stood down from the Board of RMG on 31 August 2012.

## 10.2 Long Term Incentive Plan ("LTIP")

RMG established a new LTIP in FYE 2012. The LTIP is a conditional award, payable in cash, which usually vests in the third year after the grant is made, subject to continued employment and provided that stretching financial performance conditions are met. Awards are made each year. A threshold applies below which no payment is made. The threshold is 70 per cent. of the operating profit target. The maximum payment is awarded upon achievement of a stretch target. The stretch target is 120 per cent. of the operating profit target. For achieving target performance, the LTIP opportunity is 70 per cent. of basic salary for each of the Executive Directors; the maximum LTIP opportunity is 98 per cent. of basic salary for achieving the stretch target.

In FYE 2012, the Executive Directors were granted two tranches of LTIP awards to reflect the fact that the award intended to have been granted in FYE 2011 had not been made. Both tranches reward performance over a three-year period. However, the awards in respect of FYE 2011 will not vest until the end of FYE 2014 to provide additional long-term focus. A further grant of 70 per cent. of basic salary (with a maximum award of 98 per cent. of basic salary) was made in respect of FYE 2013, which will vest at the end of FYE 2015, subject to performance against targets.

The LTIP awards in respect of FYE 2014 have the same basic structure as for FYE 2013, but instead of the target LTIP opportunity (70 per cent. of salary) being based on the business plan number as in prior years, the target LTIP opportunity is subject to a level of performance which is 10 per cent. higher than the business plan number. The LTIP awards for FYE 2014 will convert, on Admission, on a value-neutral basis to awards over Ordinary Shares and, although the relevant maximum number of Ordinary Shares will be fixed on conversion, the actual, and therefore the maximum, value of those awards will therefore be dependent on the price of Ordinary Shares at the time the awards vest. For the avoidance of doubt, the conversion share price on Admission will be the "volume weighted average price" of the Ordinary Shares traded between the eighth and fourteenth days after Admission. These awards will vest at the end of FYE 2016, subject to performance against targets.

The table below sets out details of the outstanding LTIP awards for each of the Executive Directors as at the date of this document.

Executive Director	LTIP award (FYE)	Final year of performance period (end of FYE)	Target value of award (£)	Maximum value of award (£)
Moya Greene	2011	FYE 2013	£349,000	£488,000
	2012	FYE 2014	£349,000	£488,000
	2013	FYE 2015	£349,000	£488,000
	2014	FYE 2016	£349,000	—
Mark Higson	2011	FYE 2013	£300,000	£420,000
	2012	FYE 2014	£300,000	£420,000
	2013	FYE 2015	£300,000	£420,000
	2014	FYE 2016	£300,000	—
Matthew Lester	2011	FYE 2013	£300,000	£419,000
	2012	FYE 2014	£300,000	£419,000
	2013	FYE 2015	£300,000	£419,000
	2014	FYE 2016	£300,000	—

Note: the Executive Directors' LTIP awards for FYE 2014 will convert, on Admission, on a value-neutral basis to awards over Ordinary Shares and, although the relevant maximum number of Ordinary Shares will be fixed on conversion, the actual, and therefore the maximum, value of those awards will therefore be dependent on the price of Ordinary Shares at the time the awards vest.

There are no LTIP awards vesting to Executive Directors for FYE 2013. The performance targets for the first awards granted under the LTIP in respect of FYE 2011 have been met in full (reflecting the strong financial performance of the Group over the three-year period to FYE 2013). However, the awards are subject to an additional deferral period, requiring continued service to 31 March 2014. The LTIP is also subject to a clawback for a maximum of five years after the vesting date if it transpires that an award has been made on the basis of misstated results because of wilful wrongdoing by employees.

### 10.3 Senior Managers' remuneration in FYE 2013

The amount of remuneration paid (including basic salary and other emoluments) and benefits in kind granted to the Senior Managers in aggregate for services in all capacities to the Group in respect of FYE 2013 was £3,790,000.

Certain of the Senior Managers are members of RMPP or RMSEPP and have an accrued pension entitlement under that scheme. RMPP is still open to future accrual although RMSEPP closed to future accrual on 31 December 2012. Senior Managers based in the UK are entitled to receive an annual non-pensionable retirement allowance based on up to 25 per cent. of basic salary. Any employer contributions which are payable by RMG if the Senior Manager is a member of RMDCP are deducted from such allowance. The aggregate figure referred to above includes any non-pensionable retirement allowance received by the Senior Managers during the FYE 2013. However, it does not take into account any employer contributions paid by RMG to RMDCP, RMPP or RMSEPP in respect of any Senior Managers during the FYE 2013.

## 11. EMPLOYEE FREE SHARES OFFER AND THE ROYAL MAIL SHARE INCENTIVE PLAN

In summary, the Employee Free Shares Offer involves approximately 10 per cent. of the issued ordinary share capital of the Company on Admission being placed into an employee trust on or immediately after Admission. All Eligible Employees who do not opt out of the Employee Free Shares Offer will be allocated those Ordinary Shares as free share awards on or around Admission to the maximum extent practicable under a share incentive plan intended to be approved by HMRC.

On 12 September 2013, the Group wrote to all potential Eligible Employees to inform them of the Employee Free Shares Offer being made to them. Under the Employee Free Shares Offer, the Secretary of State is offering Eligible Employees the opportunity, in aggregate, to be allocated for free, subject to Admission and the approval of the Royal Mail Share Incentive Plan by HMRC, approximately 100,160,000 Ordinary Shares (representing 10 per cent. of the issued ordinary share capital of the Company on Admission plus an additional 160,000 Ordinary Shares). The terms and conditions of the Employee Free Shares Offer are contained in that letter and accompanying documentation that contained the terms described below. For the avoidance of doubt, the Employee Free Shares Offer is not being made pursuant to the Prospectus and is not underwritten. If Admission does not take place or the Royal Mail Share Incentive Plan is not approved by HMRC (although HMRC has confirmed that the plan documentation it has reviewed is in a form capable of approval once Admission has occurred), the Employee Free Shares Offer will be of no effect and no Ordinary Shares will be allocated to Eligible Employees under that offer.

The Employee Free Shares Offer has been put in place as part of the arrangements which the Secretary of State is required by section 3 of the PSA to make for the establishment of an employee share scheme. Those arrangements must secure that, if at any time the proportion of the company owned by the Crown is reduced to nil (within the meanings given by the PSA), the proportion of the company owned by or on behalf of the employee share scheme is at that time (or has before that time been) at least 10 per cent. Further details of the Employee Free Shares Offer can be found in Part IV (*Employee Free Shares Offer*) of the Securities Note.

The Employee Free Shares are to be offered to Eligible Employees under the Royal Mail Share Incentive Plan, further details of which can be found in section 3 of Part IV (*Employee Free Shares Offer*) and section 6 of Part VIII (*Additional Information*) of the Securities Note.

Eligible Employees' entitlement to Employee Free Shares in the Employee Free Shares Offer is in addition to any right to participate in the Employee Priority Offer. The Employee Priority Offer forms part of the Direct Retail Offer, the details of which are set out in section 12 of Part III (*Information About the Offer*) of the Securities Note.

## 12. PENSIONS

### (A) Defined contribution pension schemes

The Group operates various defined contribution pension schemes for employees. This includes the Royal Mail Defined Contribution Plan ("RMDCP") for all qualifying employees in the UK and certain other small defined contribution schemes in other jurisdictions.

The assets of RMDCP are held in a separately administered trust that is managed independently of the Group's finances by investment managers appointed by the scheme's trustees. As at 31 March 2013,

approximately 33,000 employees participated in RMDCP (this includes approximately 16,000 employees who were auto-enrolled into RMDCP on 1 February 2013, following a three-month waiting period, as a result of the auto-enrolment provisions of the UK Pensions Act 2008). Employer contributions to RMDCP are a percentage of salary based on the level of employee contributions.

Other than the Executive Directors, in general all members of the senior management team in the UK and former active members of RMSEPP, in each case while they remain employed by the Group, are also entitled to receive an annual non-pensionable retirement allowance based on up to 25 per cent. of basic salary, less the employer contributions that are payable if they are members of RMDCP or in respect of notional contributions payable in respect of any unfunded promise. The pension arrangements of the Executive Directors are explained in section 10.2 of this Part.

The GLS Group operates defined contribution schemes for employees in the Netherlands, the Republic of Ireland, Belgium, Denmark, Finland and France and is required to contribute a certain percentage of salary to defined contribution pension schemes in respect of certain employees in Belgium, Denmark, Finland and France.

In FYE 2013, the Group paid £22 million to fund Group defined contribution pension schemes (including £17 million to fund RMDCP) in line with rates specified by the rules of the pension schemes. As a result of auto-enrolment, the Group expects to incur additional compulsory employer contributions. If no employees “opt-out” of auto-enrolment, the estimated impact is likely to be approximately £4 million for each of the financial years ending 31 March 2014, 29 March 2015 and 27 March 2016.

#### **(B) Defined benefit pension schemes**

The Group also operates a number of defined benefit pension schemes for employees under which benefits provided are based on employees' number of years of service and either career average or final salary. The scope of benefits varies among schemes. This includes the Royal Mail Pension Plan (“**RMPP**”) for certain employees in the UK and two small defined benefit schemes, one in Germany and one in the Netherlands.

The assets of RMPP are held in a separately administered trust that is managed independently of the Group's finances by investment managers appointed by the scheme's trustees. RMPP closed to new entrants from 31 March 2008, but is still open to future accrual on a career average basis. RMPP is formally segregated into two sections, the “Royal Mail Section” and the “Post Office Section”, with RMG and POL each responsible for their own sections. Following the Pensions Transfer, the Royal Mail Section was left fully-funded on an actuarial basis using assumptions scheduled to the Postal Services Act 2011 (Transfer of Assets) Order 2012. It remains the case that no deficit contributions are currently due to the Royal Mail Section. RMG has, however, agreed to pay up to an additional £50 million per annum from 2016 onwards, if required to ensure that the Royal Mail Section continues to be funded on the measure of liabilities agreed with the RMPP trustee from time to time. As at 31 March 2013, the Royal Mail Section had approximately 112,000 active members, 2,000 deferred members and 2,000 pensioner members. RMG is required to pay contributions of 17.1 per cent. of pensionable pay (around £400 million per annum) in respect of future service accrual.

The GLS Group is required to participate in the Dutch transportation sector pension fund in respect of all of its employees in GLS Netherlands B.V.. This is a defined benefit scheme which has approximately 500 active members as at 31 March 2013 with annual employer contributions of approximately €1,800,000. There is, however, no obligation on the GLS Group to contribute further funding to this scheme in the event that the fund is in deficit and it is therefore accounted for as a defined contribution pension scheme under IAS 19. The GLS Group also operates a defined benefit pension fund in Germany for a small number of employees and former employees and which had an estimated liability of €179,000 at the end of FYE 2012.

The Group also previously provided pension benefits to certain senior employees in the UK on a defined benefit basis, through the Royal Mail Senior Executives Pension Plan (“**RMSEPP**”). The assets of RMSEPP are held in a separately administered trust that is managed independently of the Group's finances by investment managers appointed by the scheme's trustees. RMSEPP closed to new entrants from 31 March 2008 and closed to future accrual altogether on 31 December 2012. RMSEPP remains a legacy liability which the Group continues to fund in line with pensions legislation. As at 31 March 2013, there were 176 pensioner members and 169 deferred members of RMSEPP.

In addition, a former Executive Director of RMG, Tony McCarthy, is in receipt of an annual payment of £48,580 as a result of an unfunded unapproved pension promise made to him when he joined RMG in 2003. A liability of approximately £1.4 million was recognised for future payment of this pension benefit at the end of FYE 2013.

Certain employees and former employees within the Group in Germany, the Netherlands and the UK have also been promised a defined benefit pension. Some of these promises are unfunded (with an aggregate value of approximately €399,000 in respect of Germany, and £46,000 in respect of the UK at the end of FYE 2013) but others are funded via insurance policies (at an annual cost of approximately €12,000 in respect of the Netherlands).

The GLS Group is also required by law to provide a one-off bonus to all of its employees on retirement in France and Poland. A liability of €115,000 was recognised for future payment of this benefit at the end of FYE 2013.

In FYE 2013, the Group paid £412 million in respect of regular future service contributions to its defined benefit pension schemes, with £411 million relating to the Royal Mail Section.

In FYE 2013, the Group also paid £28 million to fund any deficit in its defined benefit pension schemes, with £nil relating to the Royal Mail Section and £28 million relating to RMSEPP, including a £20 million one-off deficit contribution to RMSEPP (for which POL has reimbursed £1.4 million to the Group). In addition, in March 2013, RMG transferred £20 million to an escrow account held for the benefit of the RMSEPP trustees in order to provide further support for RMSEPP.

As at 30 June 2013, the Group's defined benefit pension schemes had a surplus of £647 million on an IAS 19 valuation basis.

### 13. EMPLOYEES

The number of employees (including Executive Directors) employed by the Group at the end of FYE 2011, FYE 2012, FYE 2013 and Q1 FYE 2014 was as follows:

	FYE 2011	FYE 2012	FYE 2013	Q1 FYE 2014
UK Parcels, International & Letters <sup>(1)(2)</sup>	155,181	151,156	149,940	149,437
UK partially-owned subsidiaries <sup>(3)</sup>	4,254	3,926	4,030	4,068
GLS Group	13,167	13,362	13,646	13,523
Total employees	172,602	168,444	167,616	167,028

**Note:**

- (1) These figures exclude RMG employees working for POL prior to the separation of Post Office on 1 April 2012.
- (2) These figures also exclude the employees of EBP Consultancy (Beijing) Co., Limited, a wholly-owned member of the Group (which had two employees at the end of FYE 2013). These figures also do not include the approximately 4,000 FTE temporary staff supplied each year to UKPIL from agencies (including Angard Staffing Solutions Limited, a wholly-owned member of the Group) and the approximately 20,000 temporary staff recruited by UKPIL during the Christmas period each year.
- (3) These figures exclude the employees of Quadrant (which had 802 employees at the end of FYE 2013).

### 14. LITIGATION

Other than as set out below, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) which may have, or have had during the 12 months preceding the date of this document, a significant effect on the Group or its financial position or profitability.

#### 14.1 Judicial review brought by TNT against HMRC

In June 2011, TNT issued judicial review proceedings against HMRC with respect to the scope of the UK VAT exemption for postal services. The Group, through RMG, is an interested party in these proceedings on the ground that it is currently exempt from charging VAT on mandated network access services.

At a procedural court hearing on 11 February 2013, the Judge ordered that the matter proceed to a substantive hearing, at which the Judge will decide whether to give substantive judgment or refer the matter to the European Court of Justice. The hearing has been scheduled for 26 November 2013. A final decision in relation to the matter is unlikely before the end of 2014, although it cannot be ruled out that a final decision is given earlier.

If TNT were ultimately to succeed, the effect of this would depend upon the terms of the judgment, but it could be that Parliament would need to amend the VAT Act 1994 to remove the VAT exemption for mandated network access services. The impact of the imposition of VAT on mandated network access services (should this occur) is difficult to assess or quantify. In particular, the financial impact is currently indeterminable and

is subject to a variety of factors, some of which may not be known until after any imposition of VAT comes into effect.

The Group considers that Parliament has correctly implemented VAT legislation in compliance with European law and is supporting HMRC in defending the claim.

See section 1.16 of the section of this document entitled "Risk Factors" for additional risks associated with the judicial review.

## 14.2 Claims arising out of occupational diseases

The Group currently faces, and will continue to face for the next 25 to 30 years or longer, a range of claims for occupational diseases arising from exposure during employment dating from the late 1950s.

The Group faces claims for two main types of industrial disease: (i) asbestos-related disease; and (ii) occupational deafness. In the last five years, the Group has paid a total of £3.8 million in damages arising from the asbestos-related disease claims. In the same period, the Group has paid a total of £0.5 million in damages arising from the occupational deafness claims.

As at the end of Q1 FYE 2013, there were approximately 32 asbestos-related disease claims and 157 occupational deafness claims which were open. The total current liability reserve in respect of asbestos-related diseases at this date was £4.0 million and £2.2 million in respect of occupational deafness. The number of asbestos-related disease cases is expected to peak between 2020 and 2025. In the last two years, there has been an increase in claims. The Group increased the relevant provision in its accounts for FYE 2013 to £67 million (on a discounted basis).

## 15. RELATED PARTY TRANSACTIONS

Save as disclosed below and in Note 27 to the Historical Financial Information (set out on page F-57 of Schedule III (*Historical Financial Information*) to this document), no member of the Group entered into any related party transactions (which for these purposes are those set out in the standards adopted according to Regulation (EC) 1606/2002) during any of FYE 2011, FYE 2012, FYE 2013 and Q1 FYE 2014. For the period between 1 July 2013 and the date of this document, no member of the Group has entered into any related party transaction other than those described below.

### 15.1 Transactions with RMPP trustee, Quadrant and POL

During the period from 1 July 2013 to 1 September 2013 related party transactions were carried out between the Group and each of the RMPP trustee, Quadrant and POL. The transactions were in the ordinary course of business and included: (i) administration and investment services in respect of the Royal Mail Section recharged to the Group by the Royal Mail Pensions Trustees Limited (the RMPP trustee and a subsidiary of the Group); and (ii) transactions in respect of trading between the Group and each of Quadrant and POL. The material transactions entered into in the period, and the balances outstanding at 1 September 2013 were as follows:

	Sales/recharges to related party £m	Purchases/ recharges from related party £m
Royal Mail Pension Plan trustee	1	–
Quadrant Catering Limited	–	4
Post Office Limited	8	57
	Amounts owed from related parties including outstanding loans £m	Amounts owed to related parties including outstanding loans £m
Royal Mail Pension Plan trustee	–	–
Quadrant Catering Limited	–	4
Post Office Limited	9	–

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



In the period from 2 September 2013 to the date of this document: (A) administration and investment services in respect of the Royal Mail Section were recharged to the Group by the RMPP trustee; (B) the Group entered into trading transactions with Quadrant in the ordinary course of business; and (C) the Group entered into trading transactions with POL (these transactions were made at normal market prices and net settlements were made on a commercial basis as per agreed contractual terms). In each case, the relevant transactions were consistent with levels in the period 1 July 2013 to 1 September 2013 as set out above.

## **15.2 Payments to and from key management**

In the period between 1 July 2013 and the date of this document, payments made to key management by the Group, less payments received by the Group from key management, amounted to £682,000. Key management comprises, for this purpose, the executive and non-executive directors of RMG.

## **16. MATERIAL CONTRACTS**

Save as disclosed below, there are no contracts (other than contracts entered into in the ordinary course of business) to which the Company or any member of the Group is a party which: (i) are, or may be, material to the Group and which have been entered into in the two years immediately preceding the date of this document; or (ii) contain obligations or entitlements which are, or may be, material to the Group as at the date of this document.

### **16.1 Transaction Agreements**

#### **(A) Relationship Agreement**

The Company entered into the Relationship Agreement on 27 September 2013 with the Selling Shareholder and the Secretary of State to ensure, among other things, that the Company will be able to carry on its business independently of the Secretary of State, the Selling Shareholder and their respective Associates following Admission. The Relationship Agreement is conditional upon, and shall come into force on, Admission.

In the Relationship Agreement, each of the Secretary of State and the Selling Shareholder has, among other things, agreed to exercise their respective powers to ensure that:

- (A) the Group is able to operate and make decisions independently of the Secretary of State, the Selling Shareholder, (in the case of the Secretary of State) the Secretary of State's Associates and the HMG Entities and (in the case of the Selling Shareholder) the Selling Shareholder's Associates;
- (B) the Group is capable of carrying on business independently of the Secretary of State, the Selling Shareholder, (in the case of the Secretary of State) the Secretary of State's Associates and the HMG Entities and (in the case of the Selling Shareholder) the Selling Shareholder's Associates;
- (C) the Secretary of State, the Selling Shareholder, (in the case of the Secretary of State) the Secretary of State's Associates and the HMG Entities and (in the case of the Selling Shareholder) the Selling Shareholder's Associates, will not influence the day-to-day running of the Group at an operational level or hold or acquire a material shareholding in one or more material subsidiaries of the Company; and
- (D) the Secretary of State, the Selling Shareholder, (in the case of the Secretary of State) each of the Secretary of State's Associates and (in the case of the Selling Shareholder) each of the Selling Shareholder's Associates, will conduct all transactions and relationships with members of the Group, and ensure that all their respective arrangements and agreements with the Company or any member of the Group are entered into on arm's length terms and on a normal commercial basis.

For the purposes of the Relationship Agreement:

- (i) "Associate" means: (a) in respect of the Selling Shareholder, as such term is defined in the Listing Rules; and (b) in respect of the Secretary of State, any organisation, entity or other person that is a partner organisation of the Secretary of State, but excluding all entities, organisations and other persons which are partner organisations of the Secretary of State and have independent regulatory functions; and
- (ii) "HMG Entity" means any entity which is part of, or is controlled, directly or indirectly, by, the central government of the United Kingdom, including the Crown, the Prime Minister, Cabinet Office, Her Majesty's Treasury, Ministers of the Crown, and government departments, executive agencies, non-

departmental public bodies, non-ministerial departments and public corporations but excluding the Secretary of State and his Associates.

The Selling Shareholder and the Selling Shareholder's Associates will abstain from voting on any resolution required by paragraph 11.1.7R(3) of the Listing Rules to approve a related party transaction (as defined in paragraph 11.1.5R of the Listing Rules) involving the Selling Shareholder or any of the Selling Shareholder's Associates as the related party.

The Company will act reasonably and in good faith in considering any actual or potential conflicts of interest, direct or indirect, of any Director and in determining the terms on which any actual or potential conflict of interest should be authorised.

For as long as the Secretary of State and/or the Selling Shareholder (together with their respective Associates) is entitled to exercise or control the exercise of 10 per cent. or more of the votes able to be cast on all or substantially all matters at general meetings of the Company, the Secretary of State and/or the Selling Shareholder (as applicable) will exercise their voting rights at general meetings of the Company so as to ensure, so far as the Secretary of State and/or the Selling Shareholder (as applicable) is reasonably able to do so, that at all times: (i) at least half of the Directors, including the Chairman, are non-executive directors who are independent for the purposes of the UK Corporate Governance Code ("**Independent Directors**"); (ii) if an Independent Director ceases to be a Director, such Independent Director will be replaced as soon as practicable by a new Independent Director; (iii) the Audit and Risk Committee and the Remuneration Committee will consist solely of Independent Directors; (iv) the Nomination Committee will consist of a majority of Independent Directors; and (v) the quorum for meetings of the Board shall be two Directors.

For so long as the Selling Shareholder (together with the Selling Shareholder's Associates) is entitled to exercise or to control the exercise of 10 per cent. or more of the votes able to be cast on all or substantially all matters at general meetings of the Company, the Selling Shareholder will be entitled to nominate one non-executive director (the "**Selling Shareholder Director**") for appointment to the Board, and may request that any person so appointed be removed from office and nominate another person in such person's place. The Company has provided various undertakings in respect of the Selling Shareholder Director in the Relationship Agreement, including that: (i) it will not propose any resolution to the Shareholders, which would, if passed, have the effect of reducing or removing the rights of the Selling Shareholder to nominate the Selling Shareholder Director and (ii) the Selling Shareholder Director will receive all information (including, without limitation, Board papers and supporting documents and information) which the other Directors would be entitled to receive at the same time and in the same manner as it is provided to the other Directors, provided that the Selling Shareholder Director shall not be entitled to any information in relation to any matter in respect of which the Selling Shareholder Director has a conflict of interest.

The Secretary of State will give the Company notice of any proposed offering of Ordinary Shares by the Selling Shareholder following Admission (a "**Secondary Sale**") and will consult with the Company regarding the form and structure of any such Secondary Sale and, if the Secretary of State so requests, the Company will provide reasonable assistance to the Secretary of State in respect of any such Secondary Sale, provided always that: (i) the Secretary of State will decide the form and/or structure of any Secondary Sale; (ii) where the Secretary of State determines (in its opinion) that it is impracticable or inappropriate to consult with the Company in respect of any proposed Secondary Sale, the Secretary of State shall not be required to consult with the Company and the Company shall not be required to assist the Secretary of State; and (iii) the Secretary of State will give such notice as he determines (in his discretion) is reasonable in the circumstances. The Company acknowledges in the Relationship Agreement that there may be circumstances in which the Secretary of State determines that it is reasonable to give notice only immediately before the execution of a transaction. Save with the written consent of the Company, there will not be more than one completed Secondary Sale that requires the production of a prospectus (or equivalent document) in any 12 month period.

The Group shall at all times comply with Part 14 of the Companies Act (Control of Political Donations and Expenditure). Neither the Company nor any of its subsidiary undertakings shall make a political donation or incur any political expenditure unless such donation or expenditure is authorised by the Shareholders in accordance with the provisions of the Companies Act. It will be the policy of the Group not to make political donations or incur political expenditure within the ordinary meaning of those words and the Directors will not use any authority granted under the Companies Act for those purposes.

The Company will not redeem or purchase its own voting shares if this would result in an increase in the percentage of shares carrying voting rights in which the Selling Shareholder (or any persons acting in concert with it) is interested for the purposes of Rule 37 of the City Code on Takeovers and Mergers, if to do so would result in the Selling Shareholder (or any person acting in concert with it) being obliged to make a general offer pursuant to Rule 9 of that Code.

The obligations of the Company, the Secretary of State and the Selling Shareholder pursuant to the Relationship Agreement are at all times subject to the requirements of the Articles and all relevant legal and regulatory requirements and obligations of the parties in the United Kingdom or elsewhere, including, without limitation, the obligations of the parties pursuant to the requirements of the applicable companies legislation, the Listing Rules, the Disclosure and Transparency Rules, the UK Corporate Governance Code, FSMA, the FCA and the London Stock Exchange, and the Selling Shareholder Director will at all times be subject to his fiduciary and statutory duties as a director of the Company. The Selling Shareholder Director shall not be required to take any action in breach of such duties.

Certain provisions of the Relationship Agreement (including the undertakings given by the Secretary of State and the Selling Shareholder and the restriction on the Company's ability to redeem or purchase its own voting shares) shall terminate upon the Selling Shareholder (together with the Selling Shareholder's Associates) ceasing to be entitled to exercise or control the exercise of 25 per cent. or more of the votes able to be cast on all or substantially all matters at general meetings of the Company.

The Relationship Agreement (save for certain enduring provisions, such as the governing law provision) shall terminate upon the earlier of: (i) the Ordinary Shares ceasing to be listed on the premium listing segment of the FCA's Official List and traded on the London Stock Exchange's main market for listed securities; and (ii) the Selling Shareholder (together with the Selling Shareholder's Associates) ceasing to be entitled to exercise or to control the exercise of 10 per cent. or more of the votes able to be cast on all or substantially all matters at general meetings of the Company.

The Relationship Agreement is governed by English law and is subject to the exclusive jurisdiction of the English courts.

#### **(B) Underwriting Agreement**

The Secretary of State, the Selling Shareholder, the Company and the Underwriters entered into the Underwriting Agreement on 27 September 2013. Pursuant to the terms of these underwriting arrangements:

- (i) the Selling Shareholder has agreed, subject to certain conditions, to sell the Ordinary Shares in the Offer at the Offer Price;
- (ii) the Underwriters have agreed, subject to certain conditions:
  - (a) to procure purchasers for (or to the extent that purchasers fail to be so procured, or to the extent such purchasers fail to purchase all of the Ordinary Shares offered pursuant to the Institutional Offer, to purchase themselves in their agreed proportions) the Ordinary Shares offered pursuant to the Institutional Offer at the Offer Price; and
  - (b) in the event of any Intermediary failing to make payment for the Ordinary Shares allocated to it pursuant to the Intermediaries Offer, to procure purchasers for (or to the extent that purchasers fail to be so procured, or to the extent such purchasers fail to purchase all of the Ordinary Shares offered pursuant to the Intermediaries Offer, to purchase themselves in their agreed proportions) such Ordinary Shares at the Offer Price;
- (iii) the Secretary of State has agreed that the Joint Global Co-ordinators (on behalf of the Underwriters and, in the case of (b) below, for themselves only) may, subject to certain conditions being satisfied, deduct from the proceeds of the Institutional Offer:
  - (a) a base fee of 0.80 per cent. of the product of the Offer Price and the number of Ordinary Shares sold pursuant to the Institutional Offer (together with any Ordinary Shares sold pursuant to any exercise of the Over-allotment Option); and
  - (b) a praecipium fee of 0.10 per cent. of the product of the Offer Price and the number of Ordinary Shares sold pursuant to the Institutional Offer (together with any Ordinary Shares sold pursuant to any exercise of the Over-allotment Option),

together with any applicable value added tax. The Secretary of State has also agreed, in its sole discretion, to pay a discretionary commission to some or all of the Underwriters of up to 0.30 per cent.

of the product of the Offer Price and the number of Ordinary Shares sold pursuant to the Institutional Offer (together with any Ordinary Shares sold pursuant to any exercise of the Over-allotment Option), together with any applicable value added tax;

- (iv) the obligations of the Underwriters will be subject to certain conditions that are customary for an agreement of this nature. These conditions include, among other things, delivery of customary comfort packages and approval of various offering documents having been received. In addition, the obligations of the Underwriters are conditional upon, among other things, the approval of the Prospectus by the FCA, and the Relationship Agreement and the Stock Lending Agreement having been entered into and becoming unconditional;
- (v) the Selling Shareholder has granted the Stabilising Manager (on behalf of the Underwriters) the Over-allotment Option, pursuant to which the Stabilising Manager may require the Selling Shareholder to make available an additional number of Ordinary Shares up to a number equal to 15 per cent. of the aggregate number of Ordinary Shares available in the Offer (before any exercise of the Over-allotment Option) at the Offer Price to cover over-allotments, if any, made in connection with the Offer. The Over-allotment Option may be exercised, in whole or in part, at any time during the period from the commencement of conditional dealings of Ordinary Shares on the London Stock Exchange and ending 30 calendar days thereafter;
- (vi) the Secretary of State, the Selling Shareholder and the Company have each agreed that none of the Underwriters shall be required to pay or be liable for the costs or expenses of any other person, including the Secretary of State, the Selling Shareholder or the Company, arising in connection with, or incidental to, the Offer;
- (vii) the Secretary of State, the Selling Shareholder and the Company, have each given certain representations, warranties and undertakings to the Underwriters, and the Company has given an indemnity to the Underwriters for breach of its representations, warranties and undertakings and the Secretary of State has given customary indemnities to the Underwriters;
- (viii) the parties to the Underwriting Agreement have given certain covenants to each other regarding compliance with laws and regulations affecting the making of the Offer in relevant jurisdictions;
- (ix) the Underwriters (acting unanimously) have the right to terminate the Underwriting Agreement, exercisable in certain circumstances prior to Admission in respect of the Offer. These circumstances include the breach by the Secretary of State, the Selling Shareholder or the Company of any of the warranties or undertakings contained in the Underwriting Agreement, where the effect of such breach, in the opinion of each of the Joint Global Co-ordinators (each acting in good faith), is material in the context of the Offer;
- (x) the Joint Global Co-ordinators (on behalf of the Underwriters) have consultation rights with the Secretary of State, the Selling Shareholder and the Company as to whether it is practicable to continue with the Offer, exercisable in certain circumstances. These circumstances include the occurrence of certain significant changes in the condition (financial, operational, legal or otherwise), business prospects or earnings of the Group and certain changes in financial, political or economic conditions;
- (xi) the Company has entered into certain lock-up arrangements relating to securities of the Company that are substantially similar to the Ordinary Shares (including, but not limited to, any securities that are convertible into or exchangeable for, or that represent the right to receive, Ordinary Shares or any such substantially similar securities). The Company has agreed that, subject to certain exceptions, during the period of 180 days from the date of Admission, it will not, without the prior written consent of the Joint Global Co-ordinators, issue, lend, mortgage, assign, charge, offer, sell or contract to sell, or otherwise dispose of any Ordinary Shares (or any interest therein or in respect thereof), file any registration statement or file or publish a prospectus or enter into any transaction with the same economic effect as any of the foregoing; and
- (xii) the Selling Shareholder has agreed that, subject to certain exceptions, during the period of 180 days from the date of Admission, it will not sell or contract to sell, grant or sell any option over, charge, pledge or otherwise dispose of any Ordinary Shares (or any interest therein or in respect thereof), or enter into any transaction with the same economic effect as any of the foregoing.

### **(C) Sponsor's Agreement**

The Company and the Sponsor entered into the Sponsor's Agreement on 27 September 2013. Pursuant to the terms of these sponsor arrangements:

- (i) the Company has confirmed its appointment of Barclays Bank PLC as sponsor in connection with the application for Admission, and the Sponsor has confirmed its acceptance of such appointment;
- (ii) the Sponsor has been granted all powers, authorities and discretions which are necessary for or incidental to the performance of its responsibilities under the Listing Rules and Prospectus Rules;
- (iii) the Company has agreed to deliver certain documents to the Sponsor relating to the application for Admission and the Sponsor's responsibilities under the Listing Rules and Prospectus Rules;
- (iv) the Company has given customary representations, warranties, undertakings and indemnities to the Sponsor; and
- (v) the Sponsor has the right to terminate the Sponsor's Agreement, exercisable in certain circumstances prior to Admission in respect of the Offer. These circumstances include: (i) the termination of the Underwriting Agreement; (ii) the Prospectus has become or is discovered to be untrue, inaccurate or misleading which is material in the context of the Offer; (iii) the breach by the Company of any of the warranties or undertakings contained in the Sponsor's Agreement, where the effect of such breach, in the opinion of the Sponsor, (acting in good faith) is material in the context of the Offer; (iv) any matter has arisen which would require the publication (after the Pricing Statement has been executed) of a supplementary prospectus which is material in the context of the Offer; and (v) if the application for Admission is refused by the FCA or the London Stock Exchange or where Admission will not be granted.

### **(D) Agreement for Warranties and Indemnities**

The Company, the Secretary of State, the Selling Shareholder and the Directors entered into the Agreement for Warranties and Indemnities on 27 September 2013. Pursuant to the terms of this agreement:

- (i) the Company and each of the Directors (on a several basis) have given certain warranties to the Secretary of State and the Selling Shareholder, in relation to the accuracy of certain information in the Prospectus and, in the case of the Company, in certain offering materials;
- (ii) the Secretary of State has given certain warranties to the Company and the Directors including in relation to the Selling Shareholder's title to the Ordinary Shares the subject of the Offer, the capacity of the Selling Shareholder to make the Offer and the accuracy of certain information in the Prospectus; and
- (iii) the Secretary of State has given an indemnity to the Company and the Directors in connection with the Offer, subject to certain carve outs.

## **16.2 Agreements with POL**

### **(A) Mails Distribution Agreement**

The Mails Distribution Agreement ("**MDA**") entered into between RMG and POL on 19 January 2012 governs the provision by POL (as agent for RMG) of retail letter and parcel services to customers of RMG.

Under the terms of the MDA, POL provides certain services to the Group and customers of RMG, and (as agent for RMG) sells Royal Mail postage stamps and Royal Mail and Parcelforce Worldwide products to customers through Post Office branches from 26 March 2012 (the "**Commencement Date**") until at least the tenth anniversary of the date of the MDA (the "**Term**"), subject to scheduled renegotiation events or termination in certain limited circumstances before the end of such period. In return for the sale of the Group's postage stamps and products, POL receives separate remuneration from RMG for each product sold plus an additional fee payable periodically. Customers contract with RMG for the provision of the postage stamp or retail product which they have purchased through the agency of POL. As described below, upon RMG and POL ceasing to be members of the same VAT group, POL will sell Royal Mail postage stamps to customers as principal. Pursuant to the MDA, Post Office branches also act as access points at which RMG customers can deposit or collect letters and parcels.

Subject to certain adjustments, under the MDA POL must pay RMG the aggregate of: (i) the amount of revenue collected by POL on behalf of RMG from RMG customers in respect of products provided under the



MDA; and (ii) the aggregate face value of all postage stamps sold by POL as agent and as principal, to RMG in respect of a trading week (being from Monday to the following Sunday, inclusive) in immediately available funds no later than close of business on the first Monday following the end of that trading week.

Under the MDA, POL maintains a network of Post Office branches to enable RMG to comply with its obligations as the UK's designated provider of universal postal services, agreeing to use its reasonable endeavours to maintain a network of at least 11,500 Post Office branches until at least the end of March 2015 and, subject to additional HM Government funding (and State Aid clearance), beyond 31 March 2015.

RMG sells postage stamps through a large number of retail outlets other than Post Office branches. However, RMG has made a number of commitments regarding future business with POL pursuant to the terms of the MDA. Subject to certain conditions, in the event that RMG does not meet a lower total revenue test of deriving not less than 77 per cent. of its retail mails revenue through POL in a financial year, RMG must pay compensation to POL for the fees lost by POL as a result of this threshold not having been met. In effect, RMG pays POL as if it derived not less than 77 per cent. of its retail mails revenue through POL.

POL must be given the opportunity to accept and process at least 99 per cent. of all pre-paid products (other than postage stamps) accepted and processed on RMG's behalf from customers through physical retail outlets. POL must also be given the opportunity to hold for RMG at least 99 per cent. of all pre-paid products (other than postage stamps) held for subsequent collection by customers from physical retail outlets. These commitments do not, however, extend to products directly accepted, held or processed by the Group.

RMG has undertaken to POL that except in circumstances where RMG contracted with retailers as at the date of the MDA, it will not contract to provide retail mails products other than postage stamps to customers from physical retail outlets of third parties. In addition, RMG shall not facilitate the growth of, or pro-actively seek to grow sales of, retail mails products other than postage stamps to customers through physical retail outlets of retailers other than POL. Further, RMG shall not offer or make available any retail mails products (except for postage stamps and under arrangements existing at the date of the MDA) other than through POL.

POL may not, without the written consent of RMG, provide competing mails services or offer competing mails products in any of its branches. In addition, POL may not solicit the provision of competing mails products or services through any of its branches and must notify RMG of any formal written third party approaches in connection with the same. In the event that a third party does access the POL branch network, the MDA contains a number of protections for RMG to ensure that RMG shall not be placed at a disadvantage with regard to the terms offered to that third party.

Within six weeks following the fifth anniversary of the Commencement Date, a renegotiation event will occur whereby RMG and POL will meet in good faith to enter into discussions with a view to agreeing amendments to the MDA. The MDA and its operation will therefore be reviewed by the parties halfway through the Term to ensure that it continues to meet both parties' expectations and takes into account changing market dynamics over the first five years of the Term. If the parties are unable to reach agreement in connection with this review following the relevant dispute resolution process, either party may refer the matter to an expert for resolution.

As soon as reasonably practicable following the seventh anniversary of the date of the MDA, the parties will meet to discuss whether they wish to extend the Term of the MDA or replace it with another agreement either before or at the end of the Term. If RMG and POL have not agreed either such course of action by the eighth anniversary of the date of the MDA, then certain provisions of the MDA will cease to apply as the parties prepare to exit the MDA. RMG may require POL to continue to provide services and to make available any products and stamps for a period of up to 12 months following the termination or expiry of the MDA.

Either party may terminate the MDA with immediate effect, if certain conditions are satisfied, in the event of material or persistent breach by the other party, or in the event of insolvency of the other party (in both cases, unless certain circumstances are met). If any provision of the MDA is or becomes illegal, invalid or unenforceable, the parties will negotiate in good faith to agree amendments to the MDA to take account of such circumstances. Should the parties be unable to agree the terms of such amendments within two months, either party may terminate the MDA by not less than 12 months' notice to the other party if the affected provision is material to the agreement.

In addition to the renegotiation event described above, the MDA also includes provisions allowing for renegotiation events in the following circumstances: (i) subject to certain exceptions, material changes in connection with the business of either party and/or the overall services or products (and postage stamps)

which have a material adverse effect on either party, including significant regulatory changes, major changes in the competitive landscape and material changes to the tax position; (ii) change of control in limited circumstances if requested by the party not undergoing the change of control where such change of control is likely to have a material adverse effect on that party (which excludes any change of control contemplated in connection with HM Government ceasing to have control of RMG); (iii) if the Post Office network is materially different from that envisaged in the MDA and the “Network Transformation Programme” (as described in section 9.1 of Part II (*The Business*)) and this difference is likely to have a material adverse effect on RMG or materially alters the cost basis for the Post Office network; or (iv) subject to certain exceptions, a material adverse change in the condition or reputation of either party such that footfall of customers to Post Office branches or volumes of products and stamps sold by POL falls significantly.

Subject to certain liabilities excluded under the MDA, POL’s aggregate liability to RMG in connection with the MDA, whether in contract (including any indemnity), in tort (including negligence), under statute or otherwise, is limited to £20 million in any financial year. Subject to certain liabilities excluded under the MDA, RMG’s aggregate liability to POL in connection with the MDA, whether in contract (including any indemnity), in tort (including negligence), under statute or otherwise, is limited to £2.5 million in any financial year.

POL and RMG are currently members of the same VAT group. If, following implementation of the Offer, HM Government no longer has control of RMG, POL and RMG will cease to belong to the same VAT group; and if HM Government retains control of RMG, the ability of POL and RMG to remain members of the same VAT group will depend on various conditions prescribed by VAT legislation being satisfied at all times, the outcome of which cannot be known for certain in advance. For these purposes, HM Government will have “control” of RMG so long as HM Government, if it were a company, would be RMG’s holding company within the meaning of section 1159 of, and Schedule 6 to, the Companies Act.

In the event that POL and RMG do cease to be members of the same VAT group, anything done by POL under the MDA which represents, for VAT purposes, the making of a taxable supply to RMG will give rise to a VAT liability. Under the provisions of the MDA, RMG will be obliged to pay to POL an amount equal to the VAT that is properly chargeable on any such taxable supply by POL.

The proportion of such VAT that RMG will be able to recover will depend on the detailed operation, from time to time, of the partial exemption special method agreed between RMG and HMRC and on the extent to which direct attribution is possible. As a general matter, RMG will not be able to recover such part of that VAT as relates to the supply by RMG of VAT-exempt postal products and services or to other exempt activity by RMG, rather than relating to the supply by RMG of postal products which bear VAT or to other taxable activity by RMG.

As noted above, under the MDA, all products are sold by POL as agent for RMG. In addition, under the MDA, all sales to customers of Royal Mail postage stamps are made by POL as agent for RMG. However, the MDA further provides that, upon POL and RMG ceasing to be members of the same VAT group, POL will sell Royal Mail postage stamps (but not Royal Mail and Parcelforce Worldwide products) to customers as principal, rather than as agent, except in certain circumstances, including where the customer purchases stamps to pay the postage due on an RMG postal product which attracts VAT. To enable POL to fulfil such sales by it of postage stamps as principal and to preserve the return to which POL is entitled under the MDA, RMG will sell the necessary stamps to POL as principal at a price below their face value.

The result of these provisions of the MDA is that upon POL and RMG ceasing to be members of the same VAT group, a substantial part of the remuneration to be earned by POL under the MDA will accrue to POL as profit margin on the purchase and sale of stamps, rather than as commission or fee. It has been proposed to HMRC that, under current law, that profit margin should not be liable to VAT.

HMRC have indicated to RMG that they consider that only part of that profit margin is outside the scope of VAT and that POL will accordingly be liable to account for VAT on the other part on the basis that it represents payment for a supply of services by POL to RMG. If this view is sustained, it will increase RMG’s total irrecoverable VAT cost. However, the likely annual amount of that increased cost, as estimated by the Group, is not considered to be material.

## **(B) Master Services Agreement**

The Master Services Agreement (“MSA”) was entered into between RMG and POL on 20 January 2012. Under the terms of the MSA, RMG provides a number of transitional services to POL for a limited period. The services covered under this agreement at its commencement were: finance services, IT services, facilities management services, fuel services, fleet support services, company secretarial services, HR

services, storage services, print management services, procurement services, property management services, physical security services, information security services and contact centre services. The annual charges to be paid by POL to RMG for the provision of services under the MSA are agreed between the parties during the customary budgetary record discussions in November each year.

The MSA is intended to be a temporary arrangement. The parties must work together in good faith to facilitate the smooth migration of POL away from reliance on RMG for the provision of each service. The separation process is ongoing. The majority of services are due to cease by 31 March 2014 and some have already done so as at the date of this document. The finance and IT services are due to terminate by 24 September 2014, save for treasury forex services which may be terminated at any time on three months' written notice by either party.

A service extension may be requested by either POL or RMG by notice to the joint MSA management board. The MSA management board will determine the duration of any extension which it agrees to grant. In the event that the MSA management board is unable to resolve the issue, it will escalate it to the Chief Executive Officers of both parties. In addition, subject to certain conditions, POL may extend non-finance or non-IT services for up to six months without recourse to the MSA management board. The MSA also contains an automatic extension mechanism should POL's ability to migrate away from the provision of a service be delayed due to the failure of the Group or its contractors to perform obligations under the MSA or separation plans.

POL may, with the prior written consent of RMG, terminate services other than finance and IT services on not less than 90 business days' notice to RMG, or such longer notice period as RMG may reasonably require. In the event that a service is terminated in this manner, POL must continue to pay the service charge in relation to the relevant terminated service until the original service end date, together with certain other costs. If certain conditions are satisfied, either party may terminate the MSA or an individual service under the MSA on 20 business days' notice in the event of persistent breach by the other party (which cannot be remedied or which the relevant party has failed to remedy within 30 business days) or with immediate effect in the event of insolvency of the other party.

The MSA recognises that a limited number of RMG employees may be wholly or mainly engaged in providing the services to POL under the MSA. On the expiry of the provision of services under the MSA such employees are to transfer to POL or the relevant new service provider in accordance with the Transfer of Undertakings (Protection of Employment) Regulations 2006. In addition, RMG has agreed with POL that it will indemnify POL and any successor supplier for termination costs incurred in respect of certain other employees who transfer to POL or such successor supplier pursuant to the Transfer of Undertakings (Protection of Employment) Regulations 2006.

Each party bears its own separation costs under the MSA. Separation costs in respect of RMG include one-off or other costs incurred by the Group in connection with separation, including any termination fees payable to third party providers. Separation costs in respect of POL include one-off or other costs incurred by POL in connection with arranging the provision of goods or services from a third party provider as a replacement for a service under the MSA.

Under the MSA, recurring stranded costs are the costs incurred by the Group on a recurring basis as a direct consequence of the termination or expiry of a service, or in connection with shared sites, premises, land or property of which POL ceases to receive the benefit after termination of the MSA or the relevant service. This does not include one-off separation costs or costs in relation to any employees of the Group who transfer by way of the Transfer of Undertakings (Protection of Employment) Regulations 2006 or otherwise. RMG will bear the first £15 million per annum of the recurring stranded costs incurred by the Group under the MSA but any recurring stranded costs in respect of shared sites, premises, land and property which POL ceases to receive the benefit of in excess of £1.5 million shall not be included for the purpose of calculating this first £15 million. Any recurring stranded costs above that threshold will be shared equally between RMG and POL. However, if any recurring stranded costs are incurred by RMG after the 24th month from the first day of the quarter immediately after a service terminates or expires, all such recurring stranded costs will be borne by RMG.

Further detail regarding the provision of IT services by the Group to POL under the MSA and the project for the separation of POL's IT can be found in section 9.4 of Part II (*The Business*). The Group faces a number of risks relating to the provision of IT services to POL under the MSA and the project for the separation of POL's IT, which are described further in section 1.18 of the Risk Factors.

### **16.3 IT and Outsourcing Agreements**

#### **(A) CSC – Outsourcing Agreement**

RMG entered into an agreement for the outsourcing of IT services with CSC dated 1 June 2003 (as amended and extended), which is due to expire on 31 May 2015. Pursuant to a novation agreement dated 13 May 2013, CSC transferred the agreement to its parent company, CSC Computer Sciences Limited.

The outsourcing agreement is one of the Group's key outsourcing agreements. It covers the provision of a wide range of IT goods and services to the Group, including desktop support, data centre hosting, application development, disaster recovery and application management services. Together, these services comprise a substantial proportion of the Group's IT requirements.

RMG and CSC may terminate the outsourcing agreement in certain customary circumstances, including for convenience by RMG on four months' written notice to CSC. RMG may also terminate the contract if there is a change of control in CSC that RMG reasonably believes adversely affects RMG, or if CSC experiences an insolvency event. RMG may terminate either the whole outsourcing agreement or specific services provided by CSC if CSC materially breaches any of its obligations and where CSC does not remedy such breach within 60 days of being notified by RMG in writing. CSC may terminate the outsourcing agreement in certain circumstances where there is a change of control of RMG to one of CSC's competitors.

#### **(B) Capgemini eBusiness Agreement**

RMG entered into an agreement for the design, implementation and maintenance of the Group's eBusiness web platform with Capgemini UK plc ("**Capgemini**") dated 4 June 2010. The agreement was amended in October 2010 and again in November 2011. The initial term of five years will expire on 22 November 2015. RMG has the option to extend the agreement for a maximum of two years beyond the initial term.

Under the agreement, Capgemini operates and maintains the Group's eBusiness web platform, through which the Group offers services to its consumers and selected businesses.

RMG may terminate the agreement in certain customary circumstances, including if Capgemini materially breaches the terms of the agreement, experiences an insolvency event or is subject to a change of control. RMG may also terminate the agreement without cause on three months' written notice to Capgemini. Capgemini may terminate the agreement if RMG fails to pay undisputed charges of more than £2,000,000.

#### **(C) BT Services Agreement**

RMG is party to an agreement with British Telecommunications plc ("**BT**") dated 17 December 2007. Under the agreement, BT provides technology, network and communication services to the Group. The initial term of the agreement is 10 years and runs from 7 January 2008 to 7 January 2018.

RMG can terminate the agreement in certain circumstances, including if BT commits a material breach of the agreement which is not capable of being remedied or has not been remedied by BT within 60 days, if BT experiences an insolvency event, or if there is a change of control of BT that RMG reasonably believes adversely affects the Group.

RMG may terminate the agreement without cause by giving 12 months' written notice to BT. Unless such notice is effective on 7 January 2016, RMG is obliged to pay termination charges if it terminates without cause. The termination charges payable depend on the specific timing of the termination.

BT may terminate the agreement if RMG commits a material breach which is not capable of being remedied or is not remedied within 60 days, if RMG becomes insolvent, or if there is change of control of RMG to one of BT's competitors.

### **16.4 Brand and Royal Associations Agreements**

#### **(A) Royal Mail Brand Agreement**

RMG is party to an agreement, in the form of a deed, with the Secretary of State dated 27 September 2013, relating to the "Royal Mail" brand (the "**Brand**").

Under the agreement, the Secretary of State acknowledges and agrees that the Group owns all legal and beneficial rights in the Brand. Separately, the agreement includes terms on the manner in which the Group will exercise its rights in relation to the Brand and provisions on the assignment of the Brand, including, among other things, that RMG shall not, and shall procure that no member of the Group shall, assign the



Brand to a third party (unless as part of a transfer of the Royal Mail business) without the prior written approval of the Secretary of State. The Secretary of State has provided RMG with a letter from the Lord Chamberlain's office acknowledging the terms of the agreement and confirming his consent for the registration of new trade marks for the Brand.

The acknowledgement that RMG owns the Brand will continue in full force and effect indefinitely, regardless of any termination or expiry of any other part of the agreement for any reason.

#### **(B) Royal Associations Agreement**

RMG is party to an agreement with the Secretary of State dated 27 September 2013, relating to the use of the Royal Cypher (the *ELIR* symbol) and the Royal Crown emblem (together, the "**Royal Associations**") by the Group.

Under the agreement, the Secretary of State has provided to RMG a letter from the Lord Chamberlain's office acknowledging the terms of the agreement and confirming that his consent will be given for the registration of trade marks consisting of, or combining, the Royal Crown with "Royal Mail" and/or existing logos.

The agreement provides that the Secretary of State may require the Group to stop using the Royal Associations in the following circumstances: where RMG or a member of the Group ceases to provide a universal postal service in accordance with the universal service obligations defined in the PSA or ceases to be designated as a universal service provider under the PSA; if the Secretary of State reasonably considers that a member of the Group has used the Royal Associations in a manner which damages the Crown or brings the Crown into disrepute or in a manner contrary to the law; or if RMG has transferred trade marks incorporating the Royal Crown outside the Group without the Secretary of State's consent. The agreement also stipulates that Her Majesty The Queen can withdraw her consent to use of the Royal Cypher at any time and for any reason.

The rights granted under the agreement will be reviewed upon the accession of a new Sovereign.

### **16.5 Financing Agreements**

#### **(A) Mails Facilities**

RMG (as borrower) entered into a £1,044 million credit facilities agreement dated 20 December 2002 (as amended and restated from time to time) with the Secretary of State (as lender) (the "**Mails Facilities**").

The Company acceded to the Mails Facilities as a party on 12 September 2013 to be bound by certain undertakings, including as to its limited activities as a holding company and financial indebtedness that it could incur.

The Mails Facilities comprise the "A1 Facility", "A2 Facility", "B Facility", "C1 Facility", "C2 Facility" and "E Facility". The availability periods for the A1 Facility, A2 Facility, B Facility and C2 Facility have expired and these facilities are no longer available for drawdown under the Mail Facilities. Drawings under the C1 Facility and E Facility bear interest at the LIBOR rate plus an interest margin.

The maximum amount that is currently available under the Mails Facilities is £900 million (£600 million under the C1 Facility and £300 million under the E Facility). Both the C1 and E Facilities are currently undrawn and fully available (subject to the relevant utilisation conditions). Each of the C1 and E Facilities permits amounts to be re-borrowed and the maturity date of each of the facilities is March 2014. Further, in relation to the C1 Facility, 25 per cent. of the aggregate amount of the cash consideration for each sale, lease, transfer or disposal made by any member of the "Relevant Group" (which is defined as the Selling Shareholder and its subsidiaries (excluding POL, certain joint ventures and their subsidiaries)) must be applied in prepayment of C1 Facility advances. However, the following amounts will be deducted from such cash consideration: (i) the costs incurred in connection with such disposal; and (ii) the amount of any disposal proceeds required to be applied in repayment of financial indebtedness.

Under the terms of the Mails Facilities, no member of the Relevant Group can incur any financial indebtedness unless it is incurred in certain permitted circumstances which include indebtedness incurred under a scheme operated by the Bank of England under which members of the scheme are able to earn overnight interest from the Bank of England in respect of cash held by such members in secure cash centres (the "**Note Circulation Scheme**").

The Mails Facilities also contain a negative pledge clause which, subject to certain exceptions, restricts each obligor (RMG as borrower and guarantor and each of the Selling Shareholder and RME as guarantor) from creating or permitting the creation of any security over its assets.



The Mails Facilities contain certain financial covenants. A breach of these covenants may trigger an event of default.

Under the Mails Facilities, a change of control occurs when the Selling Shareholder ceases to control RMG or the Crown ceases to control the Selling Shareholder. Change of control triggers an obligation to prepay the Mails Facilities in full and an event of default (which would enable the Government to accelerate the facility and enforce security). In addition to certain customary events of default and a change of control, the following events trigger an event of default under the Mails Facility: cross-default by a member of the Relevant Group on an aggregate of over £40 million of financial indebtedness that is not contested on a good faith basis; regulatory action; the loss of RMG's postal licence; and RME ceasing to be a subsidiary of RMG.

Further, the obligation to prepay the Mails Facilities in full is also triggered on the occurrence of an "Initial Public Offering" (which is defined as the public offering of some or all of the shares in the Selling Shareholder, the Company or RMG).

The Mails Facilities are secured by means of a fixed charge over all of RMG's rights, title and interest in the shares of RME and a floating charge over all of RMG's property, assets, rights and revenue, but excludes certain rights and interests, including: (i) RMG's rights to and title and interests in the accounts in the CREST system held in the name of the Bank of England and RMG's account in the custody of the Bank of England as part of the Note Circulation Scheme (the "**Note Circulation Scheme Accounts**"); (ii) RMG's interest in NDC 2000 Limited and Quadrant; and (iii) RMG's shareholding in, or any other right or obligation in respect of, Romec.

The Mails Facilities are also guaranteed by the Selling Shareholder. The Selling Shareholder has granted a fixed charge over its rights, title and interest in the shares of the Company (which will be released prior to Admission in conjunction with the repayment of the Mails Facilities) and POL and a floating charge over its property, assets, rights and revenue.

RMG's obligations under the Mails Facilities are guaranteed by RME. RME has granted a floating charge over all of its rights, title, and interest in its property, assets, rights and revenue.

The Mails Facilities will be repaid in full on Admission by a combination of the Group's cash resources and by drawing down on the New Facilities, and all security granted under the Mails Facilities will be released.

#### **(B) GLS Facility**

RMG (as borrower) entered into a £500 million credit facility dated 7 February 2003 (as amended from time to time) with the Secretary of State (as lender) (the "**GLS Facility**"). The GLS Facility is guaranteed by the Selling Shareholder.

The Company acceded to the GLS Facility as a party on 12 September 2013 to be bound by certain undertakings including as to its limited activities as a holding company and undertakings relating to financial indebtedness that it could incur. The maximum amount that can be borrowed under the GLS Facility is £500 million and this amount was advanced on 6 February 2001. The total amount advanced under this facility is divided into 20 advances of £25 million. Each £25 million advance has a different repayment date between 20 March 2021 and 20 September 2025 and a different rate of interest between 5.26 per cent. and 6.12 per cent. The GLS Facility is fully utilised.

The GLS Facility is secured by a share pledge entered into by RMIL dated 7 February 2003 in respect of the legal title and beneficial interest in the share capital of GLS B.V. held by RMIL, under which RMIL may not assign or transfer any of its rights or obligations under the pledge without the prior written consent of the Secretary of State.

The GLS Facility is also secured by a fixed charge and an assignment by way of security over all of RMG's rights, title and interest in the loan owed to RMG by GLS B.V. or any of its subsidiaries. The GLS Facility is further secured by a floating charge over all of RMG's assets which are not classed as "necessary resources" under the postal licence, with the exception of certain items including: (i) RMG's rights to and title and interests in the Note Circulation Scheme Accounts; (ii) RMG's interest in NDC 2000 Limited; and (iii) RMG's shareholding in, or any other right or obligation in respect of, Romec.

Under the negative pledge provision in the GLS Facility, no borrower or guarantor can create or permit to subsist any security over any of its assets except to the extent permitted by the Mails Facilities, and after the Mails Facilities ceases to exist, under the permitted transactions provision of the GLS Facility. Further, no borrower or guarantor is permitted to sell, transfer or otherwise dispose of any of its assets on terms whereby they are or may be leased to or re-acquired by a member of the Relevant Group, or enter into an arrangement

under which money or bank accounts may be set-off, applied or made subject to a combination of accounts. However, there are exceptions pursuant to the permitted transactions provision which contain carve-outs for disposals.

In addition to certain customary events of default, acceleration under the Mails Facilities also triggers an event of default under the GLS Facility.

The financial covenants in the GLS Facility relate to caps on total indebtedness (which is set at £1,620 million) and set the ratio of consolidated operating cash flow to net interest costs for each half year and full year accounting period up to (and including) 20 September 2025. A breach of these covenants may trigger an event of default.

While the GLS Facility does not have a change of control provision, as noted above, acceleration under the Mails Facilities (which may be triggered by a change of control of RMG, the Company or the Selling Shareholder) is an event of default under the GLS Facility.

The GLS Facility will be repaid in full on Admission by a combination of the Group's cash resources and by drawing down on the New Facilities, and all security granted under the GLS Facility will be released.

### **(C) Subordinated Term Loan Facility**

RMG (as borrower) entered into a £300 million subordinated term loan facility deed dated 19 March 2007 (as amended from time to time) with the Secretary of State (as lender) (the "**Subordinated Facility**").

The Company acceded to the Subordinated Facility as a party on 12 September 2013 to be bound by certain undertakings, including as to its limited activities as a holding company and undertakings relating to financial indebtedness that it could incur. The maximum amount that can be borrowed under the Subordinated Facility is £300 million and the full amount is currently utilised. Interest on each advance accrues at 12 per cent. per annum for each interest period under the Subordinated Facility. Further, the Subordinated Facility contains a provision that permits interest on an advance to be capitalised following the expiry of the relevant interest period.

The maturity date of the Subordinated Facility is 19 March 2016. The debt under the Subordinated Facility (the "**Junior Debt**") is not secured but is subordinate to all present and future liabilities of RMG (the "**Senior Debt**").

While Senior Debt is outstanding, RMG is not permitted to prepay or repay any of the Junior Debt, or create or permit any security over any of its assets in relation to any Junior Debt. Scheduled repayments of the principal and interest of the Junior Debt can be made only if no part of the Senior Debt is more than 90 days overdue and (i) two directors of RMG have certified that it is able to pay its debts as they fall due or (ii) the trustee of the Royal Mail Pension Plan has provided its prior written consent to such payment. However, once the Subordinated Facility is repaid, or prepaid, no reborrowing is permitted. There is also no penalty for early prepayment if it is permitted under the Subordinated Facility.

Under the Subordinated Facility a change of control occurs when HM Government ceases to directly or indirectly control RMG. The mandatory prepayment provision under this facility is also triggered on a change of control or on the occurrence of an Initial Public Offering (which is defined in the same way as in the Mails Facilities).

In addition to certain customary events of default and change of control, an event of default is also triggered under the Subordinated Facility by the loss of RMG's postal licence and certain regulatory actions.

The Subordinated Facility will be repaid in full on Admission using a combination of the Group's cash resources and by drawing down on the New Facilities.

### **(D) The New Facilities**

On 12 September 2013 RMG entered into a £1,400,000,000 term loan and revolving credit facilities agreement between certain financial institutions (including some of the Underwriters and/or their affiliates who, in their capacity as lenders, were not and will not be involved in determining the terms of the Offer) and The Royal Bank of Scotland plc (as agent) (the "**New Facilities Agreement**"). The New Facilities Agreement consists of two term loan facilities of £300,000,000 each ("**Facility A**" and "**Facility B**") and a £800,000,000 revolving credit facility ("**Facility C**") (which includes a £200,000,000 swingline facility (the "**Swingline Facility**") (Facility A, Facility B and Facility C being the "**New Facilities**"). The New Facilities are for the general corporate and working capital purposes of the Group and the repayment of existing debt including

the Mails Facilities, the GLS Facility and the Subordinated Facility. The Company will accede to the New Facilities Agreement as an additional borrower and as an additional guarantor (subject to the satisfaction of certain customary conditions precedent) on or prior to the date of Admission (the “**Accession**”). The New Facilities are available to RMG and, after Accession, the Company as borrowers and are guaranteed by RMG and, after Accession, the Company as guarantors.

The rate of interest in relation to the New Facilities for each interest period is the percentage rate per annum which is the aggregate of the applicable margin and LIBOR. Margin means, for six months from the date of the New Facilities Agreement, 1.00 per cent. per annum in relation to a Facility A loan, 0.90 per cent. per annum in relation to a Facility B loan and 0.85 per cent. per annum in relation to a Facility C loan. After the initial period the interest rate is determined by reference to leverage on each date a compliance certificate is delivered by the Company in accordance with the terms of the New Facilities Agreement, and can range from 0.90 per cent. per annum to 1.50 per cent. per annum in relation to a Facility A loan, from 0.80 per cent. per annum to 1.40 per cent. per annum in relation to a Facility B loan and from 0.75 per cent. per annum to 1.35 per cent. per annum in relation to a Facility C loan.

There will be a utilisation fee payable in respect of Facility C which varies depending on the amount of drawings thereunder. Whilst Facility C is in excess of one-third drawn and less than two-thirds drawn, the utilisation fee is 0.15 per cent. per annum; whilst Facility C is equal to or in excess of two-thirds drawn the utilisation fee is 0.30 per cent. There is no utilisation fee payable when Facility C is equal to or less than one-third drawn. There will be a commitment fee payable in respect of each of the New Facilities at the rate of 35 per cent. per annum of the applicable margin. Additionally, a ticking fee of 0.10 per cent. is payable from the date of signing the New Facilities Agreement until the earlier of, (i) the date of cancellation of the commitments under the New Facilities; and (ii) the date of Admission.

The New Facilities are unsecured.

The following termination dates apply in relation to the loans: Facility A on the fifth anniversary of the date of New Facilities Agreement; Facility B on the third anniversary of the date of New Facilities Agreement; and Facility C on the fifth anniversary of the date of New Facilities Agreement. Any part of Facility A or Facility B which has been repaid may not be reborrowed.

Under the terms of the New Facilities Agreement, no member of the Group can incur financial indebtedness unless it is incurred in certain permitted circumstances, which include financial indebtedness owed by one member of the Group to another member of the Group.

The New Facilities Agreement also contains a negative pledge clause which, subject to certain exceptions, restricts each obligor (a borrower or a guarantor) from creating or permitting the creation of any security or quasi-security over its assets.

Additionally, the New Facilities Agreement contains restrictions, subject to certain exclusions, on the making of disposals or acquisitions.

The New Facilities Agreement contains customary warranties, representations, covenants and events of default and certain financial covenants. A breach of the financial covenants will trigger an event of default. The financial covenants require that RMG or, following the Accession, the Company ensures that the ratio of consolidated net debt to consolidated EBITDA shall not exceed 3:1 and that the ratio of consolidated EBITDA to consolidated net interest payable shall not be less than 3.5:1.

A change of control occurs under the New Facilities Agreement if a person or group of persons acting in concert acquires more than 50 per cent. of the issued and voting share capital or otherwise gain control of the Company. Change of control triggers an obligation to notify the agent and enter into a negotiation period of up to 30 days (and if agreed to by the Company and the majority lenders, a further period of up to 30 days) with a view to agreeing terms and conditions acceptable to the Company and the lenders for the continuation of the New Facilities Agreement. If no agreement is reached within the negotiation period, a lender may cancel its available commitments and demand that any outstanding loans are immediately due and payable.

## **16.6 Agreements with the Trade Unions**

The national collective agreements entered into between the Group and the Trade Unions in the UK (which are not legally binding) include the following:

- (A) “Business Transformation 2010 and Beyond” (“**Business Transformation Agreement**”) was entered into on 11 March 2010 between RMG and the CWU and records the agreement reached with the CWU

in relation to a number of important issues following the national strike in 2009. These include a three-year pay deal, the introduction of new machinery/technology, mail centre and regional distribution centre rationalisations and the introduction of world-class working methods and practices. Some elements of the Business Transformation Agreement, including the three-year pay deal, became due for renewal in April 2013 and the Group is seeking to negotiate a new legally binding agreement with the CWU.

- (B) The “CWU Industrial Relations Framework” was entered into in 1992 between RMG and CWU and sets out the procedures to be adopted for negotiation and the resolution of disputes between the parties at a local and national level. Over time, many of the arrangements recorded in the written agreement have been varied and replaced by current practice.
- (C) The “Resourcing, Job Security Managing Change” agreement was entered into between the CWU and RMG in 2012, which consolidated existing elements of job security for workers with different types of contract (including agency and casuals) into a single agreement and included an extension to the job security commitments made by RMG in the Business Transformation Agreement including entitlements under the Managing the Surplus Framework Agreement, a collective agreement between the CWU and RMG setting out the approach to be taken in surplus employee/potential redundancy situations.

## **16.7 Royal Mail pension plan agreements**

### **(A) RMPP**

The Pensions Transfer took effect on 1 April 2012 as a consequence of relevant legislation coming into force. As a result of the Pensions Transfer, most of the assets of RMPP transferred to HM Government and the RMSPS (a new unfunded public sector pension scheme) was established to assume responsibility for the historical liabilities of RMPP accrued up to 31 March 2012. RMSPS assumed all liabilities in relation to RMPP members who were deferred pensioners or pensioners on 1 April 2012, and became responsible for the pre-1 April 2012 liabilities in relation to RMPP active members currently employed on 1 April 2012 (assuming such members had opted out of pensionable service at the end of 31 March 2012 and so only based on service and pay up to that date).

This means that RMPP, on and from 1 April 2012, still contains past service liabilities to the extent that RMPP active members’ pensionable salaries increase in future at a higher rate than inflation (calculated by reference to RPI). This is because active members’ pre-2008 benefits are still calculated on a “final salary” basis – referred to as the “final salary link”, as well as in relation to certain other circumstances (e.g. death) where past service benefits are enhanced for active members. Future service benefits under RMPP continue to accrue post 31 March 2012 on a career average basis, being the basis which has applied for future service accrual since 31 March 2008.

On 26 September 2013 RMG entered into a deed of amendment to implement the Pensions Reform (the “**RMPP Amendment**”). The Pensions Reform is to take effect from 1 April 2014.

From 1 April 2014 onwards, the RMPP Amendment will mean that, for pension purposes, the basic pay elements of members’ pay will increase in line with RPI (up to five per cent.) each year irrespective of the increase in employees’ actual basic pay, subject to potential additional increases to take account of certain increments or progressions within pay groups, as agreed between RMG and the Trade Unions from time to time. In broad terms, the RMPP Amendment replaces the current final salary link for benefits accrued prior to 2008.

The commercial result of the Pensions Reform and the RMPP Amendment is that the majority of those assets held within the Royal Mail Section of RMPP (amounting to approximately £2.1 billion to fund assumed above RPI growth in pensionable pay) are no longer needed for that purpose. These assets are therefore available to fund the £300 million a year gap between RMG’s current contribution rate of approximately £400 million per year and the estimated cost (net of member contributions) of future such benefit accrual in the Royal Mail Section of RMPP.

### **(B) RMSEPP**

Following the last triennial actuarial valuation as at 31 March 2012, RMG has agreed in line with pensions legislation to continue to pay annual deficit contributions to RMSEPP of £11.2 million until at least the date

of the triennial valuation as at 31 March 2018 is completed. POL has agreed to continue to pay seven per cent. of such contributions (approximately £0.8 million per year).

In addition, in February 2013, RMG made a one-off deficit contribution of £20 million to RMSEPP and in March 2013 transferred a further £20 million to an escrow account held for the benefit of the RMSEPP trustees. POL has reimbursed RMG for seven per cent. of the £20 million deficit contribution (being £1.4 million).

Please refer to section 11.3(B) of Part II (*The Business*) for further details.

## 17. INTERMEDIARIES

The Intermediaries authorised at the date of this document to use this document in connection with the Intermediaries Offer are:

<i>Name</i>	<i>Address</i>
<b>A J Bell Securities Limited (trading as Sippdeal)</b>	Trafford House, Chester Road, Manchester M32 0RS
<b>Abbey Stockbrokers Ltd (trading as Santander Sharedealing)</b>	Kingfisher House, Radford Way, Billericay, Essex CM12 0GZ
<b>ADM Investor Services International Limited</b>	4th floor, Millennium Bridge House 2 Lambeth Hill, London EC4V 3TT
<b>Albert E Sharp LLP</b>	Seven Elm Court, Arden Street, Stratford-Upon-Avon CV37 6PA
<b>All IPO PLC</b>	Suite 27, Essex Technology Centre, The Gables, Fyfield Road, Ongar, Essex CM5 0GA
<b>Arnold, Stansby &amp; Co Limited</b>	Alexandra Buildings, Queen Street, Manchester M2 5JJ
<b>Barclays Bank PLC (trading as Barclays Wealth)</b>	1 Churchill Place, London E14 5HP
<b>Barclays Stockbrokers Limited</b>	1 Churchill Place, London E14 5HP
<b>Barratt &amp; Cooke Limited</b>	5 Opie Street, Norwich, Norfolk NR1 3DW
<b>Beaufort Asset Clearing Services Limited (trading as Beaufort Sharedealing)</b>	131 Finsbury Pavement, London EC2A 1NT
<b>Bestinvest (Brokers) Limited</b>	6 Chesterfield Gardens, Mayfair, London W1J 5BQ
<b>Blankstone Singleton Ltd</b>	Walker House, Exchange Flags, Liverpool L2 3YL
<b>Brewin Dolphin Limited</b>	12 Smithfield Street, London EC1A 9BD
<b>Brown Shipley &amp; Co Ltd</b>	Founders Court, Lothbury, London EC2R 7HE
<b>Cave &amp; Sons Ltd</b>	Lockgates House, Rushmills, Northampton NN4 7YB
<b>Charles Stanley &amp; Co Ltd</b>	25 Luke Street, London EC2A 4AR
<b>Cornhill Capital Limited</b>	4th floor, 18 St Swithins Lane, London EC4N 8AD
<b>Dowgate Capital Stockbrokers Limited</b>	Talisman House, Jubilee Walk, Three Bridges, Crawley RH10 1LQ
<b>Edwards Securities Limited</b>	156 South Street, Dorking, Surrey RH4 2HF
<b>EFG Private Bank (trading as EFG Harris Allday)</b>	Leconfield House, Curzon Street, London W1J 5JB
<b>First Equity Limited</b>	Salisbury House, London Wall, London EC2M 5QQ
<b>Fiske Plc</b>	Salisbury House, London Wall, London EC2M 5QS
<b>Gerrard Investment Management Limited</b>	1 Churchill Place, London E14 5HP
<b>GHC Capital Markets Limited</b>	22-30 Horsefair Street, Leicester LE1 5BD
<b>Halifax Share Dealing Limited (trading as Halifax Share Dealing, Bank of Scotland Share Dealing, IWEB Share Dealing and Lloyds TSB Share Dealing)</b>	Trinity Road, Halifax HX1 2RG
<b>Hargreave Hale Limited</b>	9-11 Neptune Court, Hallam Way, Blackpool FY4 5LZ



<i>Name</i>	<i>Address</i>
<b>Hargreaves Lansdown Asset Management</b>	1 College Square South, Anchor Road, Bristol BS1 5HL
<b>Havelock Hunter Stockbrokers Ltd</b>	1 Mount Ephraim Road, Tunbridge Wells, Kent TN1 1ET
<b>Hedley and Company Stockbrokers Limited</b>	Springwell House, 2 Shear Bank Road, Blackburn BB1 8AD
<b>iDealing.com Ltd</b>	114 Middlesex Street, London E1 7HY
<b>Interactive Investor Trading Limited (trading as Interactive Investor and Shareprice)</b>	21 Mansell Street, London E1 8AA
<b>Investec Wealth &amp; Investment Ltd</b>	2 Gresham Street, London EC2V 7QN
<b>James Brearley &amp; Sons Limited</b>	Walpole House, 2 Burton Road, Blackpool FY4 4NW
<b>James Sharp &amp; Co</b>	The Exchange, 5 Bank Street, Bury, Lancashire BL9 0DN
<b>Jarvis Investment Management Limited (trading as Sharedeal Active and X-O.co.uk)</b>	78 Mount Ephraim, Tunbridge Wells, Kent TN4 8BS
<b>Killik &amp; Co LLP</b>	46 Grosvenor Street, London W1K 3HN
<b>M D Barnard &amp; Co Limited</b>	17-21 New Century Road, Laindon, Basildon, Essex SS15 6AG
<b>Midas Investment Management Limited</b>	Arthur House, Chorlton Street, Manchester M1 3FH
<b>NatWest Stockbrokers Ltd</b>	Premier Place, 2 1/2 Devonshire Square, London EC2M 4BA
<b>Old Park Lane Capital PLC</b>	49 Berkeley Square, London W1J 5AZ
<b>Paul E Schweder Miller &amp; Co</b>	46-50 Tabernacle Street, London EC2A 4SJ
<b>Pilling &amp; Co LP</b>	Henry Pilling House, 29 Booth Street, Manchester M2 4AF
<b>Quilter Cheviot Ltd</b>	1 St Helen's, 1 Undershaft, London EC3A 8BB
<b>Rathbone Investment Management Ltd</b>	1 Curzon Street, London W1J 5FB
<b>Redmayne-Bentley LLP</b>	9 Bond Court, Leeds LS1 2JZ
<b>Reyker Securities Plc</b>	17 Moorgate, London EC2R 6AR
<b>Rowan Dartington &amp; Co Ltd</b>	Colston Tower, Colston Street, Bristol BS1 4RD
<b>Sanlam Private Investments (UK) Ltd</b>	16 South Park, Sevenoaks, Kent TN13 1AN
<b>Shore Capital Stockbrokers Limited</b>	Bond Street House, 14 Clifford Street, London W1S 4JU
<b>Smith &amp; Williamson Investment Services Limited</b>	25 Moorgate, London EC2R 6AY
<b>Speirs &amp; Jeffrey Ltd</b>	George House, 50 George Square, Glasgow G2 1EH
<b>SVS Securities Plc</b>	21 Wilson Street, London EC2M 2SN
<b>Talos Securities Ltd (trading as Selftrade)</b>	Boatman's House, 2 Selsdon Way, London E14 9LA
<b>TD Direct Investing (Europe) Limited</b>	Exchange Court, Duncombe Street, Leeds LS1 4AX
<b>The Share Centre Limited</b>	Oxford House, Oxford Road, Aylesbury HP21 8SZ
<b>Thomas Grant and Company Ltd</b>	40A Friar Lane, Leicester LE1 5RA
<b>Vartan &amp; Son Stockbrokers</b>	The Singing Men's Chambers, 19 Minster Precincts, Peterborough PE1 1XX
<b>W.H. Ireland Limited</b>	11 St James's Square, Manchester M2 6WH
<b>Walker Crips Stockbrokers Limited</b>	Finsbury Tower, 103-105 Bunhill Row, London EC1Y 8LZ
<b>Xcap Securities Plc</b>	24 Cornhill, London EC3V 3ND

Any new information with respect to financial intermediaries unknown at the time of approval of this document, including in respect of: (i) any intermediary financial institution that is appointed by the Secretary of State in connection with the Intermediaries Offer after the date of this document following its agreement to adhere to and be bound by the terms of the Intermediaries Terms and Conditions; and (ii) any Intermediary that ceases to participate in the Intermediaries Offer, will be made available on the Offer Website.

Intermediaries are prohibited from charging any fees, charges or commissions to a retail investor for making an application for Ordinary Shares on behalf of such retail investor in the Intermediaries Offer. However, Intermediaries may charge retail investors a fee for holding the allocated Ordinary Shares for them (including any fees relating to the opening of an Individual Savings Account or a Self-Invested Personal Pension for that purpose), provided that the Intermediary has disclosed the fees and terms and conditions of providing those services to each retail investor prior to the underlying application being made. Any application made by investors through any Intermediary is subject to the terms and conditions agreed with each Intermediary.

## **18. PROPERTY, PLANT AND EQUIPMENT**

### **18.1 Material properties**

The Group owns an extensive property portfolio, comprising, among other things, a network of mail centres, delivery offices, depots, logistics hubs, offices, administrative properties and other sites throughout the UK and Europe.

In the UK, as at 31 March 2013 the Group operated from approximately 2,000 sites, including 48 mail centres, eight regional distribution centres, approximately 1,400 delivery offices, as well as a number of office buildings and other administrative premises. Since 1 April 2013, the Group has closed three mail centres in the UK and, as at the date of this document, has 45 mail centres in the UK. The Group owns approximately 50 per cent. of the properties from which it operates in the UK.

In the rest of Europe, as at 31 March 2013 the GLS Group operated from approximately 433 properties, including 37 hubs and also a number of local depots, office buildings and other administrative premises. The majority of these properties are leased by the GLS Group. The GLS Group owns approximately 18 per cent. of its properties in Europe (excluding the UK).

The main properties over which the Group has ownership include the properties within the London Development Portfolio and certain other sites from which the Group operates in the UK.

The Company does not believe that there are any material environmental issues which may affect the Company's utilisation of the tangible fixed assets.

### **18.2 Plant and equipment**

The Group uses a variety of plant and equipment in the operation of its business, including in the collection, sorting, transportation and delivery of parcels and letters. Further details can be found in Note 19 (*Property, plant and equipment*) to the Historical Financial Information (set out on pages F-48 to F-50 of Schedule III (*Historical Financial Information*) to this document).

## **19. SIGNIFICANT CHANGE**

Apart from the impact of the Pensions Reform which is disclosed as a post balance sheet event in Note 30 of Schedule III (*Historical Financial Information*), there has been no significant change in the financial or trading position of the Group since 30 June 2013, being the date to which the Historical Financial Information set out in Schedule III (*Historical Financial Information*) was prepared.

## **20. WORKING CAPITAL STATEMENT**

The Company is of the opinion that, taking into account the banking facilities available to the Group, the Group has sufficient working capital for its present requirements, that is, for at least the next 12 months from the date of publication of this document.

## **21. CONSENTS**

In connection with the publication of this document, Ernst & Young LLP has given and has not withdrawn its written consent to the inclusion in this document of:

- (A) the report set out on pages F-1 to F-2 of Schedule III (*Historical Financial Information*); and

(B) the report set out in Part VIII (*Unaudited Pro Forma Financial Information*),

and the references thereto in the form and context in which they appear and has authorised the contents of its reports for the purposes of item 5.5.3R(2)(f) of the Prospectus Rules. The consents are available for inspection at the times and locations set out in section 25 of this Part.

A written consent under the Prospectus Rules is different from a consent filed with the SEC under section 7 of the US Securities Act. As the offered Ordinary Shares have not been and will not be registered under the US Securities Act, and Ernst & Young LLP has not filed a consent under section 7 of the US Securities Act.

## **22. AUDITOR**

Ernst & Young LLP, whose registered office is 1 More London Place, London SE1 2AF, United Kingdom, has been the auditor of the Company since 10 September 2013 and was the auditor of RMG and its subsidiaries for the whole of the period covered by the Historical Financial Information set out in Schedule III (*Historical Financial Information*).

Ernst & Young LLP is registered to carry out audit work by the Institute of Chartered Accountants in England and Wales and has no material interest in the Group.

## **23. NO INCORPORATION OF WEBSITE INFORMATION**

The contents of the Group's websites and the Offer Website do not form part of this document.

## **24. SOURCES OF INFORMATION**

### **24.1 Financial information**

Unless otherwise stated, in this document financial information in relation to the Group referred to in the document has been extracted without material adjustment from the Historical Financial Information set out in Schedule III (*Historical Financial Information*) to this document or has been extracted from those of the Group's accounting records that have been used to prepare that financial information. Investors should ensure that they read the whole of this document and not only rely on the key information or information summarised within it.

Ernst & Young LLP's report on the Historical Financial Information is set out on pages F-1 to F-2 in Schedule III (*Historical Financial Information*) to this document. Unless otherwise indicated, none of the financial information relating to the Group or any operating information relating to the Group has been audited (even where such operating information includes certain financial metrics).

### **24.2 Unaudited operating information**

Unaudited operating information in relation to the Group is derived from the following sources: (i) management accounts for the relevant accounting periods presented; and (ii) internal financial reporting systems supporting the preparation of financial statements. Operating information derived from management accounts or internal reporting systems in relation to the Group is to be found principally in the Summary, Part II (*The Business*), Part VI (*Financial Information relating to the Group*) and Part VII (*Operating and Financial Review*).

Management accounts are prepared using information derived from accounting records used in the preparation of the Group's Historical Financial Information, but may also include certain other management assumptions and analyses.

### **24.3 Industry and market data**

Industry data have been obtained from industry publications, market participants and surveys. Such third party sources of information include: Office for National Statistics – Retail Sales; 2012 TGI Postscript; Ebiquity Rapport 2011-12; PricewaterhouseCoopers LLP Strategy & Economics – The Outlook for UK Mail Volumes to 2023, 15 July 2013; April 2013 DMA National Email Benchmarking Report; and Triangle Management Services/Royal Mail Group Fulfilment Market Measure, 2013.

Where third party information has been used in the document, the source of such information has been identified. The Company confirms that such information has been accurately reproduced and, so far as it is aware and has been able to ascertain from information published by such third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading.

## 25. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents may be inspected at the registered office of the Company at 100 Victoria Embankment, London EC4Y 0HQ, United Kingdom and at the offices of Slaughter and May, One Bunhill Row, London EC1Y 8YY, United Kingdom during normal business hours on any weekday (Saturdays, Sundays and UK public holidays excepted) up to and including the date of Admission:

- (A) the Articles;
- (B) the Historical Financial Information as set out in Schedule III (*Historical Financial Information*) and Ernst & Young LLP's report thereon;
- (C) the unaudited pro forma financial information and the report thereon by Ernst & Young LLP, as set out in Part VIII (*Unaudited Pro Forma Financial Information*);
- (D) the written consent letter of Ernst & Young LLP referred to in section 21 of this Part; and
- (E) a copy of this document, the Securities Note and the Summary.

Copies of this document are also available for inspection on the National Storage Mechanism at [www.hemscott.com/nsm.do](http://www.hemscott.com/nsm.do).

For the purposes of item 3.2.4 of the Prospectus Rules, this document, the Securities Note and the Summary will be published in printed form and available free of charge, during normal business hours on any weekday (Saturdays, Sundays and UK public holidays excepted) for a period of 28 days from the date of publication of this document at the Company's registered office and at the offices of the Underwriters and the Intermediaries. In addition, this document, the Securities Note and the Summary will be published in electronic form and be available on the Company's website at [www.royalmailgroup.com](http://www.royalmailgroup.com), subject to certain access restrictions applicable to persons resident outside the UK.

## 26. SECURITIES LAWS AND SELLING RESTRICTIONS

The distribution of the Prospectus and the offer of Ordinary Shares in certain jurisdictions may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any restrictions, including those set out in the paragraphs that follow. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

No action has been or will be taken by the Secretary of State, the Selling Shareholder, the Company, the Directors or any of the Underwriters in any jurisdiction (other than the UK and the EEA Passported Jurisdictions) that would permit a public offering of the Ordinary Shares, or possession or distribution of the Prospectus or any other offering material in any country or jurisdiction where action for that purpose is required. Accordingly, the Ordinary Shares may not be offered or sold, directly or indirectly, and neither the Prospectus nor any other offering material or advertisement in connection with the Ordinary Shares may be distributed or published, in or from any country or jurisdiction except in circumstances that will result in compliance with any and all applicable rules and regulations of any such country or jurisdiction. Persons into whose possession the Prospectus comes should inform themselves about and observe any restrictions on the distribution of the Prospectus and the Offer. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. The Prospectus does not constitute an offer to subscribe for or purchase any of the Ordinary Shares offered hereby to any person in any jurisdiction to whom it is unlawful to make such offer or solicitation in such jurisdiction.

### 26.1 United States

The Prospectus is not an offer of securities for sale in the United States. The Ordinary Shares have not been, and will not be, registered under the US Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered or sold in the United States except in transactions exempt from or not subject to the registration requirements of the US Securities Act. Accordingly, the Underwriters may offer Ordinary Shares (A) in the United States only through their US registered broker affiliates to persons reasonably believed to be QIBs in reliance on Rule 144A or pursuant to another exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act or (B) outside the United States in offshore transactions in reliance on Regulation S under the US Securities Act.

In addition, until 40 days after the commencement of the Offer, any offer or sale of Ordinary Shares within the United States by any dealer (whether or not participating in the Offer) may violate the registration

requirements of the US Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A or another available exemption from registration under the US Securities Act.

Each purchaser of Ordinary Shares within the United States, by accepting delivery of the Prospectus, will be deemed to have represented, agreed and acknowledged that it has received a copy of the Prospectus and such other information as it deems necessary to make an investment decision and that:

- (A) it is (i) a QIB within the meaning of Rule 144A, (ii) acquiring the Ordinary Shares for its own account or for the account of one or more QIBs with respect to whom it has the authority to make, and does make, the representations and warranties set forth herein, (iii) acquiring the Ordinary Shares for investment purposes, and not with a view to further distribution of such Ordinary Shares, and (iv) aware, and each beneficial owner of the Ordinary Shares has been advised, that the sale of the Ordinary Shares to it is being made in reliance on Rule 144A or in reliance on another exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act;
- (B) it understands that the Ordinary Shares are being offered and sold in the United States only in a transaction not involving any public offering within the meaning of the US Securities Act and that the Ordinary Shares have not been and will not be registered under the US Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered, sold, pledged or otherwise transferred except (i) to a person that it and any person acting on its behalf reasonably believes is purchasing for its own account or for the account of a QIB in a transaction meeting the requirements of Rule 144A, or another exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act, (ii) in an Offshore Transaction in accordance with Rule 903 or Rule 904 of Regulation S, (iii) pursuant to an exemption from registration under the US Securities Act provided by Rule 144 thereunder (if available) or (iv) pursuant to an effective registration statement under the US Securities Act, in each case in accordance with any applicable securities laws of any state of the United States. It further (a) understands that the Ordinary Shares may not be deposited into any unrestricted depositary receipt facility in respect of the Ordinary Shares established or maintained by a depositary bank, (b) acknowledges that the Ordinary Shares (whether in physical certificated form or in uncertificated form held in CREST) are “restricted securities” within the meaning of Rule 144(a)(3) under the US Securities Act and that no representation is made as to the availability of the exemption provided by Rule 144 for resales of the Ordinary Shares and (c) understands that the Company may not recognise any offer, sale, resale, pledge or other transfer of the Ordinary Shares made other than in compliance with the above-stated restrictions; and
- (C) it understands that the Ordinary Shares (to the extent they are in certificated form), unless otherwise determined by the Company in accordance with applicable law, will bear a legend substantially to the following effect:

**THE ORDINARY SHARES REPRESENTED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE US SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”) OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) TO A PERSON THAT THE SELLER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE) OR (4) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR REALES OF THE SHARES. NOTWITHSTANDING ANYTHING TO THE CONTRARY IN THE FOREGOING, THE ORDINARY SHARES REPRESENTED HEREBY MAY NOT BE DEPOSITED INTO ANY UNRESTRICTED DEPOSITARY RECEIPT FACILITY IN RESPECT OF THE ORDINARY SHARES ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK. EACH HOLDER, BY ITS ACCEPTANCE OF ORDINARY SHARES, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING RESTRICTIONS.**



The Company, the Underwriters and their affiliates and others will rely on the truth and accuracy of the foregoing acknowledgements, representations and agreements.

## 26.2 European Economic Area

In relation to each EEA State which has implemented the Prospectus Directive (each a “**relevant member state**”), no Ordinary Shares have been offered or will be offered pursuant to the Offer to the public in that relevant member state prior to the publication of a prospectus in relation to the Ordinary Shares which has been approved by the competent authority in that relevant member state or, where appropriate, approved in another relevant member state and notified to the competent authority in the relevant member state, all in accordance with the Prospectus Directive, except that offers of Ordinary Shares may be made to the public in that relevant member state at any time under the following exemptions under the Prospectus Directive, if they are implemented in that relevant member state:

- (A) to any legal entity which is a “qualified investor” as defined under the Prospectus Directive;
- (B) to fewer than 100, or, if the relevant member state has implemented the relevant provision of the 2010 PD Amending Directive, 150 natural or legal persons in a relevant member state (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the Joint Global Co-ordinators; or
- (C) in any other circumstances which do not require the publication by the Company of a prospectus pursuant to Article 3(2) of the Prospectus Directive,

provided that no such offer of Ordinary Shares shall result in a requirement for the publication of a prospectus pursuant to Article 3 of the Prospectus Directive or of a supplement to a prospectus pursuant to Article 16 of the Prospectus Directive.

In the case of any Ordinary Shares being offered to a financial intermediary as that term is used in Article 3(2) of the Prospectus Directive, each such financial intermediary will be deemed to have represented, acknowledged and agreed that the Ordinary Shares acquired by it in the Offer have not been acquired on a non-discretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to, persons in circumstances which may give rise to an offer to the public in a relevant member state prior to the publication of a prospectus in relation to the Ordinary Shares which has been approved by the competent authority in that relevant member state or, where appropriate, approved in another relevant member state and notified to the competent authority in the relevant member state, all in accordance with the Prospectus Directive, other than their offer or resale in a relevant member state to qualified investors, in circumstances in which the prior consent of the Underwriters has been obtained to each such proposed offer or resale.

The Company, the Underwriters and their affiliates will rely upon the truth and accuracy of the foregoing representations, acknowledgements and agreements.

For the purposes of the above provisions, the expression an “offer to the public” in relation to any Ordinary Shares in any relevant member state means the communication in any form and by any means of sufficient information on the terms of the offer and any Ordinary Shares to be offered so as to enable an investor to decide to purchase any Ordinary Shares, as the same may be varied for that relevant member state by any measure implementing the Prospectus Directive in the relevant member state. The expression “Prospectus Directive” means Directive 2003/71/EC (with amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the relevant member state) and includes any relevant implementing measure in each relevant member state. The expression “2010 PD Amending Directive” means Directive 2010/73/EU.

## 26.3 Australia

The Prospectus is not a prospectus for the purposes of the Corporations Act of Australia 2001 (the “**Australian Corporations Act**”) and may not, and does not purport to, contain all of the information that an Australian investor may find in a prospectus prepared in accordance with the Australian Corporations Act which may be required in order to make an informed investment decision regarding, or about the rights attaching to, the Ordinary Shares. As no prospectus has been or will be lodged with the Australian Securities & Investments Commission (“**ASIC**”) or otherwise prepared in accordance with the Australian Corporations Act in respect of the Offer, the Ordinary Shares will only be offered or issued to persons in Australia to whom an offer of shares for issue may be made without a prospectus under Part 6D.2 of the Australian

Corporations Act or to persons outside Australia in accordance with the laws of any other applicable jurisdiction.

If you are located in Australia, (i) you confirm and warrant that you are a person to whom an offer of securities may be made under section 708(11) of the Australian Corporations Act such that any offer or invitation to you does not require a prospectus or other form of disclosure document under the Australian Corporations Act and (ii) you agree that you will not offer to sell the Ordinary Shares to any person that is not a professional investor under section 708(11) of the Australian Corporations Act until the day after a notice is lodged by the Company with ASX that complies with subsections 708A(5)(e) and (6) of the Australian Corporations Act and unless such offer for sale does not otherwise require a prospectus or disclosure document under the Australian Corporations Act.

#### **26.4 Canada**

The information contained in the Prospectus is not, and under no circumstances is to be construed as, a prospectus, an advertisement, a public offering or an offer to sell Ordinary Shares in Canada or any province or territory thereof. The Ordinary Shares may not be offered or sold, directly or indirectly, in any province or territory of Canada or to or for the benefit of any resident of any province or territory of Canada, except pursuant to an exemption from the requirement to file a prospectus in the province or territory of Canada in which the offer or sale is made and only by a dealer duly registered under applicable securities laws or, alternatively, pursuant to an exemption from the dealer registration requirement in the relevant province or territory of Canada in which such offer or sale is made. The information contained herein is not tailored to the needs of the recipient and under no circumstances is such information to be construed as investment advice in any province or territory of Canada.

The Ordinary Shares will not be offered, sold or distributed, directly or indirectly, in Canada or to or for the benefit of any resident of Canada, other than in compliance with applicable securities laws. Neither the Prospectus, nor any other offering material in connection with the offer of the Ordinary Shares pursuant to the Offer, will be distributed or delivered in Canada other than in compliance with applicable securities laws. No securities commission or similar regulatory authority in Canada has reviewed or in any way passed upon the Prospectus, the information contained herein, or the merits of the Ordinary Shares and any representation to the contrary is an offence.

#### **26.5 Dubai International Financial Centre (“DIFC”)**

The Prospectus relates to an Exempt Offer in accordance with the Offered Securities Rules of the Dubai Financial Services Authority (“**DFSA**”). The Prospectus is intended for distribution only to persons of a type specified in the Offered Securities Rules of the DFSA. It must not be delivered to, or relied on by, any other person. The DFSA has no responsibility for reviewing or verifying any documents in connection with Exempt Offers. The DFSA has not approved the Prospectus nor taken steps to verify the information set forth herein and has no responsibility for the Prospectus. The Ordinary Shares to which the Prospectus relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the Ordinary Shares offered should conduct their own due diligence on the Ordinary Shares. If you do not understand the contents of the Prospectus you should consult an authorised financial adviser.

In relation to its use in the DIFC, the Prospectus is strictly private and confidential and is being distributed to a limited number of investors and must not be provided to any person other than the original recipient, and may not be reproduced or used for any other purpose. The interests in the Ordinary Shares may not be offered or sold directly or indirectly to the public in the DIFC.

#### **26.6 Japan**

The Ordinary Shares have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the “**Financial Instruments and Exchange Act**”). The Ordinary Shares may not be offered or sold, directly or indirectly, in Japan or to, or for the benefit of, any resident in Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and other relevant laws, regulations and ministerial guidelines of Japan.

## 26.7 Jersey

There shall be no circulation in Jersey of any offer for subscription, sale or exchange of the Ordinary Shares unless such offer does not for the purposes of Article 8 of the Control of Borrowing (Jersey) Order 1958, as amended, constitute an offer to the public.

## 26.8 Guernsey

To the extent to which any promotion of the Ordinary Shares is deemed to take place in Guernsey, the Ordinary Shares are only being promoted in or from within the Bailiwick of Guernsey either (i) by persons licensed to do so under the Protection of Investors (Bailiwick of Guernsey) Law, 1987 (as amended) or (ii) to persons licensed under the Protection of Investors (Bailiwick of Guernsey) Law, 1987 (as amended), the Insurance Business (Bailiwick of Guernsey) Law, 2002 (as amended), the Banking Supervision (Bailiwick of Guernsey) Law, 1994 (as amended) or the Regulation of Fiduciaries, Administration Businesses and Company Directors, etc. (Bailiwick of Guernsey) Law, 2000 (as amended). Promotion is not being made in any other way.

## 26.9 Hong Kong

No Ordinary Shares have been offered or sold or will be offered or sold in Hong Kong, by means of any document, other than (a) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance.

No advertisement, invitation or document relating to the Ordinary Shares has been issued or has been in the possession of any person for the purposes of issue, nor will any such advertisement, invitation or document be issued or be in the possession of any person for the purpose of issue, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Ordinary Shares which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance.

## 26.10 Singapore

The Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act, Cap. 289 of Singapore (the “SFA”) and, accordingly, the Ordinary Shares may not be offered or sold, nor may the Ordinary Shares be the subject of an invitation for subscription or purchase, nor may the Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase of the Ordinary Shares be circulated or distributed, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor under section 274 of the SFA, (ii) to a relevant person pursuant to section 275(1), or any person pursuant to section 275(1A), and in accordance with the conditions specified in section 275, of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Ordinary Shares are acquired by persons who are relevant persons specified in section 276 of the SFA, namely:

- (A) a corporation (which is not an accredited investor (as defined in section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (B) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor;

securities (as defined in section 239(1) of the SFA) of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Ordinary Shares pursuant to an offer made under section 275 of the SFA except:

- (i) to an institutional investor or to a relevant person defined in section 275(2) of the SFA, or to any person arising from an offer referred to in section 275(1A) or section 276(4)(i)(B) of the SFA;
- (ii) where no consideration is or will be given for the transfer;

- (iii) where the transfer is by operation of law;
- (iv) as specified in section 276(7) of the SFA; or
- (v) as specified in Regulation 32 of the Securities and Futures (Offer of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

#### **26.11 Switzerland**

The Ordinary Shares may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange ("**SIX**") or on any other stock exchange or regulated trading facility in Switzerland.

The Prospectus has been prepared without regard to the disclosure standards for issuance prospectuses under article 652a or article 1156 of the Swiss Code of Obligations or the disclosure standards for listing prospectuses under article 27 ff. of the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland. Neither the Prospectus nor any other offering or marketing material relating to the Ordinary Shares or the Offer may be publicly distributed or otherwise made publicly available in Switzerland.

Neither the Prospectus nor any other offering or marketing material relating to the Offer, the Company or the Ordinary Shares has been or will be filed with, and the offer of Ordinary Shares will not be supervised by, the Swiss Finance Market Supervisory Authority FINMA, and the offer of Ordinary Shares has not been and will not be authorised under the Swiss Federal Act on collective investment schemes ("**CISA**"). The investor protection afforded to acquirers of interests in collective investment schemes under the CISA does not extend to acquirers of Ordinary Shares.

#### **26.12 United Arab Emirates**

By receiving the Prospectus, the person or entity to whom it has been issued understands, acknowledges and agrees that none of the Ordinary Shares or the Prospectus has been approved by the U.A.E. Central Bank, the U.A.E. Ministry of Economy and Planning, the Emirates Securities and Commodities Authority ("**ESCA**") or any other authorities in the United Arab Emirates, nor has the placement agent, if any, received authorisation or licensing from the U.A.E. Central Bank, the U.A.E. Ministry of Economy and Planning, the ESCA or any other authorities in the United Arab Emirates to market or sell the Ordinary Shares or other investments within the United Arab Emirates. No marketing of the Ordinary Shares has been or will be made from within the United Arab Emirates other than in compliance with the laws of the United Arab Emirates and no subscription to the Ordinary Shares or other investments may or will be consummated within the United Arab Emirates. It should not be assumed that the placement agent, if any, is a licensed broker, dealer or investment adviser under the laws applicable in the United Arab Emirates, or that it advises individuals resident in the United Arab Emirates as to the appropriateness of investing in or purchasing or selling securities or other financial products. The interests in the Ordinary Shares may not be offered or sold directly or indirectly to the public in the United Arab Emirates. This does not constitute a public offer of securities in the United Arab Emirates in accordance with the Commercial Companies Law, Federal Law No. 8 of 1984 (as amended) or otherwise.

## SCHEDULE I

### DEFINITIONS

The definitions set out below apply throughout this document, unless the context requires otherwise.

<b>“Admission”</b>	means the admission of the Ordinary Shares to the premium listing segment of the Official List and the admission of such shares to trading on the London Stock Exchange’s main market for listed securities (in accordance with the Standards);
<b>“Application Form”</b>	means the form of application for Ordinary Shares in connection with the Direct Retail Offer, including an Online Application;
<b>“Articles of Association” or “Articles”</b>	means the articles of association of the Company in force as of Admission;
<b>“Barclays”</b>	means Barclays Bank PLC;
<b>“Board”</b>	means the board of directors of the Company from time to time;
<b>“BofA Merrill Lynch”</b>	means Merrill Lynch International, London, United Kingdom (acting under the marketing name BofA Merrill Lynch);
<b>“Business”</b>	means the business of the Group (including Royal Mail, Parcelforce Worldwide and GLS);
<b>“Business Day”</b>	means any day other than a Saturday or Sunday on which banks are generally open for the transaction of business in London, other than solely for the purposes of trading and settlement in Euro;
<b>“Business Transformation Agreement”</b>	has the meaning given in section 16.6(A) of Part XI ( <i>Additional Information</i> );
<b>“CAGR”</b>	means compound annual growth rate;
<b>“certificated” or “in certificated form”</b>	means recorded on the relevant register as being held in certificated form and title to which may be transferred by means of a stock transfer form;
<b>“Chairman”</b>	means Donald Brydon CBE, whose details are set out in Part IV ( <i>Directors, Senior Managers, Corporate Governance and Remuneration</i> );
<b>“CMA”</b>	means the Communication Managers’ Association section of Unite the Union;
<b>“Co-Lead Managers”</b>	means Investec Bank plc, Nomura International plc and RBC Europe Limited;
<b>“Companies Act”</b>	means the Companies Act 2006 of England and Wales, as amended, supplemented or replaced from time to time;
<b>“Company”</b>	means Royal Mail plc, a company incorporated in England and Wales with registered number 08680755 whose registered office is 100 Victoria Embankment, London EC4M 0HQ, United Kingdom;
<b>“Corporate Reorganisation”</b>	means the corporate reorganisation of the Group in connection with Admission that occurred between 12 September 2013 and 19 September 2013, further details of which are set out in section 3.3 of Part XI ( <i>Additional Information</i> );
<b>“CPI”</b>	means the Consumer Price Index;



<b>“CREST”</b>	means the system for the paperless settlement of trades in securities and the holding of uncertificated securities in accordance with the CREST Regulations operated by Euroclear UK;
<b>“CREST Regulations”</b>	means The Uncertificated Securities Regulations 2001 (SI 2001 No. 3755) as amended from time to time;
<b>“CSC”</b>	means CSC Business Systems Limited;
<b>“CWU”</b>	means the Communication Workers Union;
<b>“Direct Retail Offer”</b>	means the offer by the Selling Shareholder of Ordinary Shares to retail investors in the UK and to Permitted Service Personnel, described in, and pursuant to the terms and conditions of the Direct Retail Offer set out in, Part III ( <i>Information About the Offer</i> ) of the Securities Note;
<b>“Directors”</b>	means the directors of the Company whose names are set out in Part IV ( <i>Directors, Senior Managers, Corporate Governance and Remuneration</i> );
<b>“Disclosure and Transparency Rules”</b>	means the disclosure rules and transparency rules made by the FCA under Part VI of FSMA (as set out in the FCA Handbook), as amended;
<b>“EBIT”</b>	means earnings before interest and taxation;
<b>“EEA Passported Jurisdictions”</b>	means Belgium, Cyprus, Germany, Gibraltar and Italy (being jurisdictions into which the UK Listing Authority will, before a public offer is made in such jurisdiction, have provided to the competent authority in each such jurisdiction a certificate of approval attesting that the Prospectus has been drawn up in accordance with the provisions of the Prospectus Directive and Commission Regulation (EC) No. 809/2004);
<b>“EEA State”</b>	means a state which is a contracting party to the agreement on the European Economic Area signed at Oporto on 2 May 1992, as it has effect for the time being;
<b>“Eligible Employee”</b>	means an employee or director of the Company or RMG (either full-time or part-time) as at 10 July 2013 who remains employed continuously by the Company and/or RMG, in the case of: (i) the Employee Free Shares Offer, up to the date of the award of Employee Free Shares on or around Admission; and (ii) the Employee Priority Offer, up to 12 September 2013 and has a UK address and is located in the UK, and in either case has any earnings which are or would be (if there were any earnings) subject to UK tax;
<b>“Employee Free Shares”</b>	means the Ordinary Shares which have been offered to Eligible Employees for free under the Employee Free Shares Offer to be awarded on or around Admission on and subject to the terms of the Royal Mail Share Incentive Plan;
<b>“Employee Free Shares Offer”</b>	means the offer of Employee Free Shares to Eligible Employees;
<b>“Employee Priority Offer”</b>	means that part of the Direct Retail Offer that is allocated to Eligible Employees on a priority basis;
<b>“EU” or “European Union”</b>	means the European Union first established by the treaty made at Maastricht on 7 February 1992;
<b>“Euro” or “€”</b>	means the single currency of the member states of the European Union that adopt or have adopted the euro as their lawful currency under the legislation of the EU or European Monetary Union;

<b>“Euroclear UK”</b>	means Euroclear UK & Ireland Limited (formerly named CRESTCo Limited), the operator of CREST;
<b>“Executive Directors”</b>	means Moya Greene, Matthew Lester and Mark Higson, whose details are set out in Part IV ( <i>Directors, Senior Managers, Corporate Governance and Remuneration</i> );
<b>“FCA” or “Financial Conduct Authority”</b>	means the Financial Conduct Authority of the UK;
<b>“FCA Handbook”</b>	means the FCA’s Handbook of Rules and Guidance;
<b>“FSMA”</b>	means the Financial Services and Markets Act 2000, as amended;
<b>“FTE”</b>	means full-time equivalent;
<b>“FYE”</b>	means, in relation to: <ul style="list-style-type: none"> <li>(i) 2011, the financial year (that is the period of 52 weeks) ended 27 March 2011;</li> <li>(ii) 2012, the financial year (that is the period of 52 weeks) ended 25 March 2012;</li> <li>(iii) 2013, the financial year (that is the period of 53 weeks) ended 31 March 2013;</li> <li>(iv) 2014, the financial year (that is the period of 52 weeks) ended 30 March 2014; or</li> <li>(v) any other year, the relevant financial year of the Group (being a period of 52 or 53 weeks) ended or ending on the last Sunday of March in that year,</li> </ul> <p>save that references to FYE 2013 financial and other information (including in relation to parcel volumes) relating exclusively to GLS and/or the GLS Group are references to the GLS Group’s financial year (that is the period of 12 months ended 31 March 2013);</p>
<b>“GAAP”</b>	means generally accepted accounting principles;
<b>“GDP”</b>	means gross domestic product;
<b>“GLS” or “GLS Business”</b>	means General Logistics Systems, being the business of the GLS Group including the business conducted pursuant to arrangements with network and service partners, and franchisees of the GLS Group, further details of which are set out in section 5.2 of Part II ( <i>The Business</i> );
<b>“GLS B.V.”</b>	means General Logistics Systems B.V., a subsidiary of the Company;
<b>“GLS Facility”</b>	means the £500 million credit facility dated 7 February 2005 (as amended from time to time) between RMG (as borrower) and the Secretary of State (as lender), further details of which are set out in section 16.5(B) of Part XI ( <i>Additional Information</i> );
<b>“GLS Group”</b>	means GLS B.V. and its subsidiaries;
<b>“GLS Network”</b>	means the European network and infrastructure (including hubs and depots) of the GLS Group, its network and service partners and franchisees for the collection, sorting, transportation and delivery of parcels for the purposes of the GLS Business, as further described in section 5.5 of Part II ( <i>The Business</i> );
<b>“Group”</b>	means the Company and its subsidiaries;

<b>“Historical Financial Information”</b>	means the consolidated financial information of RMG and its subsidiaries for Q1 FYE 2014, FYE 2013, FYE 2012 and FYE 2011 (as reported on by Ernst & Young LLP) and Q1 FYE 2013, as set out in Schedule III ( <i>Historical Financial Information</i> );
<b>“HMRC”</b>	means Her Majesty’s Revenue & Customs;
<b>“IAS”</b>	means International Accounting Standard;
<b>“IASB”</b>	means the International Accounting Standards Board;
<b>“IFRIC”</b>	means the International Financial Reporting Interpretations Committee;
<b>“IFRS”</b>	means International Financial Reporting Standards issued by the IASB and adopted for use in the EU;
<b>“Institutional Offer”</b>	means the offer by the Selling Shareholder of Ordinary Shares to certain institutional investors, including QIBs in the United States, described in Part III ( <i>Information About the Offer</i> ) of the Securities Note;
<b>“Intermediaries”</b>	means the entities listed in section 17 of Part XI ( <i>Additional Information</i> ), together with any other intermediary financial institution (if any) that is appointed by the Secretary of State in connection with the Intermediaries Offer after the date of this document and agrees to adhere to and be bound by the Intermediaries Terms and Conditions;
<b>“Intermediaries Offer”</b>	means the offer by the Selling Shareholder of Ordinary Shares to Intermediaries described in Part III ( <i>Information About the Offer</i> ) of the Securities Note;
<b>“Intermediaries Terms and Conditions”</b>	means the terms and conditions agreed between the Secretary of State, the Selling Shareholder and the Intermediaries in relation to the Intermediaries Offer;
<b>“Internal Revenue Code”</b>	means the US Internal Revenue Code of 1986, as amended;
<b>“Investor”</b>	means any person who acquires Ordinary Shares pursuant to the Offer;
<b>“IP”</b>	means intellectual property;
<b>“IRS”</b>	means the Internal Revenue Service of the United States Department of Treasury;
<b>“IT”</b>	means information technology;
<b>“ITST Programme”</b>	means the Group’s IT service transformation programme, further details of which are set out in section 12.3 of Part II ( <i>The Business</i> );
<b>“Joint Bookrunners”</b>	means Barclays Bank PLC, Goldman Sachs International, BofA Merrill Lynch and UBS Limited;
<b>“Joint Global Co-ordinators”</b>	means Goldman Sachs International and UBS Limited;
<b>“KPIs”</b>	means key performance indicators;
<b>“LED” or “Lower Earnings Deductions”</b>	means the annual rate of the lower earnings limit (the least amount an employee must earn before they are required to pay National Insurance). In relation to the Royal Mail Section, it is subject to a maximum of £3,328 per year (reduced proportionally for part-time workers);
<b>“Listing Rules”</b>	means the listing rules made by the UK Listing Authority under Part VI of FSMA (as set out in the FCA Handbook), as amended;

<b>“London Development Portfolio”</b>	has the meaning given in section 13 of Part II ( <i>The Business</i> );
<b>“London Stock Exchange”</b>	means the London Stock Exchange plc or its successor(s);
<b>“LTIP”</b>	means the Long Term Incentive Plan, the principal terms of which are summarised in section 10.2 of Part XI ( <i>Additional Information</i> );
<b>“Mails Distribution Agreement”</b>	means the Mails Distribution Agreement entered into between RMG and POL on 19 January 2012, further details of which are set out in section 16.2(A) of Part XI ( <i>Additional Information</i> );
<b>“Mails Facilities”</b>	means the £1,044 million credit facilities agreement dated 20 December 2002 (as amended and restated from time to time) between RMG (as borrower) and the Secretary of State (as lender), further details of which are set out in section 16.5(A) of Part XI ( <i>Additional Information</i> );
<b>“Major Shareholder”</b>	means any Shareholder who is, directly or indirectly, interested (within the meaning of the Companies Act) in three per cent. or more of the issued share capital of the Company;
<b>“Master Services Agreement”</b>	means the Master Services Agreement entered into between RMG and POL on 20 January 2012, further details of which are set out in section 16.2(B) of Part XI ( <i>Additional Information</i> );
<b>“Member States”</b>	means member states of the European Union;
<b>“Model Code”</b>	means the code set out at Annex 1 to Rule 9 of the Listing Rules;
<b>“New Facilities”</b>	has the meaning given in section 16.5(D) of Part XI ( <i>Additional Information</i> );
<b>“Nominee”</b>	means Equiniti Limited;
<b>“Nomura”</b>	means Nomura International plc;
<b>“Non-Executive Directors”</b>	means Donald Brydon CBE, Orna Ni-Chionna, John Allan CBE, Jan Babiak, Nick Horler, Cath Keers, Paul Murray and Les Owen, whose details are set out in Part IV ( <i>Directors, Senior Managers, Corporate Governance and Remuneration</i> );
<b>“Ofcom”</b>	means the Office of Communications established under the Communications Act 2003 acting in its capacity as the regulator of postal services in the UK pursuant to the PSA;
<b>“Offer”</b>	means the offer of the Ordinary Shares pursuant to the Institutional Offer and the Retail Offer to investors in the UK and elsewhere as described in Part III ( <i>Information About the Offer</i> ) of the Securities Note. For the avoidance of doubt, the Employee Free Shares Offer is not part of the Offer;
<b>“Offer Price”</b>	means the price at which the Ordinary Shares are to be offered and sold under the Offer;
<b>“Offer Size”</b>	means the number of Ordinary Shares to be sold pursuant to the Offer;
<b>“Offer Size Range”</b>	means the range within which the Offer Size is currently expected to be set, being between 401,000,000 Ordinary Shares and 521,739,130 Ordinary Shares (excluding any Ordinary Shares which may be over-allotted pursuant to the Over-allotment Arrangements);
<b>“Offer Website”</b>	means the Offer website at <a href="http://www.gov.uk/royalmailshares">www.gov.uk/royalmailshares</a> ;
<b>“Official List”</b>	means the official list of the UK Listing Authority;

<b>“OFT”</b>	means the Office of Fair Trading;
<b>“Online Application”</b>	means an application for Ordinary Shares in the Direct Retail Offer completed and submitted online on the Offer Website;
<b>“Ordinary Shares”</b>	means the ordinary shares with a nominal value of 1p each in the capital of the Company;
<b>“Over-allotment Arrangements”</b>	means the arrangements described in Part III ( <i>Information About the Offer</i> ) of the Securities Note pursuant to which Ordinary Shares representing up to an additional 15 per cent. of the Ordinary Shares comprised in the Offer may be made available to Investors;
<b>“Over-allotment Option”</b>	means the option granted by the Selling Shareholder to the Stabilising Manager to buy Ordinary Shares at the Offer Price, in accordance with the Over-allotment Arrangements;
<b>“Overseas Shareholders”</b>	means holders of Ordinary Shares with registered addresses outside the UK or who are citizens of, incorporated in, registered in or otherwise resident in, countries outside the UK;
<b>“PAF”</b>	means the Postcode Address File, a database of addresses in the UK;
<b>“Parcelforce Worldwide”</b>	means the business of the Group conducted by UKPIL under the “Parcelforce Worldwide” brand;
<b>“pence” or “p”</b>	means the lawful currency of the UK;
<b>“Pensions Reform”</b>	means the arrangements detailed in section 11.3(A) of Part II ( <i>The Business</i> );
<b>“Pensions Regulator”</b>	means the regulator established under Part 1 of the Pensions Act 2004 (as amended) in the United Kingdom;
<b>“Pensions Transfer”</b>	means the transfer of RMPP’s historic liabilities to HM Government under Part 2 of the PSA, as detailed in section 11.2 of Part II ( <i>The Business</i> );
<b>“Permitted Service Personnel”</b>	means members of the regular forces as defined in section 374 of the Armed Forces Act 2006 who are located outside the UK who have been specifically notified by or on behalf of the Secretary of State that they are eligible to apply for Ordinary Shares in the Direct Retail Offer as if they were located in the UK (which excludes members of the regular forces located in the United States, Canada, Australia and Japan);
<b>“POL” or “the Post Office”</b>	means Post Office Limited;
<b>“Post Office Section”</b>	means the Post Office section of RMPP following RMPP being divided into two segregated sections on 1 April 2012 in accordance with the amendments to the trust deed and rules of RMPP as effected by Article 13 of the Postal Services Act 2011 (Transfer of Accrued Pension Rights) Order 2012;
<b>“Postcomm”</b>	means the Postal Services Commission, established under the Postal Services Act 2000, and abolished by section 64 of the PSA;
<b>“Pounds” or “£” or “Pounds Sterling”</b>	means the lawful currency of the UK;
<b>“Pre-Admission Articles”</b>	means the articles of association of the Company adopted on 17 September 2013 which, on Admission, will be replaced by the Articles;
<b>“Price Range”</b>	means the range within which the Offer Price is currently expected to be set, being between £2.60 to £3.30 per Ordinary Share;



<b>“Pricing Statement”</b>	means the statement expected to be published by the Company on or around 11 October 2013, in which the Offer Price will be announced;
<b>“Prospectus”</b>	means the prospectus issued by the Company in relation to the Offer, comprising this document, the Securities Note and the Summary prepared, published and approved by the UK Listing Authority in accordance with the Prospectus Rules;
<b>“Prospectus Directive”</b>	means the EU Prospectus Directive (2003/71/EC) (and amendments thereto);
<b>“Prospectus Directive Regulation”</b>	means the EU Prospectus Directive Regulation (No. 2004/809/EC);
<b>“Prospectus Rules”</b>	means the prospectus rules made by the UK Listing Authority under Part VI of FSMA (as set out in the FCA Handbook), as amended;
<b>“PSA”</b>	means the Postal Services Act 2011 of the UK;
<b>“Q1 FYE 2013”</b>	means the 13 weeks ended 24 June 2012;
<b>“Q1 FYE 2014”</b>	means the 13 weeks ended 30 June 2013;
<b>“Quadrant”</b>	means Quadrant Catering Limited;
<b>“Qualified Institutional Buyer” or “QIB”</b>	has the meaning ascribed to it by Rule 144A;
<b>“Receiving Agent”</b>	means Equiniti Limited;
<b>“Reduction of Capital”</b>	means the reduction of capital undertaken by the Company on 18 September 2013, prior to the re-registration of the Company from a private limited company to a public limited company, further details of which are set out in section 3.2(B) of Part XI ( <i>Additional Information</i> );
<b>“Registrar”</b>	means Equiniti Limited;
<b>“Regulation S”</b>	means Regulation S under the US Securities Act;
<b>“Related Party Transaction”</b>	has the meaning ascribed to “related party transactions” in paragraph 9 of IAS 24, being the Standard adopted according to Regulation (EC) No. 1606/2002;
<b>“Relationship Agreement”</b>	means the relationship agreement between the Company, the Secretary of State and the Selling Shareholder dated 27 September 2013, further details of which are set out in section 16.1(A) of Part XI ( <i>Additional Information</i> );
<b>“Reported Business”</b>	means the unit (a part of UKPIL) defined by Ofcom as providing the universal service. The Reported Business includes the activities carried out by RMG, and corporate entities owned by RMG, which support the provision of the universal service. The Reported Business excludes the activities undertaken by RME, RMIL and GLS B.V., and other subsidiary and associated undertakings of RMG. The Reported Business also excludes the activities undertaken by Parcelforce Worldwide within UKPIL;
<b>“Restructuring Plan”</b>	has the meaning given in section 2.9 of the part of this document entitled “Risk Factors”;
<b>“Retail Offer”</b>	means the retail offer by the Selling Shareholder in the UK pursuant to the Direct Retail Offer and the Intermediaries Offer and, in relation to the Direct Retail Offer only, to Permitted Service Personnel;

<b>“RMDCP”</b>	means the Royal Mail Defined Contribution Plan, governed and administered in accordance with the provisions of a definitive trust deed and rules dated 31 March 2009, as amended;
<b>“RME”</b>	means Royal Mail Estates Limited, a subsidiary of the Company;
<b>“RMG”</b>	means Royal Mail Group Limited, a subsidiary of the Company, which operates UKPIL and is the UK’s designated universal postal service provider;
<b>“RMIL”</b>	means Royal Mail Investments Limited, a subsidiary of the Company;
<b>“RMPP” or “Royal Mail Pension Plan”</b>	means the Royal Mail Pension Plan;
<b>“RMSEPP” or “Royal Mail Senior Executives Pension Plan”</b>	means the Royal Mail Senior Executives Pension Plan, governed and administered in accordance with the provisions of a definitive trust deed and rules dated 31 March 2010, as amended;
<b>“RMSPS”</b>	means the Royal Mail Statutory Pension Scheme, governed by the rules set out in Schedule 1 to the Postal Services Act 2011 (Transfer of Accrued Pension Rights) Order 2012;
<b>“Romec”</b>	means Romec Limited, a subsidiary of the Company;
<b>“Royal Associations”</b>	has the meaning given in section 1.21 of the part of this document entitled “Risk Factors”;
<b>“Royal Associations Agreement”</b>	means the agreement between RMG and the Secretary of State dated 27 September 2013 relating to the use of the Royal Associations by the Group, further details of which are set out in section 16.4(B) of Part XI ( <i>Additional Information</i> );
<b>“Royal Mail”</b>	means the business of the Group conducted by UKPIL under the “Royal Mail” brand and which includes the collection, sorting and delivery of letters and parcels as part of the USO;
<b>“Royal Mail Core Network”</b>	means the UK network and infrastructure of Royal Mail (including mail centres and delivery offices) for the collection, sorting, transportation and delivery of parcels and letters, as further described in section 4.2(A) of Part II ( <i>The Business</i> );
<b>“Royal Mail Nominee Share Service”</b>	means the arrangements for the holding of Ordinary Shares by the Nominee, the terms and conditions of which are set out in Part V ( <i>Terms and Conditions of the Royal Mail Nominee Share Service</i> ) of the Securities Note;
<b>“Royal Mail Section”</b>	means the Royal Mail section of RMPP following RMPP being divided into two segregated sections on 1 April 2012 in accordance with the amendments to the trust deed and rules of RMPP as effected by Article 13 of the Postal Services Act 2011 (Transfer of Accrued Pension Rights) Order 2012;
<b>“Royal Mail Share Incentive Plan”</b>	means the Royal Mail Share Incentive Plan to be constituted by a trust deed to be made between the Company and Equiniti Share Plan Trustees Limited (as trustee) and established as part of the arrangements which the Secretary of State is required to make by section 3 of the PSA, further details of which are set out in section 3 of Part IV ( <i>Employee Free Shares Offer</i> ) of the Securities Note and section 6 of Part VIII ( <i>Additional Information</i> ) of the Securities Note;
<b>“RPI”</b>	means the Retail Price Index;
<b>“Rule 144A”</b>	means Rule 144A under the US Securities Act;

<b>“SDRT”</b>	means stamp duty reserve tax;
<b>“SEC”</b>	means United States Securities and Exchange Commission;
<b>“Secretary of State”</b>	means the Secretary of State for Business, Innovation and Skills;
<b>“Securities Note”</b>	means the Securities Note produced under the Prospectus Rules, which, together with this document and the Summary, constitutes the Prospectus;
<b>“Selling Shareholder”</b>	means Postal Services Holding Company plc (formerly named Royal Mail Holdings plc), which is wholly-owned by the Secretary of State;
<b>“Senior Independent Director”</b>	means Orna Ni-Chionna, whose details are set out in Part IV ( <i>Directors, Senior Managers, Corporate Governance and Remuneration</i> );
<b>“Senior Managers”</b>	means the individuals listed in section 2 of Part IV ( <i>Directors, Senior Managers, Corporate Governance and Remuneration</i> ) and “Senior Management” is to be construed accordingly;
<b>“Share Account Statement”</b>	means a statement of a person’s holding of Ordinary Shares in the Royal Mail Nominee Share Service;
<b>“Shareholder(s)”</b>	means holder(s) of Ordinary Shares from time to time;
<b>“SME”</b>	means small and medium-sized enterprises;
<b>“Sponsor”</b>	means Barclays Bank PLC;
<b>“Stabilising Manager”</b>	means UBS Limited;
<b>“Standards”</b>	means the current edition of the Admission and Disclosure Standards produced by the London Stock Exchange;
<b>“State Aid”</b>	has the meaning attributed to it in section 1.1 of part B of Part X ( <i>Regulation, State Aid and Procurement</i> );
<b>“STIP”</b>	means the Short Term Incentive Plan, the principal terms of which are summarised in section 9.1 of Part XI ( <i>Additional Information</i> );
<b>“Stock Lending Agreement”</b>	means the stock lending agreement to be dated the date of the Pricing Statement between the Selling Shareholder and the Stabilising Manager;
<b>“Subordinated Facility”</b>	means the £300 million subordinated term loan facility deed dated 19 March 2007 between RMG (as borrower) and the Secretary of State (as lender), further details of which are set out in section 16.5(C) of Part XI ( <i>Additional Information</i> );
<b>“Summary”</b>	means the Summary produced under the Prospectus Rules, which, together with this document and the Securities Note, constitutes the Prospectus;
<b>“TFEU”</b>	means the Treaty on the Functioning of the European Union;
<b>“Trade Unions”</b>	means the CWU and the CMA;
<b>“Transaction”</b>	means the Offer and Admission;
<b>“Transformation Programme”</b>	means the transformation programme implemented by the Group from FYE 2008 in relation to Royal Mail and the Royal Mail Core Network, further details of which are set out in section 4.3 of Part II ( <i>The Business</i> );
<b>“UK”</b>	means the United Kingdom of Great Britain and Northern Ireland;

<b>“UK Corporate Governance Code”</b>	means the UK Corporate Governance Code published by the Financial Reporting Council, as in force from time to time;
<b>“UK Listing Authority”</b>	means the Financial Conduct Authority acting in its capacity as the competent authority for the purposes of Part VI of FSMA;
<b>“UKPIL”</b>	means the UK Parcels, International and Letters division of the Group which includes Royal Mail and Parcelforce Worldwide, further details of which are set out in section 4 of Part II ( <i>The Business</i> );
<b>“uncertificated” or “in uncertificated form”</b>	means recorded on the relevant register of the share or security concerned as being held in uncertificated form in CREST and title to which, by virtue of the CREST Regulations, may be transferred by means of CREST;
<b>“Underwriters”</b>	means the Joint Global Co-ordinators, the Joint Bookrunners and the Co-Lead Managers, whether acting in their capacities as underwriters or otherwise;
<b>“Underwriting Agreement”</b>	means the agreement between the Secretary of State, the Selling Shareholder, the Company and the Underwriters and dated 27 September 2013, further details of which are set out in section 16.1(B) of Part XI ( <i>Additional Information</i> );
<b>“United States” or “US”</b>	means the United States of America, its territories and possessions, any state of the United States and the District of Columbia;
<b>“UPU” or the “Universal Postal Union”</b>	means the Universal Postal Union, further details of which are set out in section 4 of Part X ( <i>Regulation, State Aid and Procurement</i> );
<b>“US Dollars” or “USD” or “US\$”</b>	means the lawful currency of the United States;
<b>“US Exchange Act”</b>	means the US Securities Exchange Act of 1934, as amended;
<b>“US Securities Act”</b>	means the US Securities Act of 1933, as amended;
<b>“USO” or “Universal Service Obligation”</b>	means the obligation imposed on RMG to provide the universal postal service in the UK pursuant to, and in accordance with, certain minimum standards set out in conditions imposed by Ofcom under section 36 of the PSA, further details of which are set out in section 2.2 of Part X ( <i>Regulation, State Aid and Procurement</i> ); and
<b>“VAT”</b>	means value added tax.

## SCHEDULE II

### GLOSSARY

<b>“access customers”</b>	customers or other postal operators who use network access services;
<b>“access mail”</b>	second class letters and large letters delivered by Royal Mail to end-recipients pursuant to the provision of network access;
<b>“B2B”</b>	business to business;
<b>“B2C”</b>	business to consumer;
<b>“C2X”</b>	consumer to all parties;
<b>“Consumer Futures”</b>	Consumer Futures, the operating name for the National Consumer Council, a statutory organisation created through the merger of energywatch, Postwatch and the National Consumer Council. Before May 2013 the organisation operated as “Consumer Focus”. It is the statutory consumer body in postal services and energy in the UK. In April 2014, it is due to become part of the Citizens Advice Service;
<b>“courier”</b>	in relation to parcels, the most time-sensitive form of delivery, often with a requirement for same-day delivery or delivery within a specified number of hours;
<b>“D+2 and later”</b>	in relation to letters and parcels, those services where the postal operator aims to ensure that the letter or parcel is delivered in a minimum of two working days after collection;
<b>“deferred”</b>	in relation to parcels, the least time-sensitive type of delivery, including delivery of parcels on a second class basis;
<b>“downstream”</b>	the activities of inward sorting and delivery of letters and parcels conducted by Royal Mail, more fully described in section 4.2(B) of Part II ( <i>The Business</i> );
<b>“end to end”</b>	where a single postal operator or deliverer is responsible for all phases of the journey of a parcel or letter, including upstream and downstream activities, without the involvement of any other postal operator or deliverer;
<b>“express”</b>	in relation to parcels, deliveries made on a time-certain or day-definite basis and includes delivery of parcels on a first class basis;
<b>“first class” or “1st class”</b>	a service offered by Royal Mail which aims to deliver a letter or parcel on the working day (including Saturdays) after the day on which it is collected by Royal Mail;
<b>“fully allocated costs”</b>	costs derived from a costing methodology in which all costs are allocated to the outputs of the business;
<b>“inland”</b>	in relation to a parcel or letter, means a parcel or letter collected by Royal Mail in the UK for delivery to an end-recipient in the UK;
<b>“inward mail centre”</b>	a Royal Mail mail centre performing inward sorting activities for letters (including access mail) and parcels, as more fully described in section 4.2(B) of Part II ( <i>The Business</i> );
<b>“large letter”</b>	a letter weighing up to 750 grams and satisfying certain requirements as to its dimensions;
<b>“mail”</b>	is a generic term used in the postal industry and covers letters (both addressed and unaddressed) and parcels;



<b>“network access” or “access”</b>	the provision of access to the downstream part of the Royal Mail Core Network for customers and other postal operators who deposit letters and parcels at inward mail centres for delivery by Royal Mail to end-recipients. RMG is mandated by Ofcom to provide network access for certain second class letter and large letter products;
<b>“network access services” or “access services”</b>	the services offered by Royal Mail by which customers and other postal operators are provided with network access;
<b>“outward mail centre”</b>	a Royal Mail mail centre performing outward sorting activities for letters and parcels, as more fully described in section 4.2(B) of Part II ( <i>The Business</i> );
<b>“postal operator”</b>	in the regulatory context, a person who provides the service of conveying postal packets from one place to another by post or any of the incidental services of receiving, collecting, sorting and delivering postal packets;
<b>“second class” or “2nd class”</b>	a service offered by Royal Mail which aims to deliver a letter or parcel within two or three working days (including Saturdays) after the day on which it is collected by Royal Mail;
<b>“universal postal service” or “universal service”</b>	refers to the provision of a postal service which satisfies certain minimum requirements which, in the UK, are set out in the PSA. Further detail regarding the universal postal service in the UK can be found in section 2.2 of Part X ( <i>Regulation, State Aid and Procurement</i> ); and
<b>“upstream”</b>	the activities of collection, outward sorting and trunking of letters and parcels conducted by Royal Mail, more fully described in section 4.2(B) of Part II ( <i>The Business</i> ).

## SCHEDULE III

### HISTORICAL FINANCIAL INFORMATION



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27 September 2013

Dear Sirs

#### Royal Mail Group Limited

We report on the financial information set out on pages F-3 to F-68 for the periods ended 27 March 2011, 25 March 2012 and 31 March 2013 and the 13 weeks ended 30 June 2013 (the “**Financial Information**”). The Financial Information has been prepared for inclusion in the Prospectus of Royal Mail plc dated 27 September 2013 on the basis of the accounting policies set out in Note 1 to the Financial Information. This report is required by item 20.1 of Annex I of Commission Regulation (EC) 809/2004 and is given for the purpose of complying with that item and for no other purpose.

Save for any responsibility arising under Prospectus Rule 5.5.3R (2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 23.1 of Annex I to Commission Regulation (EC) 809/2004, consenting to its inclusion in the Prospectus.

We have not audited or reviewed the financial information for the 13-week period ended 24 June 2012 and accordingly do not express an opinion thereon.

#### Responsibilities

The Directors of Royal Mail plc are responsible for preparing the Financial Information on the basis of preparation set out in Note 1 to the Financial Information.

It is our responsibility to form an opinion on the Financial Information and to report our opinion to you.

#### Basis of opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the Financial Information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the Financial Information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Financial Information is free from material misstatement whether caused by fraud or other irregularity or error.

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited. A list of members' names is available for inspection at 1 More London Place, London SE1 2AF, the firm's principal place of business and registered office.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

**Opinion**

In our opinion, the Financial Information gives, for the purposes of the Prospectus dated 27 September 2013, a true and fair view of the state of affairs of Royal Mail Group Limited as at the dates stated and of its results, cash flows and changes in equity for the periods then ended in accordance with the basis of preparation set out in Note 1 to the Financial Information.

**Declaration**

For the purposes of Prospectus Rule 5.5.3R (2)(f) we are responsible for this report as part of the prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the prospectus in compliance with item 1.2 of Annex I of Commission Regulation (EC) 809/2004.

Yours faithfully

**Ernst & Young LLP**

## Consolidated income statement

		13 weeks ended		53 weeks ended	52 weeks ended	52 weeks ended
		30 June 2013	24 June 2012	31 March 2013	25 March 2012	27 March 2011
	Notes	£m	£m	£m	£m	£m
		(unaudited)				
Revenue	2/3	2,304	2,168	9,279	8,764	8,415
People costs	9	(1,286)	(1,254)	(5,147)	(4,920)	(4,986)
Distribution and conveyance operating costs		(447)	(410)	(1,785)	(1,755)	(1,616)
Infrastructure costs (property, IT, depreciation/amortisation)		(254)	(254)	(1,052)	(1,060)	(1,025)
Other operating costs		(122)	(147)	(660)	(648)	(578)
Operating profit before exceptional items		195	103	635	381	210
Transformation costs – operating exceptional items	4	(31)	(39)	(195)	(229)	(192)
Operating profit after transformation costs <sup>1</sup>		164	64	440	152	18
Other operating exceptional items	4	(21)	(2)	(77)	(57)	(48)
Operating profit/(loss)		143	62	363	95	(30)
Profit on disposal of property, plant and equipment		17	1	4	156	60
Profit on disposal of business		2	–	–	26	44
Earnings before interest and taxation (EBIT)		162	63	367	277	74
Finance costs	5	(27)	(27)	(104)	(112)	(107)
Finance income	5	1	23	27	12	23
Net pension interest credit/(charge)	8(g)	9	9	30	(230)	(419)
Profit/(loss) before taxation		145	68	320	(53)	(429)
Taxation – current charge	6(a)	(19)	(13)	(38)	(36)	(35)
– deferred (charge)/credit	6(a)	(18)	317	284	(15)	(88)
Profit/(loss) for the period		108	372	566	(104)	(552)
Profit/(loss) for the period attributable to:						
Equity holder of the parent company		108	372	562	(105)	(553)
Non-controlling interest (other partner interest in Romec Limited and NDC 2000 Limited)		–	–	4	1	1

<sup>1</sup> Before other operating exceptional items.

## Consolidated statement of comprehensive income

		13 weeks ended		53 weeks ended	52 weeks ended	52 weeks ended
		30 June 2013	24 June 2012	31 March 2013	25 March 2012	27 March 2011
	Notes	£m	£m	£m	£m	£m
		(unaudited)				
Profit/(loss) for the period from continuing operations		108	372	566	(104)	(552)
Other comprehensive income for the period:						
<b>Items that will not be subsequently reclassified to profit or loss:</b>						
Amounts relating to pension accounting		(127)	(456)	(407)	1,690	3,448
IFRIC 14 adjustment relating to pensions	8(c)	(8)	–	(5)	–	–
Actuarial (losses)/gains on defined benefit schemes	8(g)	(164)	(280)	(214)	1,690	3,448
Deferred taxation on actuarial movements and pension deficit transfer to HM Government on 1 April 2012	6(b)	45	(176)	(188)	–	–
<b>Items that may be subsequently reclassified to profit or loss:</b>						
Foreign exchange translation differences		1	(26)	(5)	(47)	(11)
Cash flow hedges		(11)	(33)	2	(14)	10
(Losses)/gains on cash flow hedges deferred into equity		(11)	(32)	(1)	(4)	24
(Gains)/losses on cash flow hedges released from equity to income		–	(1)	2	(15)	(7)
Gains on cash flow hedges released from equity to the carrying amount of non-financial assets		–	–	(1)	(3)	(3)
Taxation on items taken directly to equity	6(b)	–	–	2	8	(4)
Gains on financial assets		–	(22)	(22)	14	(3)
Gains on financial assets deferred into equity		–	–	–	14	3
Gains on financial assets released from equity to income	5	–	(22)	(22)	–	(6)
<b>Total comprehensive (expense)/income for the period</b>		<b>(29)</b>	<b>(165)</b>	<b>134</b>	<b>1,539</b>	<b>2,892</b>
<b>Total comprehensive income for the period attributable to:</b>						
Equity holder of the parent company		(29)	(165)	130	1,547	2,891
Non-controlling interest (other partner interest in Romec Limited and NDC 2000 Limited)		–	–	4	(8)	1



## Consolidated statement of cash flows

The statement of cash flows below is prepared using the template prescribed under IFRS. Note 7 provides a summary statement of cash flows used by management, and includes a reconciliation to the statement shown below.

shown below.

		13 weeks ended		53 weeks ended	52 weeks ended	52 weeks ended
		30 June 2013	24 June 2012	31 March 2013	25 March 2012	27 March 2011
	Notes	£m	£m	£m	£m	£m
		(unaudited)				
Cash flow from operating activities						
Operating profit before exceptional items		195	103	635	381	210
Adjustment for:						
Depreciation and amortisation	10	64	70	281	301	286
Share of post taxation profit from associates	22	(1)	(1)	(1)	(1)	(3)
EBITDA before exceptional items	7	258	172	915	681	493
Working capital movements:	7	(83)	241	142	(19)	(58)
Decrease/(increase) in inventories		—	—	8	1	(1)
(Increase)/decrease in receivables		(3)	32	25	(148)	(21)
(Decrease)/increase in payables		(83)	215	136	116	(25)
Net decrease/(increase) in derivative assets		2	(7)	(15)	(6)	(12)
Increase/(decrease) in non-exceptional provisions		1	1	(12)	18	1
Difference between pension costs charged in operating profit and pension cash flows	7	17	5	(3)	(9)	(263)
Payments in respect of transformation operating exceptional items <sup>1</sup>	7	(44)	(60)	(230)	(280)	(242)
Payments in respect of non-transformation operating exceptional items	7	(8)	(10)	(26)	(37)	(5)
Cash inflow/(outflow) from operations		140	348	798	336	(75)
Income taxation paid	7	(8)	(4)	(37)	(35)	(36)
Net cash inflow/(outflow) from operating activities		132	344	761	301	(111)
Cash flows from investing activities						
Dividends received from associates	7	2	—	—	4	9
Finance income received	7	1	1	5	12	22
Proceeds from sale of property, plant and equipment	7	23	4	52	203	157
Proceeds from disposal of business	7	3	—	—	37	73
Purchase of property, plant and equipment <sup>1</sup>		(33)	(49)	(388)	(287)	(270)
Transformation investment in UKPIL	7	(7)	(25)	(177)	(185)	(166)
Other (GLS and business as usual UKPIL spend)	7	(26)	(24)	(211)	(102)	(104)
Acquisition of business (in GLS) <sup>1</sup>	7	(1)	(1)	(3)	(2)	(2)
Purchase of intangible assets (software) <sup>1</sup>	7	(13)	(3)	(41)	(45)	(70)
Payment of deferred consideration in respect of prior years' acquisitions <sup>1</sup>	7	—	—	(3)	(1)	—
Net sale/(purchase) of financial assets investments (non-current)		—	149	129	(4)	88
Net sale/(purchase) of financial assets investments (current)		—	—	30	(30)	—
Net cash (outflow)/inflow from investing activities		(18)	101	(219)	(113)	7
Net cash inflow/(outflow) before financing activities		114	445	542	188	(104)
Cash flows from financing activities						
Finance costs paid	7	(4)	(7)	(49)	(68)	(54)
Payment of capital element of obligations under finance lease contracts		(19)	(22)	(74)	(49)	(62)
Cash received on sale and leasebacks		46	11	58	88	115
New loans		—	—	—	—	300
Repayment of borrowings		—	(600)	(600)	(1)	(42)
Net cash inflow/(outflow) from financing activities		23	(618)	(665)	(30)	257
Net increase/(decrease) in cash and cash equivalents		137	(173)	(123)	158	153
Effect of foreign currency exchange rates on cash and cash equivalents		—	(4)	1	(4)	(2)
Cash and cash equivalents at the beginning of the period		351	473	473	319	168
Cash and cash equivalents at the end of the period	13	488	296	351	473	319

<sup>1</sup> Items included in total investment costs in note 7.

## Consolidated balance sheet

	Notes	At 30 June 2013 £m	At 31 March 2013 £m	At 25 March 2012 £m	At 27 March 2011 £m
Non-current assets					
Property, plant and equipment	19	1,892	1,916	1,822	1,829
Leasehold land payment		3	3	3	3
Goodwill (mainly investment in GLS)	20	198	196	189	197
Intangible assets (mainly software)	21	147	139	135	126
Investments in associates	22	2	3	3	9
Financial assets – pension escrow investments	5/11/12/13/16	20	20	149	87
– bank deposits	5/11/13/16	–	–	–	44
– derivatives	11/16	2	3	2	6
Retirement benefit asset net of IFRIC 14 adjustment	8(c)	647	825	–	–
Other receivables		7	8	–	–
Deferred taxation assets	6	140	112	9	8
		3,058	3,225	2,312	2,309
Non-current assets held for sale		–	2	4	4
Current assets					
Inventories		24	24	32	33
Trade and other receivables	23	1,009	1,004	1,036	906
Financial assets – derivatives	11/16	3	9	9	36
– short-term deposits	5/11/13/16	1	1	31	1
Cash and cash equivalents	13	488	351	473	319
		1,525	1,389	1,581	1,295
Total assets		4,583	4,616	3,897	3,608
Current liabilities					
Trade and other payables	24	(1,562)	(1,611)	(1,512)	(1,394)
Financial liabilities – obligations under finance leases	5/11/15/16	(80)	(79)	(86)	(61)
– derivatives	11/16	(5)	(2)	(4)	(3)
Income taxation payable		(24)	(14)	(9)	(6)
Provisions	18	(113)	(119)	(132)	(167)
		(1,784)	(1,825)	(1,743)	(1,631)
Non-current liabilities					
Financial liabilities – interest bearing loans and borrowings	5/11/14/15/16	(973)	(973)	(1,522)	(1,478)
– obligations under finance leases	5/11/15/16	(252)	(226)	(231)	(184)
– derivatives	11/16	(4)	(1)	(1)	–
Provisions	18	(120)	(127)	(85)	(85)
Retirement benefit obligation – pension deficit	8(b)	–	–	(2,716)	(4,185)
Other payables		(50)	(36)	(36)	(29)
Deferred taxation liabilities	6	(24)	(23)	(18)	(10)
		(1,423)	(1,386)	(4,609)	(5,971)
Total liabilities		(3,207)	(3,211)	(6,352)	(7,602)
Net assets/(liabilities)		1,376	1,405	(2,455)	(3,994)
Equity					
Share capital	25	–	–	–	–
Share premium	25	–	–	3,784	3,784
Retained earnings – all distributable		1,299	1,318	(6,347)	(7,941)
Other reserves		73	83	108	155
Equity attributable to equity holder of parent company		1,372	1,401	(2,455)	(4,002)
Non-controlling interest (other partner interest in Romec Limited and NDC 2000 Limited)		4	4	–	8
Total equity		1,376	1,405	(2,455)	(3,994)

## Consolidated statement of changes in equity

	Share capital £m	Share premium £m	Retained earnings £m	Financial assets reserve £m	Foreign currency translation reserves £m	Hedging reserve £m	Equity holder of the parent £m	Non- controlling interest £m	Total equity £m
At 28 March 2010	–	3,784	(10,836)	11	136	12	(6,893)	7	(6,886)
(Loss)/profit for the period	–	–	(553)	–	–	–	(553)	1	(552)
Other comprehensive income/(expense) for the period	–	–	3,448	(3)	(11)	10	3,444	–	3,444
At 27 March 2011	–	3,784	(7,941)	8	125	22	(4,002)	8	(3,994)
(Loss)/profit for the period	–	–	(105)	–	–	–	(105)	1	(104)
Other comprehensive income/(expense) for the period	–	–	1,690	14	(47)	(14)	1,643	–	1,643
Dividend from non-controlling interest	–	–	9	–	–	–	9	(9)	–
At 25 March 2012	–	3,784	(6,347)	22	78	8	(2,455)	–	(2,455)
Profit for the period	–	–	562	–	–	–	562	4	566
Other comprehensive (expense)/income for the period	–	–	(407)	(22)	(5)	2	(432)	–	(432)
Pension deficit transfer to HM Government on 1 April 2012 (note 8(d))	–	–	3,726	–	–	–	3,726	–	3,726
Capital reduction (note 25)	–	(3,784)	3,784	–	–	–	–	–	–
At 31 March 2013	–	–	1,318	–	73	10	1,401	4	1,405
Profit for the period	–	–	108	–	–	–	108	–	108
Other comprehensive (expense)/income for the period	–	–	(127)	–	1	(11)	(137)	–	(137)
At 30 June 2013	–	–	1,299	–	74	(1)	1,372	4	1,376
At 25 March 2012	–	3,784	(6,347)	22	78	8	(2,455)	–	(2,455)
Profit for the period	–	–	372	–	–	–	372	–	372
Other comprehensive expense for the period	–	–	(456)	(22)	(26)	(33)	(537)	–	(537)
Pension deficit transfer to HM Government on 1 April 2012 (note 8(d))	–	–	3,726	–	–	–	3,726	–	3,726
At June 2012	–	3,784	(2,705)	–	52	(25)	1,106	–	1,106

## Notes to the consolidated historical financial information

### 1. Basis of preparation

The historical financial information for the periods ended 27 March 2011, 25 March 2012 and 31 March 2013 and for the thirteen weeks ended 30 June 2013 and 24 June 2012 has been prepared in accordance with the requirements of the Prospectus Directive Regulation, the Listing Rules, and in accordance with this basis of preparation. However, as explained below this excludes the consolidation of the Post Office Limited subsidiary for all periods prior to its transfer to Royal Mail Holdings plc on 1 April 2012.

The basis of preparation describes how the financial information has been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS as adopted by the EU) except as described below.

IFRS as adopted by the EU does not provide for the non consolidation of the Post Office Limited specific accounting treatment set out below, and, accordingly, in preparing the consolidated financial information, certain accounting conventions commonly used for the preparation of historical financial information for inclusion in investment circulars as described in the Annexure to SIR 2000 (Investment Reporting Standard applicable to public reporting engagements on historical financial information) issued by the UK Auditing Practices Board have been applied. The application of these conventions results in the following material departures from IFRS as adopted by the EU. In other respects IFRS as adopted by the EU has been applied.

- The historical financial information is prepared on a consolidated basis which excludes the consolidation of the Post Office Limited subsidiary for all periods prior to its transfer to Royal Mail Holdings plc on 1 April 2012 and therefore does not comply with the requirements of IAS 27. Transactions with Post Office Limited have been treated as transactions with a third party and on an arms-length basis.
- The consolidated financial information does not constitute a set of general purpose financial statements under paragraph 3 of IAS 1 and consequently there is no explicit and unreserved statement of compliance with IFRS as contemplated by paragraph 14 of IAS 1.

The historical financial information has been prepared on a historic cost basis except for pension assets, derivative financial instruments and available for sale financial assets which have been measured at fair value.

The historical financial information is presented in Pounds Sterling because that is the currency of the primary economic environment in which the Group operates.

The following summarises the accounting and other principles applied in preparing the historical financial information:

All intra-group balances and transactions have been eliminated in full. Transfer prices between business segments are set on a basis of charges reached through negotiation with the respective businesses.

Subsidiaries are consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is no longer held by the Group. Where the Group ceases to hold control of a subsidiary, the consolidated financial statements include the results for the part of the reporting year during which the Group held control, except for the non-consolidation of the Company's Post Office Limited subsidiary up until its transfer to Royal Mail Holdings plc on 1 April 2012. The effect of this is as follows:

- there is no difference between the closing balance sheet position at 31 March 2013 under this methodology and that required if Post Office Limited had been consolidated up until the date of its transfer to Royal Mail Holdings plc;
- there has been no disposal accounting in respect of the Post Office Limited transfer;
- if disposal accounting had been effected in line with IFRS, certain components of these financial statements would have been impacted as follows:
  - o 2012 and 2011 comparative information – which would have included the results of Post Office Limited and the related inter-group elimination/consolidation accounting entries;

## 1. Basis of preparation (continued)

- o consolidated income statement and consolidated statement of cash flows – which would have included the results and cash flows of Post Office Limited (as a discontinued operation) for the period 26 March 2012 to 31 March 2012 – i.e. up until its transfer to Royal Mail Holdings plc; and
- o total equity – through which the loss on disposal following the transfer of Post Office Limited on 1 April 2012 would have been recorded as a transaction with the Company's owner (Royal Mail Holdings plc) in their capacity as owner (IAS 1 Presentation of Financial Statements).
- All transactions between the Group and Post Office Limited have been accounted for on an arm's-length basis. These transactions include but are not limited to, management information, accounting and financial reporting, treasury, taxation, facilities management, technology and procurement. These costs were affected in line with the service level agreements in place between the Group and Post Office Limited.

The comparative 13-week period to 24 June 2012 is unaudited.

### Estimation and accounting judgements

The preparation of this consolidated historical financial information requires management to make various judgements, estimates and assumptions when determining the carrying value of certain assets and liabilities. Actual results may differ from the estimates. Further details can be found in "Significant accounting policies" on page F-58.

## 2. Segment information

Business unit	Brand	Main statutory entities
UK Parcels, International & Letters (UKPIL) – UK operations	 	Royal Mail Group Limited Royal Mail Estates Limited Royal Mail Investments Limited
General Logistics Systems (GLS) – Other European operations		GLS Germany GmbH & Co. OHG GLS France S.A.S. GLS Italy S.p.A.
Other – UK operations	Facilities management Design consultancy Catering services	Romec Limited (51% owned subsidiary) NDC 2000 Limited (51% owned subsidiary) Quadrant Catering Ltd (51% owned associate)

Royal Mail Group is structured on a geographic business unit basis and these business units report into the Chief Executive's Committee and the Royal Mail Group Board. Each of these units has discrete revenue, costs, profit, cash flows, assets and people and therefore full and complete financial information is prepared and reviewed on a regular basis and compared with both historical and budget/forecast information as part of a rigorous performance management process.

In addition to providing segmental disclosures for profit after taxation, consistent with the requirements of IFRS and how the Group is managed, the information below also includes details of free cash flow and EBITDA before transformation costs.

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

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



## 2. Segment information (continued)

13 weeks ended 30 June 2013

	UK operations			Other European operations	
	UK Parcels, International & Letters £m	Other £m	Total £m	General Logistics Systems £m	Total £m
Revenue (external, as reported)	1,898	4	1,902	402	2,304
Inter-segment revenue	–	43	43	– <sup>1</sup>	43
Total segment revenue	1,898	47	1,945	402	2,347
Operating profit before exceptional items	163	1	164	31	195
Transformation costs – operating exceptional items	(31)	–	(31)	–	(31)
Operating profit after transformation costs before other operating exceptional items	132	1	133	31	164
Other operating exceptional items	(21)	–	(21)	–	(21)
Operating profit	111	1	112	31	143
Profit on disposal of property, plant and equipment	17	–	17	–	17
Profit on disposal of business	2	–	2	–	2
Earnings before interest and taxation (EBIT)	130	1	131	31	162
Net finance costs			(26)	–	(26)
Net pension interest			9	–	9
Profit before taxation	not charged at this level		114	31	145
Taxation			(27)	(10)	(37)
Profit for the period after taxation			87	21	108
Free cash flow	not reported at this level		82	28	110
EBITDA before transformation costs	219	–	219	39	258

13 weeks ended 24 June 2012

	UK operations			Other European operations	
	UK Parcels, International & Letters £m	Other £m	Total £m	General Logistics Systems £m	Total £m
Revenue (external, as reported)	1,798	6	1,804	364	2,168
Inter-segment revenue	–	33	33	– <sup>1</sup>	33
Total segment revenue	1,798	39	1,837	364	2,201
Operating profit before exceptional items	75	2	77	26	103
Transformation costs – operating exceptional items	(39)	–	(39)	–	(39)
Operating profit after transformation costs before other operating exceptional items	36	2	38	26	64
Other operating exceptional items	(1)	(1)	(2)	–	(2)
Operating profit	35	1	36	26	62
Profit on disposal of property, plant and equipment	1	–	1	–	1
Earnings before interest and taxation (EBIT)	36	1	37	26	63
Net finance (costs)/income			(6)	2	(4)
Net pension interest			9	–	9
Profit before taxation	not charged at this level		40	28	68
Taxation			313	(9)	304
Profit for the period after taxation			353	19	372
Free cash flow	not reported at this level		297	(8)	289
EBITDA before transformation costs	138	1	139	33	172

<sup>1</sup> Trading between GLS and UKPIL is not material.

## 2. Segment information (continued)

53 weeks ended 31 March 2013

	UK operations			Other European operations	
	UK Parcels, International & Letters £m	Other £m	Total £m	General Logistics Systems £m	Total £m
Revenue (external, as reported)	7,766	15	7,781	1,498	9,279
Inter-segment revenue	–	148	148	– <sup>1</sup>	148
Total segment revenue	7,766	163	7,929	1,498	9,427
Operating profit before exceptional items	526	8	534	101	635
Transformation costs – operating exceptional items	(195)	–	(195)	–	(195)
Operating profit after transformation costs before other operating exceptional items	331	8	339	101	440
Other operating exceptional items	(77)	–	(77)	–	(77)
Operating profit	254	8	262	101	363
Profit on disposal of property, plant and equipment	4	–	4	–	4
Earnings before interest and taxation (EBIT)	258	8	266	101	367
Net finance (costs)/income	not charged at this level		(82)	5	(77)
Net pension interest			30	–	30
Profit before taxation			214	106	320
Taxation	not charged at this level		279	(33)	246
Profit for the period after taxation			493	73	566
Free cash flow	not reported at this level		309	25	334
EBITDA before transformation costs	775	8	783	132	915

52 weeks ended 25 March 2012

	UK operations			Other European operations	
	UK Parcels, International & Letters £m	Other £m	Total £m	General Logistics Systems £m	Total £m
Revenue (external, as reported)	7,189	13	7,202	1,562	8,764
Inter-segment revenue	–	121	121	– <sup>1</sup>	121
Total segment revenue	7,189	134	7,323	1,562	8,885
Operating profit/(loss) before exceptional items	262	(9)	253	128	381
Transformation costs – operating exceptional items	(229)	–	(229)	–	(229)
Operating profit/(loss) after transformation costs before other operating exceptional items	33	(9)	24	128	152
Other operating exceptional items	(42)	(15)	(57)	–	(57)
Operating (loss)/profit	(9)	(24)	(33)	128	95
Profit on disposal of property, plant and equipment	156	–	156	–	156
Profit on disposal of business	–	25	25	1	26
Earnings before interest and taxation (EBIT)	147	1	148	129	277
Net finance (costs)/income	not charged at this level		(109)	9	(100)
Net pension interest			(230)	–	(230)
(Loss)/profit before taxation			(191)	138	(53)
Taxation	not charged at this level		(6)	(45)	(51)
(Loss)/profit for the period after taxation			(197)	93	(104)
Free cash flow	not reported at this level		90	64	154
EBITDA before transformation costs	533	(12)	521	160	681

<sup>1</sup> Trading between GLS and UKPIL is not material.

## 2. Segment information (continued)

52 weeks ended 27 March 2011

	UK operations			Other European operations	
	UK Parcels, International & Letters £m	Other £m	Total £m	General Logistics Systems £m	Total £m
Revenue (external, as reported)	6,885	45	6,930	1,485	8,415
Inter-segment revenue	–	135	135	– <sup>1</sup>	135
Total segment revenue	6,885	180	7,065	1,485	8,550
Operating profit before exceptional items	82	10	92	118	210
Transformation costs – operating exceptional items	(192)	–	(192)	–	(192)
Operating (loss)/profit after transformation costs before other operating exceptional items	(110)	10	(100)	118	18
Other operating exceptional items	(48)	–	(48)	–	(48)
Operating (loss)/profit	(158)	10	(148)	118	(30)
Profit on disposal of property, plant and equipment	60	–	60	–	60
Profit on disposal of business	–	44	44	–	44
Earnings before interest and taxation (EBIT)	(98)	54	(44)	118	74
Net finance (costs)/income			(90)	6	(84)
Net pension interest			(419)	–	(419)
(Loss)/profit before taxation	not charged at this level		(553)	124	(429)
Taxation			(79)	(44)	(123)
(Loss)/profit for the period after taxation			(632)	80	(552)
Free cash flow	not reported at this level		(331)	85	(246)
EBITDA before transformation costs	335	6	341	152	493

<sup>1</sup> Trading between GLS and UKPIL is not material.

Total expenditure for UK businesses for the 13 weeks ended 30 June 2013 was £1,738 million (13 weeks ended 24 June 2012 £1,727 million, 53 weeks ended 31 March 2013 £7,247 million, 52 weeks ended 25 March 2012 £6,949 million, 52 weeks ended 27 March 2011 £6,838 million).

The following amounts are included within operating profit before exceptional items:

### 13 weeks ended 30 June 2013

	UK operations			Other European operations	
	UK Parcels, International & Letters £m	Other £m	Total £m	General Logistics Systems £m	Total £m
Depreciation	49	–	49	7	56
Amortisation of intangible assets (mainly software)	7	–	7	1	8
Share of post taxation profit from associates	–	1	1	–	1

### 13 weeks ended 24 June 2012

	UK operations			Other European operations	
	UK Parcels, International & Letters £m	Other £m	Total £m	General Logistics Systems £m	Total £m
Depreciation	56	–	56	6	62
Amortisation of intangible assets (mainly software)	7	–	7	1	8
Share of post taxation profit from associates	–	1	1	–	1

## 2. Segment information (continued)

53 weeks ended 31 March 2013

	UK operations			Other European operations	Total
	UK Parcels, International & Letters £m	Other £m	Total £m	General Logistics Systems £m	
Depreciation	210	1	211	27	238
Amortisation of intangible assets (mainly software)	39	–	39	4	43
Share of post taxation profit from associates	–	1	1	–	1

52 weeks ended 25 March 2012

	UK operations			Other European operations	Total
	UK Parcels, International & Letters £m	Other £m	Total £m	General Logistics Systems £m	
Depreciation	240	–	240	28	268
Amortisation of intangible assets (mainly software)	29	–	29	4	33
Share of post taxation (loss)/profit from associates	(2)	3	1	–	1

52 weeks ended 27 March 2011

	UK operations			Other European operations	Total
	UK Parcels, International & Letters £m	Other £m	Total £m	General Logistics Systems £m	
Depreciation	223	–	223	27	250
Amortisation of intangible assets (mainly software)	29	–	29	7	36
Share of post taxation (loss)/profit from associates	(1)	4	3	–	3

## 3. Revenue

	53 weeks ended	52 weeks ended	52 weeks ended
	31 March 2013 £m	25 March 2012 £m	27 March 2011 £m
<b>Group revenue</b>			
UKPIL	7,766	7,189	6,885
Letters	3,652	3,485	3,504
Parcels	2,979	2,604	2,348
Marketing mail	1,135	1,100	1,033
GLS – Parcels	1,498	1,562	1,485
Other	15	13	45
<b>Total</b>	<b>9,279</b>	<b>8,764</b>	<b>8,415</b>
Parcels	4,477	4,166	3,833
Letters and other	3,667	3,498	3,549
Marketing mail	1,135	1,100	1,033
<b>Total</b>	<b>9,279</b>	<b>8,764</b>	<b>8,415</b>

Within UKPIL, stamped, metered and other prepaid revenue channels are subject to statistical sampling surveys to derive the revenue relating to parcels, marketing mail and letters. These surveys are subject to continuous refinement, which may over time reallocate revenue between the products above and occasionally, prior period results may be restated.

### 3. Revenue (continued)

Royal Mail does not derive the revenue and volumes for marketing mail at each quarter end. The table below therefore provides revenue at a higher level of aggregation.

	13 weeks ended		53 weeks ended	52 weeks ended	52 weeks ended
	30 June 2013 £m	24 June 2012 £m	31 March 2013 £m	25 March 2012 £m	27 March 2011 £m
<b>Group revenue</b>					
UKPIL	1,898	1,798	7,766	7,189	6,885
Letters/Marketing mail	1,146	1,141	4,787	4,585	4,537
Parcels	752	657	2,979	2,604	2,348
GLS – Parcels	402	364	1,498	1,562	1,485
Other	4	6	15	13	45
Total	2,304	2,168	9,279	8,764	8,415
Parcels	1,154	1,021	4,477	4,166	3,833
Letters and other/Marketing mail	1,150	1,147	4,802	4,598	4,582
Total	2,304	2,168	9,279	8,764	8,415

### 4. Operating exceptional items (transformation and non-transformation)

	13 weeks ended		53 weeks ended	52 weeks ended	52 weeks ended
	30 June 2013 £m	24 June 2012 £m	31 March 2013 £m	25 March 2012 £m	27 March 2011 £m
Transformation costs:					
Incentive payments:					
– Business transformation payments	(3)	(14)	(22)	(87)	(31)
– ‘ColleagueShare’ – legacy share scheme release	–	–	–	–	101
Restructuring costs:					
– Voluntary redundancy	(2)	–	(78)	(77)	(223)
– Project and property costs	(26)	(25)	(95)	(65)	(27)
Impairment of property, plant and equipment	–	–	–	–	(12)
Total transformation costs	(31)	(39)	(195)	(229)	(192)
Other operating exceptional items:					
Potential industrial diseases claims	2 <sup>1</sup>	–	(28)	(10) <sup>1</sup>	(30)
Post Office Limited separation IT costs	–	–	(20)	–	–
Postal Services Act related costs	(8)	(1)	(10)	(24)	(15)
Other exceptional items (Romec transformation costs in FYE 2012)	–	(1)	1	(16)	–
Historical employment costs	(15)	–	–	–	–
Impairments	–	–	(20)	(7)	(3)
Total non-transformation costs	(21)	(2)	(77)	(57)	(48)
Total operating exceptional items	(52)	(41)	(272)	(286)	(240)

<sup>1</sup> Driven by changes in discount rate.

Business transformation payments represent payments linked to the achievement of key modernisation milestones, as part of the pay deal with the Communication Workers Union.

The non-transformation related impairments for the 53 weeks ended 31 March 2013 of £20 million, comprise £21 million relating to property, plant and equipment, and an impairment reversal of £1 million.



## 5. Net finance costs and net debt

	13 weeks ended		53 weeks ended	52 weeks ended	52 weeks ended
	30 June 2013	24 June 2012	31 March 2013	25 March 2012	27 March 2011
	£m	£m	£m	£m	£m
Unwinding of discount relating to 'ColleagueShare' legacy share scheme	–	–	–	–	(6)
Unwinding of discount relating to industrial diseases provision	(1)	–	(1)	(1)	–
Interest payable on financial liabilities	(26)	(27)	(103)	(111)	(101)
Loans and borrowings	(21)	(21)	(82)	(91)	(79)
Finance leases	(3)	(4)	(13)	(15)	(12)
Unused facility fees	(1)	(1)	(5)	(2)	(3)
Other facility fees	(1)	(1)	(3)	(3)	(7)
Finance costs	(27)	(27)	(104)	(112)	(107)
Release of gains held in equity on disposal of RMPP pension escrow investments	–	22	22	–	6
Other interest received on gilts and Treasury Bills	–	–	–	4	9
Interest receivable on other financial assets	1	1	5	8	3
Interest receivable on VAT refund	–	–	–	–	5
Finance income	1	23	27	12	23
Net finance costs (excluding net pension interest)	(26)	(4)	(77)	(100)	(84)

A summary of the Group's net debt position is shown below:

	Balance sheet category	At 30 June 2013	At 31 March 2013	At 25 March 2012	At 27 March 2011
		£m	£m	£m	£m
Pension escrow investments	Non-current assets	20	20	149	87
Bank deposits	Non-current assets	–	–	–	44
Short-term deposits	Current assets	1	1	31	1
Cash and cash equivalents:					
– cash at bank and in hand	Current assets	163	136	172	100
– cash equivalent investments: short-term bank and local authority deposits/money market fund investments	Current assets	325	215	301	219
Obligations under finance leases	Current liabilities	(80)	(79)	(86)	(61)
Interest bearing loans and borrowings	Non-current liabilities	(973)	(973)	(1,522)	(1,478)
Obligations under finance leases	Non-current liabilities	(252)	(226)	(231)	(184)
Net debt		(796)	(906)	(1,186)	(1,272)

As from 1 April 2012, following the transfer of almost all of the RMPP pension liabilities and pension assets to HM Government, and hence the removal of the historic pension deficit, £149 million of investments – which were previously held in pension escrow in Royal Mail Group Limited – were released to the Company. These were subsequently sold and proceeds used to pay down loans to HM Government.

On 25 March 2013, the Company placed £20 million in a money market fund investment established to provide security to the Royal Mail Senior Executives Pension Plan (RMSEPP) as part of a funding agreement with the RMSEPP Trustee. This is treated as an investment in the Group's balance sheet. RMSEPP was closed to future accruals on 31 December 2012.

The Company repaid £600 million of loans and borrowings from HM Government in the year ended 31 March 2013.

## 5. Net finance costs and net debt (continued)

Net debt has decreased overall by £110 million during the 13 weeks ended 30 June 2013, £280 million during FYE 2013 and by £86 million during FYE 2012 as shown below:

	At 30 June 2013 £m	At 31 March 2013 £m	At 25 March 2012 £m
Net debt brought forward at 1 April 2013, 26 March 2012 and 28 March 2011	(906)	(1,186)	(1,272)
Free cash flow (note 7)	110	334	154
Increase in value of pension escrow investments	—	—	14
Increase in loans and borrowings (roll-up of interest on 12.0 per cent facility)	— <sup>1</sup>	(51)	(45)
Increase in new finance lease obligations (non-cash)	—	(4)	(33)
Foreign currency exchange impact on cash and cash equivalents	—	1	(4)
Net debt carried forward	(796)	(906)	(1,186)

<sup>1</sup> In the normal course of business the interest charge of £14 million incurred on the 12.0 per cent Subordinated Loan to 30 June 2013, is held in non-current other payables until March 2014, when it is capitalised against the facility.

The table below shows the average interest bearing loans and borrowings and the interest payable and average interest rate on those loans and borrowings.

	At 30 June 2013 £m	At 31 March 2013 £m	At 25 March 2012 £m	At 27 March 2011 £m
Average interest bearing loans and borrowings	(973)	(972)	(1,478)	(1,283)
Interest payable on interest bearing loans and borrowings	(21)	(82)	(91)	(79)
Average interest rate	8.6%	8.4%	6.2%	6.2%

During the 13 weeks ended 30 June 2013 the Group was financed as follows:

Purpose of loan/borrowing	13 weeks ended 30 June 2013 Average balance £m	13 weeks ended 30 June 2013 Average interest rate %	Facility end date	Facility £m	Drawn balance at 30 June 2013 £m	Average loan maturity date
GLS funding	500	5.8	2021–2025	500	500	2023
General purpose/working capital (Senior Debt Facility)	—	—	2014	600	—	—
General purpose/working capital (Senior Debt Facility)	—	—	2014	300	—	—
General purpose/working capital (Shareholder Loan)	473	12.0	2016	473	473	2016
Total facility/facilities utilised	973			1,873	973	

## 6. Taxation

	13 weeks ended		53 weeks ended	52 weeks ended	52 weeks ended
	30 June 2013 £m	24 June 2012 £m	31 March 2013 £m	25 March 2012 £m	27 March 2011 £m
(a) Taxation charged in the income statement					
Current income taxation:					
UK corporation taxation	(10)	(5)	(11)	2	(2)
Foreign taxation	(8)	(8)	(28)	(36)	(35)
Current income taxation charge	(18)	(13)	(39)	(34)	(37)
Amounts (under)/over provided in earlier years	(1)	—	1	(2)	2
Total current income taxation	(19)	(13)	(38)	(36)	(35)
Deferred taxation:					
Origination (in FYE 2013) and reversal of temporary differences	(18)	317	284	(15)	(88)
Taxation (expense)/credit in the consolidated income statement	(37)	304	246	(51)	(123)

## 6. Taxation (continued)

	13 weeks ended		53 weeks ended	52 weeks ended	52 weeks ended
	30 June 2013	24 June 2012	31 March 2013	25 March 2012	27 March 2011
	£m	£m	£m	£m	£m
(b) Taxation relating to items charged or credited to other comprehensive income					
Deferred taxation:					
Actuarial losses/(gains) on defined benefit pension plans	45	(176)	(188)	—	—
Net gain/(loss) on revaluation of cash flow hedges	—	—	2	8	(4)
Total credit/(expense) in the statement of other comprehensive income	45	(176)	(186)	8	(4)

### (c) Reconciliation of the total taxation charge

A reconciliation between the taxation charges and the product of accounting profit/(loss) multiplied by the UK rate of corporation taxation for the 13 weeks ended 30 June 2013 and 24 June 2012 and for the years ended 31 March 2013, 25 March 2012 and 27 March 2011 is as follows:

	13 weeks ended		53 weeks ended	52 weeks ended	52 weeks ended
	30 June 2013	24 June 2012	31 March 2013	25 March 2012	27 March 2011
	£m	£m	£m	£m	£m
Profit/(loss) before taxation	145	68	320	(53)	(429)
At UK standard rate of corporation taxation <sup>1</sup>	(33)	(16)	(77)	14	120
Effect of higher taxes on overseas earnings	(1)	—	(1)	1	3
Taxation (under)/over provided in prior years	(1)	—	1	(2)	2
Non-taxable income	1	—	6	45	29
Non-deductible expenses	(3)	—	(11)	(13)	(14)
Associates' profit after taxation charge included in Group pre-taxation profit	—	—	—	—	1
Net decrease/(increase) in taxation charge resulting from recognition/(derecognition) of deferred taxation assets	—	320	328	(96)	(265)
Other	—	—	—	—	1
Taxation (charge)/credit in the income statement	(37)	304	246	(51)	(123)

<sup>1</sup> 13 weeks ended 30 June 2013 23%, 13 weeks ended 24 June 2012 24%, 53 weeks ended 31 March 2013 24%, 52 weeks ended 25 March 2012 26% and 52 weeks ended 27 March 2011 28%.

Deferred taxation relates to the following:

	Balance sheet				13 weeks ended		Income statement		
	At 30 June 2013	At 31 March 2013	At 25 March 2012	At 27 March 2011	30 June 2013	24 June 2012	53 weeks ended	52 weeks ended	52 weeks ended
	£m	£m	£m	£m	£m	£m	31 March 2013	25 March 2012	27 March 2011
Liabilities									
Accelerated capital allowances	—	—	(1)	(1)	—	—	1	—	—
Goodwill qualifying for taxation allowances	(24)	(23)	(17)	(9)	(1)	(1)	(6)	(8)	(5)
Deferred taxation liabilities	(24)	(23)	(18)	(10)					
Assets									
Deferred capital allowances	227	244	—	9	(17)	266	244	(9)	8
Provisions and other	33	37	4	1	(4)	40	33	3	(29)
Pensions temporary differences	(170)	(222)	—	—	7	(33)	(34)	—	(2)
Losses available for offset against future taxable income	48	51	5	6	(3)	45	46	(1)	(62)
Hedging derivatives temporary differences	2	2	—	(8)	—	—	—	—	2
Deferred taxation assets	140	112	9	8					
Net deferred taxation assets/(liabilities)	116	89	(9)	(2)					
Consolidated income statement					(18)	317	284	(15)	(88)

## 6. Taxation (continued)

At 30 June 2013 the Group had unrecognised deferred taxation assets of £67 million (at 31 March 2013 £66 million, at 25 March 2012 £1,176 million, at 27 March 2011 £1,610 million), comprising £nil (at 31 March 2013 £nil, at 25 March 2012 £632 million, at 27 March 2011 £1,132 million) relating to the retirement benefit obligation, £55 million (at 31 March 2013 £54 million, at 25 March 2012 £219 million, at 27 March 2011 £206 million) relating to taxation losses that are available to offset against future taxable profits and £12 million (at 31 March 2013 £12 million, at 25 March 2012 £324 million, at 27 March 2011 £273 million) relating to other temporary differences.

The Group has capital losses carried forward, the taxation effect of which is £4 million (at 31 March 2013 £4 million, at 25 March 2012 £4 million, at 27 March 2011 £nil) and temporary differences related to capital losses with a tax value of £73 million (at 31 March 2013 £73 million, at 25 March 2012 £80 million, at 27 March 2011 £91 million). The Group has rolled over capital gains with a tax value of £53 million (at 31 March 2013 £53 million, at 25 March 2012 £59 million, at 27 March 2011 £57 million); no taxation liability would be expected to crystallise should the assets into which the gains have been rolled be sold at their residual value, as it is anticipated that a capital loss would arise.

The Finance Act 2012 reduced the main rate of corporation taxation to 23 per cent with effect from 1 April 2013. The effect of this change on deferred taxation balances is included in this historical financial information as detailed above. In the 2012 Autumn Statement, the Chancellor of the Exchequer announced that the main rate of corporation taxation will be 21 per cent for the year commencing 1 April 2014 and in the March 2013 budget he announced that the rate will be further reduced to 20 per cent with effect from 1 April 2015. Both of these changes were included in the Finance Bill 2013, which was substantively enacted on 2 July 2013. In accordance with accounting standards, the effect of these rate reductions on deferred taxation balances has not been reflected in these accounts due to the relevant legislation not having been substantively enacted at the balance sheet date. A reduction to 20 per cent would, based on losses and temporary differences at 30 June 2013, reduce the Group's recognised net deferred taxation assets by £17 million and reduce unrecognised deferred taxation assets by £4 million.

Royal Mail Group Limited is committed to paying taxation in accordance with all relevant laws and regulations in the territories in which it operates.

## 7. Cash flow information

	13 weeks ended		53 weeks ended	52 weeks ended	52 weeks ended
	30 June 2013	24 June 2012	31 March 2013	25 March 2012	27 March 2011
	£m	£m	£m	£m	£m
EBITDA before exceptional items (see page F-5)	258	172	915	681	493
Working capital movements	(83)	241	142	(19)	(58)
Difference between profit and loss and cash flow rates (note 8)	20	7	25	(1)	15
– Pension deficit correction payments	(3)	(2)	(28)	(8)	(278)
– Pension costs relating to redundancy	–	–	–	(36)	(29)
Total investment costs <sup>1</sup>	(91)	(113)	(665)	(579)	(555)
Voluntary redundancy	(13)	(23)	(75)	(129)	(110)
Business transformation payments	(5)	(15)	(55)	(60)	(95)
Capital expenditure	(7)	(25)	(177)	(185)	(166)
One-off project and property costs	(26)	(22)	(100)	(55)	(8)
Total transformation investment in UKPIL	(51)	(85)	(407)	(429)	(379)
Other non-transformation spend (IT (incl. software), GLS and business as usual UKPIL spend)	(40)	(28)	(258)	(150)	(176)
Other exceptional items	(8)	(10)	(26)	(37)	(5)
Postal Services Act related payments	(6)	(8)	(21)	(16)	(5)
Romec Enterprise project	–	–	–	(15)	–
Industrial diseases claims	–	–	(1)	(3)	–
Other	(2)	(2)	(4)	(3)	–
Other	(9)	(10)	(81)	(87)	(59)
Taxation paid	(8)	(4)	(37)	(35)	(36)
Net finance costs paid	(3)	(6)	(44)	(56)	(32)
Dividends from associates	2	–	–	4	9
Cash inflow/(outflow) before disposal of assets and non-core business	84	285	282	(86)	(476)
Disposal of property and non-core business	26	4	52	240	230
Free cash inflow/(outflow) as used internally by management	110	289	334	154	(246)

<sup>1</sup> Total investment costs are represented by several different line items in the Consolidated statement of cash flows on page F-5.

## 7. Cash flow information (continued)

The transformation programme commenced in FYE 2007, for which the cumulative spend is shown below:

	At 30 June 2013 £m	At 31 March 2013 £m
Voluntary redundancy	(888)	(875)
Business transformation payments	(520)	(515)
Capital expenditure	(1,100)	(1,093)
One-off project and property costs	(338)	(312)
Total cumulative transformation spend	(2,846)	(2,795)

The following analysis provides a reconciliation of 'net cash inflow before financing activities' in the statement of cash flows (see page F-5) and free cash flow as used internally by management.

	13 weeks ended		53 weeks ended	52 weeks ended	52 weeks ended
	30 June 2013 £m	24 June 2012 £m	31 March 2013 £m	25 March 2012 £m	27 March 2011 £m
Net cash inflow/(outflow) before financing activities in the statement of cash flows	114	445	542	188	(104)
Net (sale)/purchase of gilts and Treasury bills (financial asset investments – non-current)	–	(149)	(129)	4	(88)
Net (sale)/purchase of bank deposits (financial asset investments – current)	–	–	(30)	30	–
Finance costs paid	(4)	(7)	(49)	(68)	(54)
Free cash inflow/(outflow)	110	289	334	154	(246)

## 8. Employee benefits – pensions

### Summary pension financial information

	13 weeks ended		53 weeks ended	52 weeks ended	52 weeks ended
	30 June 2013 £m	24 June 2012 £m	31 March 2013 £m	25 March 2012 £m	27 March 2011 £m
Pension costs:					
Ongoing:					
– UK defined benefit schemes (annual P&L rates for RMPP 20.3% (2014), 18.2% (2013), 17.1% (2012), 17.8% (2011))	(119)	(107)	(412)	(384)	(423)
– UK defined contribution scheme	(6)	(3)	(17)	(11)	(9)
Total UK ongoing pension costs	(125)	(110)	(429)	(395)	(432)
Total GLS defined contribution type scheme costs	(1)	(1)	(5)	(5)	(5)
Total Group ongoing pension costs	(126)	(111)	(434)	(400)	(437)
Difference between profit and loss and cash flow rates for UK defined benefit schemes (cash flow rates 17.1% for RMPP for all reported periods)	20	7	25	(1)	15
Total Group pension cash flows relating to ongoing pension costs	(106)	(104)	(409)	(401)	(422)
UK defined benefit scheme – active membership	110,000	115,000	112,000	116,000	121,000

### Background

Royal Mail Group had one of the largest defined benefit pension schemes in the UK (based on membership and assets), called the Royal Mail Pension Plan (RMPP), and for a number of years the Company:

- made significant pension deficit cash contributions on top of its ongoing pension costs; and
- recognised a pension deficit on its balance sheet which has ranged from £2.7 billion to £7.5 billion.

This meant the Company faced issues with respect to Going Concern, it was balance sheet insolvent and it carried material pension risk and volatility.



## 8. Employee benefits – pensions (continued)

To address this historic legacy issue, the Postal Services Act, passed in June 2011, proposed to transfer the majority of pension assets and liabilities to HM Government. In order to achieve this, HM Government had to seek State Aid approval from the European Commission and made its application in the summer of 2011.

### Transfer of pension liabilities/assets to HM Government

On 1 April 2012 (one week into the FYE 2013) – after the granting of State Aid approval by the European Commission to HM Government on 21 March 2012 – almost all of the pension liabilities and pension assets of RMPP, built up until 31 March 2012, were transferred to a new Government pension scheme, the Royal Mail Statutory Pension Scheme (RMSPS).

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

The transfer left the RMPP fully funded on an actuarial basis. This means that using long-term actuarial assumptions agreed at that date, it was predicted the Company would have to make no further deficit cash contributions.

The total (Royal Mail Group and Post Office Limited) liabilities transferred of £41 billion comprise:

- i) all liabilities relating to deferred members or pensioners on 1 April 2012; and
- ii) for the liabilities of active members currently employed on 1 April 2012:
  - benefits accrued under the final salary arrangements to 31 March 2008 (based on number of years in scheme and respective salary at 1 April 2012). The RMSPS rules increase this final salary benefit by RPI<sup>1</sup> each year for active membership; and
  - benefits accrued under the career average salary arrangements from 1 April 2008 to 31 March 2012, assuming an RPI<sup>1</sup> future increase.

The total assets (Royal Mail Group and Post Office Limited) transferred were £28.5 billion, leaving £2.2 billion with the RMPP Trustee to match the liabilities (Royal Mail Group and Post Office Limited) relating to the final salary benefit for active members (at 1 April 2012) that the Government did not take on. These remaining liabilities relate to the difference in increases to the final salary benefit that the RMSPS provides for (at RPI) and the RMPP Trustee assumes (at RPI + 1%<sup>2</sup>).

Therefore, the Royal Mail Group and Post Office Limited retained the liability for each year of future service under the career average salary arrangements and the following risk for active members only:

- i) liability for salary growth above RPI (increases up to 1% above RPI are covered by the £2.2 billion funding described above);
- ii) changes in future long-term economic assumptions (e.g. interest rates, RPI/CPI);
- iii) changes in future long-term demographic assumptions (e.g. mortality);
- iv) changes in market assumptions (returns on assets, gilt yields, etc.); and
- v) all existing aspects relating to the RMSEPP scheme (the Company closed this plan to future accruals on 31 December 2012).

All other financial information other than in this note relates to the amounts that have been sectionalised to Royal Mail Group.

### Pension Consultation

At the end of June 2013 the Company launched a consultation with RMPP members with the aim of keeping the plan open to future accrual, subject to certain conditions, at least until the next periodic review is undertaken by March 2018.

For further details see Note 30 Events after the reporting period.

<sup>1</sup> Section C members (who joined RMPP on or after April 1987) have this increase capped at five per cent.

<sup>2</sup> RPI + 1% has been used by the RMPP Trustee in the valuation which was agreed in 2010 because it reflected long-term historical actual pay increases.

## **8. Employee benefits – pensions (continued)**

### **Application of International Financial Reporting Standards (IFRS)**

Applying IFRS in the accounting valuation of the defined benefit position at 30 June 2013 resulted in the recognition of an accounting pension surplus of £647 million compared with a surplus of £825 million at 31 March 2013. The £647 million comprises pension assets of £3,316 million, less pension liabilities of £2,656 million adjusted as required by IFRIC 14, of £13 million.

### **Why the accounting position is different to the funding (actuarial) position**

On an actuarial basis at 30 June 2013, the pension actuarial deficit was £130 million on an estimated rolled forward basis (formal valuations are part of the triennial review). The funding requirements, a mutual agreement between the Company and the Pension Trustees, are normally set every three years, with the last agreement dating back to 2010 for the March 2009 valuation. The long-term assumptions used for funding by the Pension Trustees are generally more conservative than those that must be used under IFRS.

### **Defined benefit**

RMPP is funded by the payment of contributions to separate trustee administered funds. RMPP includes sections A, B and C, each with different terms and conditions:

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

The regular future service contribution rate for RMPP, expressed as a percentage of pensionable pay, remained at 17.1 per cent. (2013, 2012 and 2011 17.1 per cent.), effective from April 2010. Following the State Aid clearance granted on 21 March 2012, and the subsequent transfer of almost all of the RMPP assets and liabilities to HM Government on 1 April 2012, no RMPP deficit payment was made during the year.

For RMSEPP, there were no regular future service contributions since December 2012, (2013 until December 2012, 2012 and 2011 35.9 per cent) as this Plan closed to future accruals on 31 December 2012. Deficit recovery payments were £3 million (2013 £28 million (including a special one-off payment of £19 million), 2012 £8 million, 2011 £6 million). The Company and the Trustee have reached agreement over the March 2012 actuarial valuation. As the Plan is closed to future accruals there will be no regular future service contributions, but the Company will continue to make deficit payments of £10 million p.a.

A liability of £1 million (2013, 2012 and 2011 £1 million) has been recognised for future payment of pension benefits to a past Director.

## 8. Employee benefits – pensions (continued)

### a) Major long-term assumptions used for accounting purposes – RMPP and RMSEPP

The major assumptions were:

	At 30 June 2013 % pa	At 24 June 2012 % pa	At 31 March 2013 % pa	At 25 March 2012 % pa	At 27 March 2011 % pa
Inflation assumption (RPI)	3.3	3.0	3.3	3.3	3.5
Inflation assumption (CPI)	2.3	2.0	2.3	2.3	2.8
Discount rate – nominal	4.8	4.8	4.8	5.1	5.5
– real <sup>3</sup>	1.5	1.8	1.5	1.8	2.0
Rate of increase in salaries	RPI + 1%	RPI + 1%	RPI + 1%	RPI + 1%	RPI + 1%
Rate of increase for deferred pensions – RMSEPP members transferred from Section A or B of RMPP	RPI	RPI	RPI	RPI	RPI
Rate of increase for deferred pensions – all other members	CPI	CPI	CPI	CPI	CPI
Rate of pension increases – RMPP Sections A/B	CPI	CPI	CPI	CPI	CPI
Rate of pension increases – RMPP Section C <sup>4</sup>	RPI	RPI	RPI	RPI	RPI
– RMSEPP members transferred from Section A or B of RMPP	CPI	RPI	RPI	RPI	RPI
Rate of pension increases – RMSEPP all other members	RPI	RPI	RPI	RPI	RPI

<sup>3</sup> The real discount rate selected reflects the long duration of the scheme.

<sup>4</sup> Section C members (who joined RMPP on or after April 1987) and RMSEPP all other members, have this increase capped at five per cent, which results in the average long-term pension increase assumption being 10 basis points lower than the RPI long-term assumption at 31 March 2013 (prior two years – this reduction did not apply).

### Mortality

The mortality assumptions for the larger plan (RMPP) are based on the latest Self Administered Pension Scheme (SAPS) mortality tables with appropriate scaling factors (106 per cent. for male pensioners and 101 per cent. for female pensioners). For future improvements the assumptions allow for 'medium cohort' projections with a 1.25 per cent. floor. These are detailed below:

Average expected life expectancy from age 60:

	At 30 June 2013	At 24 June 2012	At 31 March 2013	At 25 March 2012	At 27 March 2011
For a current 60 year old male RMPP member	26 years	26 years	26 years	26 years	26 years
For a current 60 year old female RMPP member	29 years	29 years	29 years	29 years	29 years
For a current 40 year old male RMPP member	29 years	29 years	29 years	29 years	29 years
For a current 40 year old female RMPP member	32 years	32 years	32 years	32 years	32 years

The Company and the RMPP Trustee are currently in discussion about the future funding requirements, and this could materially change the pension costs and balance sheet amounts that are reported in future periods.

The following disclosures relate to the gains/losses and surplus/deficit in the schemes recognised for the RMPP and RMSEPP defined benefit plans in the financial statements of the Group:

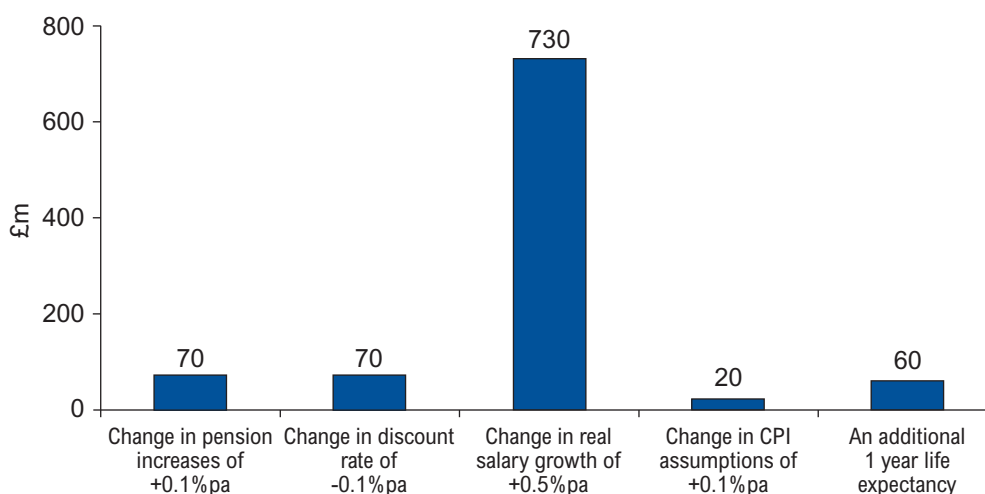
The real discount rate remained at 1.5 per cent. since 31 March 2013 (25 March 2012 1.8 per cent., 27 March 2011 2.0 per cent.).

Demographic assumptions, for example mortality, remain unchanged from those made in March 2013, March 2012 and March 2011.

## 8. Employee benefits – pensions (continued)

The following table shows the potential impact on the RMPP liabilities and pension deficit of changes in key assumptions:

### Sensitivity analysis on RMPP liabilities



### b) Plans' assets and expected rates of return and deficit calculation – RMPP and RMSEPP

The assets in the plans were:

	At 30 June 2013 £m	At 31 March 2013 £m	At 25 March 2012 £m	At 27 March 2011 £m
Equities	571	558	3,151	3,971
Bonds	2,443	2,479	23,600	19,812
Property	223	218	1,319	1,480
Cash/other	79	88	310	389
Derivatives	–	–	236	110
Fair value of plans' assets	3,316	3,343	28,616	25,762
Present value of plans' liabilities	(2,656)	(2,513)	(31,332)	(29,947)
Surplus/(deficit) in plans	660	830	(2,716)	(4,185)

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

Included within the pension assets are £1.8 billion (at 31 March 2013 £1.4 billion, at 25 March 2012 £11.6 billion, at 27 March 2011 £7.8 billion) of HM Government Bonds.

### c) Plans' assets and liabilities

The combined plans' assets and liabilities were:

	Market value			
	At 30 June 2013 £m	At 31 March 2013 £m	At 25 March 2012 £m	At 27 March 2011 £m
Fair value of plans' assets	3,316	3,343	28,616	25,762
Present value of plans' liabilities	(2,656)	(2,513)	(31,332)	(29,947)
Surplus/(deficit) in schemes (pre IFRIC 14 adjustment)	660	830	(2,716)	(4,185)
IFRIC 14 adjustment	(13)	(5)	–	–
Surplus/(deficit) in schemes	647	825	(2,716)	(4,185)

## 8. Employee benefits – pensions (continued)

The surplus in the RMSEPP at March 2013 is assumed to be available as a refund as per IFRIC 14 and, as such, is shown net of withholding taxation.

The surplus in RMPP is assumed to be available as a reduction to contributions and this future benefit is recognised within the deferred taxation asset. Therefore, no IFRIC 14 adjustment is required. The Directors do not believe that the current excess of pension scheme assets over the liabilities on an accounting basis will result in an excess of pension assets on a funding basis. However, the Directors are required to account for the pension scheme, based on their legal right to benefit from a surplus, using long-term actuarial assumptions current at the reporting date, as required by IFRS.

There were no open equity derivatives within this portfolio at 30 June 2013.

The RMPP Trustee has elected to use interest rate and inflation rate swaps ('derivatives') to deliver the investment strategy whilst managing risk as described below. These derivatives are recorded at market value within table (b) on page F-23 and are commonly used by pension funds. The interest rate and inflation rate swaps are used to hedge the exposure to movements in interest rates and inflation (which are key long-term assumptions used to estimate future pension liabilities). The economic exposure of these swaps held in a specific managed portfolio for this purpose at 30 June 2013 is £1.63 billion (at 31 March 2013 £1.53 billion, at 25 March 2012 £9.9 billion, at 27 March 2011 £6.6 billion).

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

The spread of investments continues to balance security and growth in order to pay the RMPP benefits when they become due. An actuarial valuation is being undertaken at 31 March 2012 and the Trustee will seek to agree funding arrangements with the Company.

### d) Movement in Plans' assets and liabilities

Changes in the present value of the defined benefit pension obligations are analysed as follows:

	13 weeks ended	53 weeks ended	52 weeks ended	52 weeks ended
	30 June 2013 £m	31 March 2013 £m	25 March 2012 £m	27 March 2011 £m
Opening net retirement benefit deficit at 1 April 2013, 26 March 2012, 28 March 2011 and 29 March 2010	830	(2,716)	(4,185)	(7,477)
Increase in value of pension assets 26-31 March 2012 (Actuarial gain) <sup>5</sup>	–	224	–	–
Increase in value of pension liabilities 26-31 March 2012 (Actuarial loss) <sup>5</sup>	–	(652)	–	–
Transfer of historic pension deficit to HM Government <sup>5</sup>	–	3,726	–	–
Net retirement benefit surplus/(deficit) at 1 April 2013, 1 April 2012, 28 March 2011 and 29 March 2010	830	582	(4,185)	(7,477)
Current service cost (section (g) on page F-26)	(119)	(412)	(384)	(423)
Pay accruals included in above pension costs	2	–	–	–
Movement in Company contributions accrued	1	(2)	(5)	4
Curtailment costs	(4)	(17)	(31)	(33)
Net pension interest credit/(charge) (section (g) on page F-27)	9	30	(230)	(419)
Employer's contributions	105	435	429	715
Actuarial gains 1 April 2013 – 30 June 2013, 1 April 2012 – 31 March 2013, 28 March 2011 – 25 March 2012 and 29 March 2010 – 27 March 2011 <sup>5</sup>	(164)	214	1,690	3,448
Closing net retirement benefit surplus/(deficit) (pre IFRIC 14 adjustment)	660	830	(2,716)	(4,185)

<sup>5</sup> Taken directly to equity.



## 8. Employee benefits – pensions (continued)

### e) Movement in plans' assets and liabilities – RMPP and RMSEPP

Changes in the value of the plans' assets and analysis is as follows:

	13 weeks ended	53 weeks ended	52 weeks ended	52 weeks ended
	30 June 2013 £m	31 March 2013 £m	25 March 2012 £m	27 March 2011 £m
Plans' assets at beginning of period	3,343	28,616	25,762	24,017
Increase in value of pension assets 26-31 March 2012	–	224	–	–
Transfer of pension assets to HM Government	–	(26,485)	–	–
Company contributions paid	105	435	429	715
Employee contributions paid	35	136	134	141
Movement in Company contributions accrued	1	(2)	(5)	4
Finance income	43	159	1,397	1,330
Actuarial (losses)/gains (additional (decrease)/increase in market values)	(205)	277	1,992	701
Benefits paid to members	(6)	(17)	(1,093)	(1,146)
Plans' assets at end of period	3,316	3,343	28,616	25,762

Changes in the present value of the defined benefit pension obligations are analysed as follows:

	13 weeks ended	53 weeks ended	52 weeks ended	52 weeks ended
	30 June 2013 £m	31 March 2013 £m	25 March 2012 £m	27 March 2011 £m
Plans' liabilities at beginning of period	(2,513)	(31,332)	(29,947)	(31,494)
Increase in value of pension liabilities 26-31 March 2012	–	(652)	–	–
Transfer of pension liabilities to HM Government	–	30,211	–	–
Current service cost	(119)	(412)	(384)	(423)
Pay accruals included in above pension costs	2	–	–	–
Employee contributions	(35)	(136)	(134)	(141)
Curtailment costs <sup>6</sup>	(4)	(17)	(31)	(33)
Finance cost	(34)	(129)	(1,627)	(1,749)
Actuarial gains/(losses) (recognised in statement of comprehensive income)	41	(63)	(302)	2,747
Benefits paid	6	17	1,093	1,146
Plans' liabilities at end of period	(2,656)	(2,513)	(31,332)	(29,947)

<sup>6</sup> The curtailment costs in the income statement are recognised on a consistent basis with the associated compensation costs. Estimates of both are included, for example, in any redundancy provisions raised. The curtailment costs above represent the costs associated with those people paid compensation in respect of redundancy during the accounting period. Such payments may occur in an accounting period subsequent to the recognition of costs in the income statement.

## 8. Employee benefits – pensions (continued)

### f) History of experience gains and losses – RMPP and RMSEPP

The cumulative amount of actuarial gains and losses recognised since transition to IFRS at 29 March 2004 in the statement of comprehensive income is a £48 million gain (2013 £212 million gain, 2012 £430 million gain, 2011 £1,006 million loss).

	At 30 June 2013 £m	At 31 March 2013 £m	At 25 March 2012 £m	At 27 March 2011 £m	At 28 March 2010 £m	At 29 March 2009 £m
Fair value of assets	3,316	3,343	28,616	25,762	24,017	18,670
Present value of liabilities	(2,656)	(2,513)	(31,332)	(29,947)	(31,494)	(24,971)
Surplus/(deficit) in plans	660	830	(2,716)	(4,185)	(7,477)	(6,301)

	At 30 June 2013 £m	At 31 March 2013 £m	At 25 March 2012 £m	At 27 March 2011 £m	At 28 March 2010 £m	At 29 March 2009 £m
Experience adjustment on assets	(205)	501	1,992	701	4,156	(5,097)
Experience adjustment on liabilities	4	101	(5)	(7)	626	(9)

FYE 2010 and FYE 2009 have not been adjusted in accordance with IAS 19.

### g) Recognised charges – RMPP and RMSEPP

A disaggregation of the amounts recognised in the income statement, statement of comprehensive income and directly in equity is as follows:

	13 weeks ended		53 weeks ended	52 weeks ended	52 weeks ended
	30 June 2013 £m	24 June 2012 £m	31 March 2013 £m	25 March 2012 £m	27 March 2011 £m
Analysis of amounts recognised in the income statement:					
Analysis of amounts charged to operating profit before exceptional items:					
– Current service cost	(119)	(107)	(412)	(384)	(423)
Total charge to operating profit before exceptional items	(119)	(107)	(412)	(384)	(423)
Analysis of amounts charged to operating exceptional items:					
– Loss due to curtailments (within transformation provision – note 18)	–	–	(11)	(15)	(45)
Total charge to operating profit	(119)	(107)	(423)	(399)	(468)

## 8. Employee benefits – pensions (continued)

	13 weeks ended		53 weeks ended	52 weeks ended	52 weeks ended
	30 June 2013	24 June 2012	31 March 2013	25 March 2012	27 March 2011
	£m	£m	£m	£m	£m
Net interest credit/(charge) to financing	9	9	30	(230)	(419)
Net charge to income statement before deduction for taxation	(110)	(98)	(393)	(629)	(887)
Analysis of amounts recognised in the statement of comprehensive income:					
– Actual return on plans' assets	(162)	408	660	3,389	2,031
– Deduct: expected interest	(43)	(41)	(159)	(1,397)	(1,330)
Actuarial (losses)/gains on assets (all experience adjustments)	(205)	367	501	1,992	701
– Experience adjustments on liabilities	4	5	101	(5)	(7)
– Effects of changes in actuarial assumption on liabilities	37	(652)	(816)	(297)	2,754
Actuarial gains/(losses) on liabilities	41	(647)	(715)	(302)	2,747
Total actuarial (losses)/gains recognised in the statement of comprehensive income before deduction for taxation	(164)	(280)	(214)	1,690	3,448
Analysis of amounts recognised directly in equity:					
– Transfer of pension assets to HM Government	–	(26,485)	(26,485)	–	–
– Transfer of pension liabilities to HM Government	–	30,211	30,211	–	–
Transfer of historic pension deficit to HM Government	–	3,726	3,726	–	–

## 9. People information

	13 weeks ended		13 weeks ended		53 weeks ended		52 weeks ended		52 weeks ended	
	30 June 2013		24 June 2012		31 March 2013		25 March 2012		27 March 2011	
	£m		£m		£m		£m		£m	
<b>People costs:</b>										
Wages and salaries										
– UK based	990		986		4,072		3,890		3,940	
– GLS	75	1,065	70	1,056	282	4,354	290	4,180	274	4,214
Pensions										
– Defined benefit (UK)	119		107		412		384		423	
– Defined contribution (UK)	6	125	3	110	17	429	11	395	9	432
– GLS (mainly Defined Contribution type)		1		1		5		5		5
Social security										
– UK based	81		74		309		287		287	
– GLS	14	95	13	87	50	359	53	340	48	335
Group total		1,286		1,254		5,147		4,920		4,986
<b>Defined benefit pension rate:</b>										
Profit and loss <sup>1</sup>		20.3%		18.2%		18.2%		17.1%		17.8%
Cash flow <sup>1</sup>		17.1%		17.1%		17.1%		17.1%		17.1%
<b>Defined contribution pension rate:</b>										
Employer contribution rates – Profit and loss and cash flow <sup>2</sup>		1% – 7%		5% – 7%		1% – 7%		5% – 7%		5% – 7%

<sup>1</sup> For major scheme RMPP.

<sup>2</sup> Employer contribution rates are 1% for employees in the Entry Level category, and 5% – 7% for those in the Standard Level category, depending on the employees' selected contribution rate.

## 9. People information (continued)

### People numbers:

	Period end employees					Average employees				
	30 June 2013	24 June 2012	31 March 2013	25 March 2012	27 March 2011	30 June 2013	24 June 2012	31 March 2013	25 March 2012	27 March 2011
UK Parcels, International & Letters (UKPIL)	149,437	150,052	149,940	151,156	155,181	149,600	150,353	149,710	152,514	157,317
UK partially owned subsidiaries (Romec, NDC 2000)	4,068	3,874	4,030	3,926	4,254	4,066	3,879	4,013	3,972	4,244
General Logistics Systems	13,523	13,522	13,646	13,362	13,167	13,560	13,588	13,569	13,103	13,120
Group total	167,028	167,448	167,616	168,444	172,602	167,226	167,820	167,292	169,589	174,681

The number of Full-Time Equivalents (FTE) employed was:

	Period end FTE					Average FTE				
	30 June 2013	24 June 2012	31 March 2013	25 March 2012	27 March 2011	30 June 2013	24 June 2012	31 March 2013	25 March 2012	27 March 2011
UK Parcels, International & Letters (UKPIL)	148,777	151,632	151,191	153,751	158,376	148,802	151,624	154,362	157,286	162,865
UK partially owned subsidiaries (Romec, NDC 2000)	3,325	3,331	3,655	3,813	4,214	3,328	3,273	3,655	3,813	4,214
General Logistics Systems	9,379	9,276	9,272	9,198	9,021	9,391	9,409	9,232	9,568	9,200
Group total	161,481	164,239	164,118	166,762	171,611	161,521	164,306	167,249	170,667	176,279

## 10. Other operating costs

Operating profit before exceptional items is stated after charging the following other operating costs:

	13 weeks ended		53 weeks ended	52 weeks ended	52 weeks ended
	30 June 2013 £m	24 June 2012 £m	31 March 2013 £m	25 March 2012 £m	27 March 2011 £m
UK Pension costs (note 8)	125	110	429	395	432
Depreciation and amortisation:					
Depreciation of property, plant and equipment (note 19)	56	62	238	268	250
Amortisation of intangible assets (mainly software – note 21)	8	8	43	33	36
Total	64	70	281	301	286
Operating lease charges on property, plant and equipment	37	37	153	150	151
Costs of inventories expensed	39	41	184	174	157

Research and development expenditure during all periods was £nil.

The following information is relevant in understanding the extent of the Group's regulatory costs and statutory audit costs:

Regulatory body costs:	13 weeks ended		53 weeks ended	52 weeks ended	52 weeks ended
	30 June 2013 £m	24 June 2012 £m	31 March 2013 £m	25 March 2012 £m	27 March 2011 £m
Postcomm	–	–	–	6	10
Ofcom	1	1	5	2	–
Consumer Futures	1	1	3	3	3
Total	2	2	8	11	13

## 10. Other operating costs (continued)

	13 weeks ended		53 weeks ended	52 weeks ended	52 weeks ended
	30 June	24 June	31 March	25 March	27 March
	2013	2012	2013	2012	2011
	£000	£000	£000	£000	£000
<b>Auditor's fees:</b>					
Audit of statutory financial statements	–	–	402	402	402
Other fees to auditor:					
Statutory audits for subsidiaries	–	–	1,566	1,706	1,398
Other services (including regulatory audits)	895	–	208	669	471
Taxation services	–	–	228	78	55
<b>Total</b>	<b>895</b>	<b>–</b>	<b>2,404</b>	<b>2,855</b>	<b>2,326</b>

The Group paid £nil additional amounts in the 13 weeks ended 30 June 2013 in respect of the 2013 audit (£80,850 in the 53 weeks ended 31 March 2013 in respect of the 2012 audit, £267,000 in the 52 weeks ended 25 March 2012 in respect of 2011 audit, £nil in the 52 weeks ended 27 March 2011 in respect of the 2010 audit).

## 11. Financial assets and liabilities – introduction, summary and management of financial risk

	At 30 June 2013		
	Non-current £m	Current £m	Total £m
Pension escrow investments	20	–	20
Cash and cash equivalents	–	488	488
Other bank and local authority deposits	–	1	1
Derivative assets	2	3	5
<b>Total financial assets</b>	<b>22</b>	<b>492</b>	<b>514</b>
BIS loans to Royal Mail Group Limited	(973)	–	(973)
<b>Total loans and borrowings</b>	<b>(973)</b>	<b>–</b>	<b>(973)</b>
Finance leases obligations	(252)	(80)	(332)
Derivative liabilities	(4)	(5)	(9)
<b>Total financial liabilities</b>	<b>(1,229)</b>	<b>(85)</b>	<b>(1,314)</b>

	At 31 March 2013			At 25 March 2012			At 27 March 2011		
	Non-current £m	Current £m	Total £m	Non-current £m	Current £m	Total £m	Non-current £m	Current £m	Total £m
Pension escrow investments	20	–	20	149	–	149	87	–	87
Cash and cash equivalents	–	351	351	–	473	473	–	319	319
Other bank and local authority deposits	–	1	1	–	31	31	44	1	45
Derivative assets	3	9	12	2	9	11	6	36	42
<b>Total financial assets</b>	<b>23</b>	<b>361</b>	<b>384</b>	<b>151</b>	<b>513</b>	<b>664</b>	<b>137</b>	<b>356</b>	<b>493</b>
BIS loans to Royal Mail Group Limited	(973)	–	(973)	(1,522)	–	(1,522)	(1,477)	–	(1,477)
Miscellaneous loans in subsidiaries	–	–	–	–	–	–	(1)	–	(1)
<b>Total loans and borrowings</b>	<b>(973)</b>	<b>–</b>	<b>(973)</b>	<b>(1,522)</b>	<b>–</b>	<b>(1,522)</b>	<b>(1,478)</b>	<b>–</b>	<b>(1,478)</b>
Finance leases obligations	(226)	(79)	(305)	(231)	(86)	(317)	(184)	(61)	(245)
Derivative liabilities	(1)	(2)	(3)	(1)	(4)	(5)	–	(3)	(3)
<b>Total financial liabilities</b>	<b>(1,200)</b>	<b>(81)</b>	<b>(1,281)</b>	<b>(1,754)</b>	<b>(90)</b>	<b>(1,844)</b>	<b>(1,662)</b>	<b>(64)</b>	<b>(1,726)</b>

### Financial assets and liabilities – financial risk management objectives and policies

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

The Group enters into derivative transactions, which create derivative assets and liabilities, mainly commodity price swaps and forward currency contracts, their purpose being to manage the commodity and currency risks arising from the Group's operations.



## **11. Financial assets and liabilities – introduction, summary and management of financial risk (continued)**

It is, and has been throughout the periods under review, the Group's policy that no speculative trading in financial instruments shall be undertaken.

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

### **Interest rate risk**

The Group's exposure to market risk for changes in interest rates relates to the Group's loans and borrowings and interest bearing financial assets. The BIS loans to Royal Mail Group Limited of £973 million (at 31 March 2013 £973 million, at 25 March 2012 £1,522 million at 27 March 2011 £1,477 million) are a mix of £nil (at 31 March 2013 £nil, at 25 March 2012 £600 million, at 27 March 2011 £600 million) floating interest rate and £973 million (at 31 March 2013 £973 million, at 25 March 2012 £922 million, at 27 March 2011 £877 million) fixed interest rate with a combined average maturity date of 2019 (at 31 March 2013 average maturity date of 2019, at 25 March 2012 average maturity date of 2017, at 27 March 2011 average maturity date of 2017). The total interest bearing financial assets of the Group (excluding the non-current investments) of £449 million (at 31 March 2013 £336 million, at 25 March 2012 £487 million, at 27 March 2011 £319 million) are at short-dated fixed or variable interest rates with average maturity six days (at 31 March 2013 average maturity nine days, at 25 March 2012 average maturity 18 days, at 27 March 2011 average maturity six days).

The Group's policy is to manage its net interest expense using a mix of fixed and floating rate financial instruments. No external hedging of interest rate risk is undertaken.

### **Foreign currency transaction risk**

The Group is exposed to foreign currency transaction risk due to: trading with overseas postal operators for carrying UK mail abroad and delivering foreign origin mail in UKPIL, and various purchase contracts denominated in foreign currency, all in UKPIL. These risks are mitigated by hedging programmes managed by Group Treasury. Where possible, exposures are netted internally and any remaining exposure is hedged using a combination of external spot and forward contracts. Hedging will not normally be considered for exposures of less than £1 million and hedging is normally confined to 80 per cent of the forecast exposure, where forecast cash flows are highly probable.

### **Foreign currency translation risk**

The Group's functional currency is the Pound Sterling. GLS' functional currency is the Euro. GLS Euro profits are converted at the average exchange rate for the year, which can result in reported growth which does not relate to underlying performance. This is addressed, for reporting purposes, by using like-for-like growth rates.

GLS' balance sheet is converted at year end rates, and movements relating to foreign currency translation are taken to equity.

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

The Group's obligations to settle conveyance charges in UKPIL in US\$ have been hedged to March 2014.

The Group has two hedge programmes covering obligations to settle Euro invoices on automation projects in UKPIL.

The Group does not hedge the translation exposure created by the net assets of its overseas subsidiaries, mainly GLS. However, it does hedge the transactional exposure created by inter-company loans with these subsidiaries.

### **Commodity price risk**

The Group is exposed to fuel price risk arising from operating one of the largest vehicle fleets in Europe, which consumes over 130 million litres of fuel per year, and a jet fuel price risk arising from the purchasing

## **11. Financial assets and liabilities – introduction, summary and management of financial risk (continued)**

of air freight services. The Group's fuel risk management strategy aims to reduce uncertainty created by the movements in the oil and foreign currency markets. The strategy uses over-the-counter derivative products (in both US\$ commodity price and US\$/Sterling exchange rate) to manage these exposures, mainly on a combined basis.

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

### **Credit risk**

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

Royal Mail has a dedicated credit management team, which sets and monitors credit limits, and takes corrective action as and when appropriate. The level of bad debt incurred for the whole Group at 30 June 2013 is 0.2 per cent (31 March 2013 0.1 per cent, 25 March 2012 0.3 per cent, 27 March 2011 0.1 per cent) of turnover.

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

### **Liquidity risk**

The Group's primary objective is to ensure that the Group has sufficient funds available to meet its financial obligations as they fall due. This is achieved by aligning short-term investments and borrowing facilities with forecast cash flows. Typical short-term investments include money market funds and time deposits with approved counterparties, UK Government gilts and Treasury bills. Borrowing facilities are regularly reviewed to ensure continuity of funding.

The unused facilities for Royal Mail Group Limited of £900 million expire in 2014 (at 31 March 2013 £900 million expire in 2014, at 25 March 2012 and at 27 March 2011 £300 million expiring in 2014). Additionally, the Group has £200 million (at 31 March 2013, at 25 March 2012 and at 27 March 2011 £200 million) of uncommitted lines of credit which are reviewed annually.

### **Capital management**

Royal Mail Group Limited is a limited company whose shares are not traded and the Group regards its capital as share capital, share premium, retaining earnings and debt provided by the UK Government. The ultimate shareholder and the provider of the majority of debt to the Group is the UK Government. The management of capital is closely linked to the Group's relationship with its ultimate shareholder. The Group maintains its liquidity requirements by the management of its internal funds and by the drawing down of equity and debt from its ultimate shareholder as well as drawing on limited external debt facilities. The Group's debt to equity ratio is determined by its ultimate shareholder.

### **Sensitivity**

As a result of the mix of fixed and variable rate financial instruments and the currency and commodity hedge programmes in place, the Group has no material exposure to operating profit from interest rate risk, exchange rate risk or commodity price risk (at 31 March 2013, at 25 March 2012 and at 27 March 2011 £nil). The Group has an exposure to the exchange rate risk on translating the GLS net assets into Sterling on consolidation. The impact of a five per cent. strengthening of Sterling would have been to reduce the Group net assets by £33 million (at 31 March 2013 £31 million, at 25 March 2012 £39 million, at 27 March 2011 £37 million).

## 12. Pension escrow investments

As from 1 April 2012, following the transfer of almost all of the RMPP pension liabilities and pension assets to HM Government, and hence the removal of the historic pension deficit, £149 million of investments – which were previously held in pension escrow in Royal Mail Group Limited – were released to the Company. These were subsequently sold and proceeds used to pay down loans to HM Government.

On 25 March 2013, the Company placed £20 million in a money market fund investment established to provide security to the Royal Mail Senior Executives Pension Plan (RMSEPP) as part of a funding agreement with the RMSEPP Trustees. This is treated as an investment in the Group's balance sheet. RMSEPP was closed to future accruals on 31 December 2012.

The pension escrow investments are analysed in the table below:

	13 weeks ended 30 June 2013		Year ended 31 March 2013		Year ended 25 March 2012		Year ended 27 March 2011	
	Average effective interest rate %	£m	Average effective interest rate %	£m	Average effective interest rate %	£m	Average effective interest rate %	£m
Cash at bank	–	–	–	–	–	–	–	–
Treasury bills	–	–	–	–	0.4	45	–	–
Gilt edged securities (index-linked)	–	–	–	–	4.3	79	4.7	66
Gilt edged securities (conventional)	–	–	–	–	4.8	25	4.8	21
Money market fund	0.3	20	0.3	20	–	–	–	–
Total pension escrow investments		20		20		149		87

Treasury bills, index-linked gilt edged securities and conventional gilt edged securities are classified as available for sale financial instruments on the basis that they are quoted investments that are not held for trading and may be disposed of prior to maturity. The investments are initially recognised at fair value, being the purchase price. After initial recognition, interest is included in the reported profit/(loss) for the year, using the effective interest rate method and the assets are measured at fair value with gains and losses being recognised in the Financial Assets Reserve until the investment is derecognised.

There is no net increase/decrease in the pension escrow investments in the 13 weeks ended 30 June 2013. The decrease in the pension escrow investments of £129 million in the 53 weeks ended 31 March 2013 consists of £149 million relating to RMPP due to the sale of the investments, offset by a £20 million money market investment established as security for RMSEPP. The increase in the RMPP related pension escrow investments of £62 million in the 52 weeks ended 25 March 2012 comprised £4 million interest on the investments, £14 million fair value gain deferred into equity and £44 million paid into escrow on disposal of a property previously held under mortgage in escrow.

## 13. Cash and cash equivalents

Cash and cash equivalents include cash and other cash equivalent investments as shown below:

	At 30 June 2013 £m	At 31 March 2013 £m	At 25 March 2012 £m	At 27 March 2011 £m
Cash at bank and in hand	163	136	172	100
Cash equivalent investments: short-term bank and local authority deposits and money market fund investments	325	215	301	219
Total cash and cash equivalents	488	351	473	319

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits (cash equivalents) with an original maturity date of three months or less. In addition, the Group uses money market funds as a readily available source of cash, and these funds are also categorised as cash equivalents. Where interest is earned, this is either at floating or short-term fixed rates based upon bank deposit rates. The fair value of cash and cash equivalent investments is not materially different from the carrying value of £488 million (at 31 March 2013 £351 million, at 25 March 2012 £473 million, at 27 March 2011 £319 million).

#### 14. Loans and borrowings

Below is a summary of loans and borrowings at 30 June 2013, the average interest rate, facility availability and security granted.

At 30 June 2013						
	Loans and borrowings £m	Further committed facility £m	Total facility £m	Average interest rate of loan drawn down %	Average maturity date of drawn loans	Average maturity date of facility
Senior Debt Facility (term loan) <sup>1</sup>	–	600	600	–	–	2014
Senior Debt Facility (revolver)	–	300	300	–	–	2014
GLS Funding Loan	500	–	500	5.8	2023	2023
Shareholder Loan	473	–	473	12.0	2016	2016
Total BIS loans to Royal Mail Group Limited	973	900	1,873	8.8		

At 31 March 2013						
	Loans and borrowings £m	Further committed facility £m	Total facility £m	Average interest rate of loan drawn down %	Average maturity date of drawn loans	Average maturity date of facility
Senior Debt Facility (term loan) <sup>1</sup>	–	600	600	–	–	2014
Senior Debt Facility (revolver)	–	300	300	–	–	2014
GLS Funding Loan	500	–	500	5.8	2023	2023
Shareholder Loan	473	–	473	12.0	2016	2016
Total BIS loans to Royal Mail Group Limited	973	900	1,873	8.8		

<sup>1</sup> On 30 March 2012 the Group agreed an amendment to this facility to permit repayment and reborrowing. The outstanding balance was repaid during April and May 2012, since when no further drawdowns have been made.

At 25 March 2012						
	Loans and borrowings £m	Further committed facility £m	Total facility £m	Average interest rate of loan drawn down %	Average maturity date of drawn loans	Average maturity date of facility
Senior Debt Facility (term loan)	600	–	600	2.2	2014	2014
Senior Debt Facility (revolver)	–	300	300	–	–	2014
GLS Funding Loan	500	–	500	5.8	2023	2023
Shareholder Loan	422	–	422	12.0	– <sup>2</sup>	– <sup>2</sup>
Total BIS loans to Royal Mail Group Limited	1,522	300	1,822	6.1		

At 27 March 2011						
	Loans and borrowings £m	Further committed facility £m	Total facility £m	Average interest rate of loan drawn down %	Average maturity date of drawn loans	Average maturity date of facility
Senior Debt Facility (term loan)	600	–	600	3.0	2014	2014
Senior Debt Facility (revolver)	–	300	300	–	–	2014
GLS Funding Loan	500	–	500	5.8	2023	2023
Shareholder Loan	377	–	377	12.0	– <sup>2</sup>	– <sup>2</sup>
Miscellaneous loans and borrowings in subsidiaries	1	–	1	4.5	2012	2012
Total BIS loans to Royal Mail Group Limited	1,478	300	1,778	6.3		

<sup>2</sup> Loan facilities are repayable on the later of March 2016 and the release of the pension escrow investment. As from 1 April 2012, following the transfer of almost all of the RMPP pension liabilities and pension assets to HM Government, the loan facilities are repayable in March 2016.

#### 14. Loans and borrowings (continued)

The undrawn committed facilities, in respect of which all conditions precedent had been met at the balance sheet date, expire as follows:

	At 30 June 2013 £m	At 31 March 2013 £m	At 25 March 2012 £m	At 27 March 2011 £m
Expiring in one year or less	900	900	–	–
Expiring in more than one year, but not more than two years	–	–	300	–
Expiring in more than two years	–	–	–	300
Total	900	900	300	300

The following securities apply to the Group's committed facilities:

	At 30 June 2013 Facility £m	Facility end date	At 31 March 2013 Facility £m	Facility end date	At 25 March 2012 Facility £m	Facility end date	At 27 March 2011 Facility £m	Facility end date	Security
Royal Mail Group Limited Senior Debt Facility	900	2014	900	2014	900	2014	900	2014	Fixed charges over Royal Mail Holdings plc's shares in Royal Mail Group Limited and Royal Mail Group Limited's shares in Royal Mail Estates Limited. Floating charges over all assets of Royal Mail Holdings plc, Royal Mail Group Limited and Royal Mail Estates Limited.
Royal Mail Group Limited Shareholder Loan Facility	473	2016	473	2016	422	— <sup>3</sup>	377	— <sup>3</sup>	None
Royal Mail Group Limited other drawn down loans	500	2021–2025	500	2021–2025	500	2021–2025	500	2021–2025	Fixed charges over any Royal Mail Group Limited loans to General Logistics Systems B.V., any Royal Mail Group Limited loans to subsidiaries of General Logistics Systems B.V. and Royal Mail Investments Limited's shares in General Logistics Systems B.V. Floating charge over non-regulated assets of Royal Mail Group Limited.
	1,873		1,873		1,822		1,777		

<sup>3</sup> As from 1 April 2012, following the transfer of almost all of the RMPP pension liabilities and pension assets to HM Government, resulting in a release of the pension escrow investments, the loan facilities are repayable in March 2016.

The Royal Mail Group Limited Shareholder Loan increased by £nil (at 31 March 2013 £51 million, at 25 March 2012 £45 million, at 27 March 2011 £40 million) as a result of accrued interest added to the loan balance.

The security in place at 30 June 2013 was as disclosed above – with the exception of £nil (at 31 March 2013 £nil, at 25 March 2012 £60 million, at 27 March 2011 £102 million) mortgages over certain Group properties which were established in March 2011.

The BIS loan to Royal Mail Group Limited becomes repayable immediately on the occurrence of an event of default under the loan agreements. These events of default include non-payment, insolvency and breach of covenant relating to interest and total indebtedness. It is not anticipated that the Group is at risk of breaching any of these obligations.



## 15. Financial liabilities net and gross maturity analysis

At 30 June 2013				
	Loans and borrowings £m	Finance leases £m	Derivative liabilities £m	Total £m
Amounts falling due in:				
One year or less or on demand (current)	–	80	5	85
More than one year (non-current)	973	252	4	1,229
More than one year but not more than two years	–	63	3	66
More than two years but not more than five years	473	161	1	635
More than five years	500	28	–	528
<b>Total</b>	<b>973</b>	<b>332</b>	<b>9</b>	<b>1,314</b>

At 31 March 2013				
	Loans and borrowings £m	Finance leases £m	Derivative liabilities £m	Total £m
Amounts falling due in:				
One year or less or on demand (current)	–	79	2	81
More than one year (non-current)	973	226	1	1,200
More than one year but not more than two years	–	56	1	57
More than two years but not more than five years	473	139	–	612
More than five years	500	31	–	531
<b>Total</b>	<b>973</b>	<b>305</b>	<b>3</b>	<b>1,281</b>

At 25 March 2012				
	Loans and borrowings £m	Finance leases £m	Derivative liabilities £m	Total £m
Amounts falling due in:				
One year or less or on demand (current)	–	86	4	90
More than one year (non-current)	1,522	231	1	1,754
More than one year but not more than two years	600	52	1	653
More than two years but not more than five years	–	142	–	142
More than five years	922	37	–	959
<b>Total</b>	<b>1,522</b>	<b>317</b>	<b>5</b>	<b>1,844</b>

At 27 March 2011				
	Loans and borrowings £m	Finance leases £m	Derivative liabilities £m	Total £m
Amounts falling due in:				
One year or less or on demand (current)	–	61	3	64
More than one year (non-current)	1,478	184	–	1,662
More than one year but not more than two years	–	47	–	47
More than two years but not more than five years	601	103	–	704
More than five years	877	34	–	911
<b>Total</b>	<b>1,478</b>	<b>245</b>	<b>3</b>	<b>1,726</b>

Obligations under finance leases are either unsecured or secured on the leased assets. These are repayable in variable and fixed amounts over their maturity periods. The average interest rate is four per cent. (at 31 March 2013, at 25 March 2012 and at 27 March 2011 four per cent.). The average maturity date is more than five years (at 31 March 2013, at 25 March 2012 and at 27 March 2011 more than five years).

## 15. Financial liabilities net and gross maturity analysis (continued)

The tables below set out the gross (undiscounted) contractual cash flows of the Group's financial liabilities. For overdrafts, loans and finance lease contracts, these cash flows represent the undiscounted total amounts payable including interest. For derivatives which are settled gross, these cash flows represent the undiscounted gross payment due and do not reflect the accompanying inflow. For derivatives which are settled net, these cash flows represent the undiscounted forecast outflow.

At 30 June 2013						
	Gross loans and borrowings commitments £m	Gross finance lease instalments £m	Sub-total £m	Gross payments on derivatives settled gross £m	Gross payments on derivatives settled net £m	Total £m
Amounts falling due in:						
One year or less or on demand (current)	29	89	118	135	4	257
More than one year (non-current)	1,435	357	1,792	–	4	1,796
More than one year but not more than two years	29	69	98	–	3	101
More than two years but not more than five years	752	170	922	–	1	923
More than five years	654	118	772	–	–	772
Total	1,464	446	1,910	135	8	2,053
Less interest	(491)	(114)	(605)	n/a	n/a	n/a
Net total	973	332	1,305	n/a	n/a	n/a

At 31 March 2013						
	Gross loans and borrowings commitments £m	Gross finance lease instalments £m	Sub-total £m	Gross payments on derivatives settled gross £m	Gross payments on derivatives settled net £m	Total £m
Amounts falling due in:						
One year or less or on demand (current)	29	87	116	120	2	238
More than one year (non-current)	1,435	330	1,765	2	1	1,768
More than one year but not more than two years	29	61	90	2	1	93
More than two years but not more than five years	752	147	899	–	–	899
More than five years	654	122	776	–	–	776
Total	1,464	417	1,881	122	3	2,006
Less interest	(491)	(112)	(603)	n/a	n/a	n/a
Net total	973	305	1,278	n/a	n/a	n/a

## 15. Financial liabilities net and gross maturity analysis (continued)

At 25 March 2012						
	Gross loans and borrowings commitments £m	Gross finance lease instalments £m	Sub-total £m	Gross payments on derivatives settled gross £m	Gross payments on derivatives settled net £m	Total £m
Amounts falling due in:						
One year or less or on demand (current)	46	98	144	316	3	463
More than one year (non-current)	2,081	344	2,425	3	1	2,429
More than one year but not more than two years	646	60	706	3	1	710
More than two years but not more than five years	88	153	241	–	–	241
More than five years	1,347	131	1,478	–	–	1,478
Total	2,127	442	2,569	319	4	2,892
Less interest	(605)	(125)	(730)	n/a	n/a	n/a
Net total	1,522	317	1,839	n/a	n/a	n/a

At 27 March 2011						
	Gross loans and borrowings commitments £m	Gross finance lease instalments £m	Sub-total £m	Gross payments on derivatives settled gross £m	Gross payments on derivatives settled net £m	Total £m
Amounts falling due in:						
One year or less or on demand (current)	49	72	121	379	2	502
More than one year (non-current)	2,144	297	2,441	3	–	2,444
More than one year but not more than two years	51	54	105	3	–	108
More than two years but not more than five years	717	112	829	–	–	829
More than five years	1,376	131	1,507	–	–	1,507
Total	2,193	369	2,562	382	2	2,946
Less interest	(715)	(124)	(839)	n/a	n/a	n/a
Net total	1,478	245	1,723	n/a	n/a	n/a

## 16. Financial assets and liabilities – additional analysis

### Carrying amounts and fair values

Trade receivables, payables, prepayments, accruals and client payables have been omitted from this analysis on the basis that carrying value is a reasonable approximation for fair value. Pension scheme assets and liabilities are also excluded. Fair values have been calculated using current market prices (forward exchange rates/commodity prices) and discounted using appropriate discount rates. There are no material differences between the fair value (market transaction price) of all financial instruments at initial recognition and the fair value calculated using these valuation techniques. The fair value of the BIS loans to Royal Mail Group Limited (non-current) is £1,126 million at 30 June 2013 (at 31 March 2013 £1,165 million, at 25 March 2012 £1,698 million, at 27 March 2011 £1,563 million). The fair value of 'Obligations under finance leases' is £332 million (at 31 March 2013 £308 million, at 25 March 2012 £327 million, at 27 March 2011 £248 million). For all other financial instruments fair value is equal to the carrying amount.

## 16. Financial assets and liabilities – additional analysis (continued)

The tables below also set out the carrying amount of the currency of the Group's financial instruments:

**Table 1: Summary of financial assets and liabilities**

			At 30 June 2013 £m	At 31 March 2013 £m	At 25 March 2012 £m	At 27 March 2011 £m
	Level	Classification				
<b>Financial assets</b>						
Cash at bank or in hand			163	136	172	100
Cash equivalent investments			325	215	301	219
– Money market funds		Loans and receivables	235	88	271	98
– Short-term deposits – local government		Loans and receivables	–	7	–	29
– Short-term deposits – bank		Loans and receivables	90	120	30	92
Cash and cash equivalents			488	351	473	319
Financial assets – investments (current)			1	1	31	1
– Short-term deposits – HM Government/ local government		Loans and receivables	1	1	1	1
– Short-term deposits – bank		Loans and receivables	–	–	30	–
Financial assets – investments (non-current) – bank deposits		Loans and receivables	–	–	–	44
Financial assets – pension escrow investments (non-current)	1		20	20	149	87
– Money market funds		Loans and receivables	20	20	–	–
– Treasury bills	1	Available for sale	–	–	45	–
– Gilt edged securities (conventional)	1	Available for sale	–	–	25	21
– Gilt edged securities (index linked)	1	Available for sale	–	–	79	66
Derivative assets – current	2		3	9	9	36
– non-current	2		2	3	2	6
Total financial assets			514	384	664	493
<b>Financial liabilities</b>						
Obligations under finance leases (current)		Amortised cost	(80)	(79)	(86)	(61)
Financial liabilities – loans and borrowings (non-current)			(973)	(973)	(1,522)	(1,478)
– BIS loans to Royal Mail Group Limited		Amortised cost	(973)	(973)	(1,522)	(1,477)
– Miscellaneous loans in subsidiaries (non-current)		Amortised cost	–	–	–	(1)
Obligations under finance leases (non-current)		Amortised cost	(252)	(226)	(231)	(184)
Derivative liabilities – current	2		(5)	(2)	(4)	(3)
Derivative liabilities – non-current	2		(4)	(1)	(1)	–
Total financial liabilities			(1,314)	(1,281)	(1,844)	(1,726)
Net total financial liabilities			(800)	(897)	(1,180)	(1,233)

There are no financial assets or liabilities designated at fair value through the income statement on initial recognition.

The criteria for codification of 'Level' in the above table is described in the accounting policy 'Fair value measurement of financial instruments' on page F-64.

Derivative assets – £3 million current, £2 million non-current (at 31 March 2013 £9 million current, £3 million non-current, at 25 March 2012 £9 million current, £2 million non-current, at 27 March 2011 £36 million current, £6 million non-current) and liabilities £5 million current, £4 million non-current (at 31 March 2013 £2 million current, £1 million non-current, at 25 March 2012 £4 million current, £1 million non-current, at 27 March 2011 £3 million current, £nil non-current) are valued at fair value. Effective changes in the fair value of derivatives, which are part of a designated cash flow hedge under IAS 39, are deferred into equity. All other changes in derivative fair value are taken directly to the income statement.

## 16. Financial assets and liabilities – additional analysis (continued)

None of the financial assets listed above are either past due or considered to be impaired.

The net total financial assets are held in various different currencies as summarised in the table below. The majority of the non-Sterling financial assets are held within cash at bank, or in hand.

**Table 2: Net total financial liabilities by currency**

	Sterling £m	US\$ £m	Euro £m	Other £m	Total £m
Net total financial (liabilities)/assets 13 weeks ended 30 June 2013	(921)	(2)	79	44	(800)
Net total financial (liabilities)/assets 53 weeks ended 31 March 2013	(1,005)	5	66	37	(897)
Net total financial (liabilities)/assets 52 weeks ended 25 March 2012	(1,343)	11	118	34	(1,180)
Net total financial (liabilities)/assets 52 weeks ended 27 March 2011	(1,416)	74	87	22	(1,233)

### Interest rate risk

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

The tables below set out the carrying amount by maturity of the Group's financial instruments that are exposed to interest rate risk. The pension escrow investments of £20 million at 30 June 2013 represent a money market fund investment established to provide security to the Royal Mail Senior Executives Pension Plan (RMSEPP) in support of a deficit recovery period agreed with the Trustee in 2013 and as such are disclosed as maturing in more than five years.

**Table 3: Net total financial liabilities by rate**

	Fixed rate £m	Floating rate £m	Non-interest bearing £m	Total £m
<b>At 30 June 2013</b>				
Cash	16	107	40	163
Cash equivalent investments	90	235	–	325
Financial asset investments (current)	1	–	–	1
Pension escrow investments	–	20	–	20
Derivative – assets	–	–	5	5
– liabilities	–	–	(9)	(9)
BIS loans to Royal Mail Group Limited	(973)	–	–	(973)
Obligations under finance leases	(332)	–	–	(332)
Net total financial (liabilities)/assets	(1,198)	362	36	(800)

**Table 3: Net total financial liabilities by rate**

	Fixed rate £m	Floating rate £m	Non-interest bearing £m	Total £m
<b>At 31 March 2013</b>				
Cash	18	102	16	136
Cash equivalent investments	127	88	–	215
Financial asset investments (current)	1	–	–	1
Pension escrow investments	–	20	–	20
Derivative – assets	–	–	12	12
– liabilities	–	–	(3)	(3)
BIS loans to Royal Mail Group Limited	(973)	–	–	(973)
Obligations under finance leases	(305)	–	–	(305)
Net total financial (liabilities)/assets	(1,132)	210	25	(897)



## 16. Financial assets and liabilities – additional analysis (continued)

**Table 3: Net total financial liabilities by rate**

	Fixed rate £m	Floating rate £m	Non-interest bearing £m	Total £m
<b>At 25 March 2012</b>				
Cash	28	127	17	172
Cash equivalent investments	30	271	–	301
Financial asset investments (current)	31	–	–	31
Pension escrow investments	25	124	–	149
Derivative – assets	–	–	11	11
– liabilities	–	–	(5)	(5)
BIS loans to Royal Mail Group Limited	(922)	(600)	–	(1,522)
Obligations under finance leases	(317)	–	–	(317)
Net total financial (liabilities)/assets	(1,125)	(78)	23	(1,180)

**Table 3: Net total financial liabilities by rate**

	Fixed rate £m	Floating rate £m	Non-interest bearing £m	Total £m
<b>At 27 March 2011</b>				
Cash	12	87	1	100
Cash equivalent investments	121	98	–	219
Financial asset investments (current)	1	–	–	1
Pension escrow investments	21	66	–	87
Financial asset investments (non-current)	44	–	–	44
Derivative – assets	–	–	42	42
– liabilities	–	–	(3)	(3)
BIS loans to Royal Mail Group Limited	(877)	(600)	–	(1,477)
Miscellaneous loans and borrowings in subsidiaries	(1)	–	–	(1)
Obligations under finance leases	(245)	–	–	(245)
Net total financial (liabilities)/assets	(924)	(349)	40	(1,233)

**Table 4: Overview of fixed/floating/non-interest bearing amounts**

	Average effective interest rate %	Within 1 year £m	1–2 years £m	2–5 years £m	More than 5 years £m	Total £m
<b>At 30 June 2013</b>						
Fixed rate:						
Cash at bank	2.3	16	–	–	–	16
Cash equivalent investments:						
– Short-term deposits – bank	0.5	90	–	–	–	90
Financial assets – investments (current):						
– Short-term deposits – HM Government/ local government	7.7	1	–	–	–	1
BIS loans to Royal Mail Group Limited	8.8	–	–	(473)	(500)	(973)
Obligations under finance leases	3.5	(80)	(63)	(161)	(28)	(332)
Total		27	(63)	(634)	(528)	(1,198)
Floating rate:						
Cash at bank	0.6	107	–	–	–	107
Cash equivalent investments:						
– Money market funds	0.4	235	–	–	–	235
Pension escrow investments – money market funds	0.3	–	–	–	20	20
Total		342	–	–	20	362

## 16. Financial assets and liabilities – additional analysis (continued)

	Average effective interest rate %	Within 1 year £m	1–2 years £m	2–5 years £m	More than 5 years £m	Total £m
Non-interest bearing:						
Cash at bank or in hand		40	–	–	–	40
Derivative assets		3	1	1	–	5
Derivative liabilities		(5)	(3)	(1)	–	(9)
Total		38	(2)	–	–	36
Net total financial assets/(liabilities)		407	(65)	(634)	(508)	(800)

### At 31 March 2013

Fixed rate:						
Cash at bank	3.2	18	–	–	–	18
Cash equivalent investments:						
– Short-term deposits – bank	0.4	120	–	–	–	120
– Short-term deposits – HM Government/ local government	0.4	7	–	–	–	7
Financial assets – investments (current):						
– Short-term deposits – HM Government/ local government	7.7	1	–	–	–	1
BIS loans to Royal Mail Group Limited	8.8	–	–	(473)	(500)	(973)
Obligations under finance leases	3.6	(79)	(56)	(139)	(31)	(305)
Total		67	(56)	(612)	(531)	(1,132)
Floating rate:						
Cash at bank	0.6	102	–	–	–	102
Cash equivalent investments:						
– Money market funds	0.4	88	–	–	–	88
Pension escrow investments – money market funds	0.3	–	–	–	20	20
Total		190	–	–	20	210
Non-interest bearing:						
Cash at bank or in hand		16	–	–	–	16
Derivative assets		9	3	–	–	12
Derivative liabilities		(2)	(1)	–	–	(3)
Total		23	2	–	–	25
Net total financial assets/(liabilities)		280	(54)	(612)	(511)	(897)

### At 25 March 2012

Fixed rate:						
Cash at bank	4.2	28	–	–	–	28
Cash equivalent investments:						
– Short-term deposits – bank	0.7	30	–	–	–	30
Financial assets – investments (current):						
– Short-term deposits – HM Government/ local government	7.7	1	–	–	–	1
– Short-term deposits – bank	2.4	30	–	–	–	30
Financial assets – pension escrow investments (non-current):						
– Gilt edged securities (conventional)	4.8	–	–	–	25	25
BIS loans to Royal Mail Group Limited	8.7	–	–	–	(922)	(922)
Obligations under finance leases	3.8	(86)	(52)	(142)	(37)	(317)
Total		3	(52)	(142)	(934)	(1,125)

## 16. Financial assets and liabilities – additional analysis (continued)

	Average effective interest rate %	Within 1 year £m	1–2 years £m	2–5 years £m	More than 5 years £m	Total £m
Floating rate:						
Cash at bank	0.5	127	–	–	–	127
Cash equivalent investments:						
– Money market funds	0.8	271	–	–	–	271
Financial assets – pension escrow investments (non-current):						
– Treasury bills	0.4	–	–	–	45	45
– Gilt edged securities (index linked)	4.3	–	–	–	79	79
BIS loans to Royal Mail Group Limited	2.2	–	(600)	–	–	(600)
<b>Total</b>		<b>398</b>	<b>(600)</b>	<b>–</b>	<b>124</b>	<b>(78)</b>
Non-interest bearing:						
Cash at bank or in hand		17	–	–	–	17
Derivative assets		9	2	–	–	11
Derivative liabilities		(4)	(1)	–	–	(5)
<b>Total</b>		<b>22</b>	<b>1</b>	<b>–</b>	<b>–</b>	<b>23</b>
<b>Net total financial assets/(liabilities)</b>		<b>423</b>	<b>(651)</b>	<b>(142)</b>	<b>(810)</b>	<b>(1,180)</b>

### At 27 March 2011

Fixed rate:						
Cash at bank	3.9	12	–	–	–	12
Cash equivalent investments:						
– Short-term deposits – bank	0.6	29	–	–	–	29
– Short-term deposits – bank	0.8	92	–	–	–	92
Financial assets – investments (current):						
– Short-term deposits – HM Government/local government	7.7	1	–	–	–	1
Financial assets – investments (non-current) – bank deposits	0.4	–	5	24	15	44
Financial assets – pension escrow investments (non-current):						
– Gilt edged securities (conventional)	4.8	–	–	–	21	21
BIS loans to Royal Mail Group Limited	8.4	–	–	–	(877)	(877)
Obligations under finance leases	4.3	(61)	(47)	(103)	(34)	(245)
Miscellaneous loans in subsidiaries	4.5	–	–	(1)	–	(1)
<b>Total</b>		<b>73</b>	<b>(42)</b>	<b>(80)</b>	<b>(875)</b>	<b>(924)</b>
Floating rate:						
Cash at bank	0.8	87	–	–	–	87
Cash equivalent investments:						
– Money market funds	0.7	98	–	–	–	98
Financial assets – pension escrow investments (non-current):						
– Gilt edged securities (index linked)	4.7	–	–	–	66	66
BIS loans to Royal Mail Group Limited	3.0	–	–	(600)	–	(600)
<b>Total</b>		<b>185</b>	<b>–</b>	<b>(600)</b>	<b>66</b>	<b>(349)</b>
Non-interest bearing:						
Cash at bank or in hand		1	–	–	–	1
Derivative assets		36	6	–	–	42
Derivative liabilities		(3)	–	–	–	(3)
<b>Total</b>		<b>34</b>	<b>6</b>	<b>–</b>	<b>–</b>	<b>40</b>
<b>Net total financial assets/(liabilities)</b>		<b>292</b>	<b>(36)</b>	<b>(680)</b>	<b>(809)</b>	<b>(1,233)</b>

## 17. Hedging programmes

The purpose of the Group's hedging programmes is to mitigate volatility in commodity prices and foreign exchange rates. As explained in note 11, interest rate risk is managed using an appropriate mix of fixed and variable rate financial instruments. There are no significant concentrations of credit risk. Accounting rules require the Company to choose whether to designate effective cash flow hedge programmes or not (subject to various tests). The impact of not designating a cash flow hedge programme is that all gains or losses on the derivatives in the programme have to be taken immediately to the income statement and cannot be deferred into equity. The Group had the following designated cash flow hedge programmes during the current and previous year.

### Hedging activities

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

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

The air conveyance hedge programme uses US\$ forward currency purchase contracts to hedge the exposure arising from US\$/Sterling exchange rates for forecast air conveyance purchases.

Two capital programmes use Euro forward currency purchase contracts to hedge the exposure arising from Sterling/Euro exchange rates for contracted capital expenditure on automation projects.

The electricity hedge programme uses forward commodity price swaps to hedge the exposure arising from electricity prices.

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

The Group had undesignated cash flow hedge programmes for UKPIL overseas postal operator liabilities and the transactional exposure created by inter-company loans with GLS. The derivative balances of these programmes are not material.

### Commodity price hedging

The Group's normal operating activities result in the consumption of fuel (both diesel and jet), electricity and gas. The prices of these commodities can be volatile, so the Group enters into price swap contracts to lock future purchases (at an agreed volume) into a known price. For diesel and jet these price swaps are sometimes entered into on the US\$ price for the commodity (based upon available market prices), in which case the Group uses forward foreign currency contracts to lock into a combined Sterling price for the commodity. The following table shows the commodity, risk, the amount of the exposure and the percentage of the expected consumption hedged. The Group hedges the cost of the underlying commodity and any irrecoverable VAT that is incurred on this cost. It does not hedge any fuel duty. The exposures shown in the following table exclude the costs of fuel duty and are based upon the hedges in place combined with market prices at the balance sheet date for the unhedged amounts. Fuel duty (and the associated VAT) add an additional cost of c£100 million to diesel costs each year. Total fuel costs for FYE 2014 are estimated to be £196 million.

		Exposure (excluding fuel duty) and expected consumption hedged at 30 June 2013					
Commodity	Risk	March Year ending 2014		March Year ending 2015		March Year ending 2016	
		Exposure £m	Hedged %	Exposure £m	Hedged %	Exposure £m	Hedged %
Diesel fuel	US\$ price and \$/£ exchange rate movements	80	93%	81	79%	79	45%
Jet fuel	US\$ price and \$/£ exchange rate movements	16	92%	16	—	16	—
Electricity	£ price movement	18	83%	17	54%	17	6%
Gas	£ price movement	14	81%	14	72%	13	7%

## 17. Hedging programmes (continued)

		Exposure (excluding fuel duty) and expected consumption hedged at 31 March 2013					
Commodity	Risk	March Year ending 2014		March Year ending 2015		March Year ending 2016	
		Exposure £m	Hedged %	Exposure £m	Hedged %	Exposure £m	Hedged %
Diesel fuel	US\$ price and \$/£ exchange rate movements	80	93%	82	79%	83	9%
Jet fuel	US\$ price and \$/£ exchange rate movements	16	92%	16	—	16	—
Electricity	£ price movement	18	83%	18	54%	19	6%
Gas	£ price movement	14	81%	14	56%	14	7%

		Exposure (excluding fuel duty) and expected consumption hedged 25 March 2012					
Commodity	Risk	March Year ending 2013		March Year ending 2014		March Year ending 2015	
		Exposure £m	Hedged %	Exposure £m	Hedged %	Exposure £m	Hedged %
Diesel fuel	US\$ price and \$/£ exchange rate movements	83	91%	86	51%	84	9%
Jet fuel	US\$ price and \$/£ exchange rate movements	15	90%	16	52%	16	—
Electricity	£ price movement	19	83%	17	85%	17	20%
Gas	£ price movement	15	78%	14	80%	13	9%

		Exposure (excluding fuel duty) and expected consumption hedged 27 March 2011					
Commodity	Risk	March Year ending 2012		March Year ending 2013		March Year ending 2014	
		Exposure £m	Hedged %	Exposure £m	Hedged %	Exposure £m	Hedged %
Diesel fuel	US\$ price and \$/£ exchange rate movements	59	90%	73	29%	75	—
Jet fuel	US\$ price and \$/£ exchange rate movements	13	90%	16	30%	16	—
Electricity	£ price movement	15	76%	17	26%	18	—
Gas	£ price movement	8	88%	11	40%	11	—

### Foreign currency hedging for non-commodity items

As highlighted in note 11, the Group, where possible, nets exposure to foreign currency internally. The remaining net exposure may be hedged with external forward foreign currency contracts. The underlying exposures, (e.g. the foreign postal administration liabilities) and the derivatives are both revalued to current market prices at the balance sheet dates, meaning that no net gains or losses arise in the income statement.

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

		Percentage of next 12 months' exposure that has been hedged			
Hedge programme	Risk	At 30 June 2013	At 31 March 2013	At 25 March 2012	At 27 March 2011
Air conveyance	\$/£ exchange rate movements	94%	92%	89%	90%
Capital programmes	€/£ exchange rate movements	94%	95%	86%	87%
Overseas postal operator liabilities	SDR/£ exchange rate movements	21%	17%	36%	41%
GLS inter-company loan	€/£ exchange rate movements	100%	100%	100%	100%

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

As highlighted in note 11, the Company does not hedge the translational exposure created by the net assets or profits of its overseas subsidiaries, mainly GLS.

## 17. Hedging programmes (continued)

### Derivative values

At any point in time, the derivatives in these cash flow hedge programmes are either 'in the money' which means the hedged rates are better than current market rates or 'out of the money' which means the hedged rates are worse than current market rates. The gains ('in the money') and losses ('out of the money') at the balance sheet date are deferred into equity (where the hedge is effective) and an associated financial asset or financial liability is created in the balance sheet. The financial asset/liability is either realised in cash or used to discharge a liability when the derivative matures. The amounts deferred into equity are released from equity to the income statement or to the initial carrying amount of non-financial assets when the hedged transaction occurs. The following tables show the derivative contracts entered into at 30 June 2013, at 31 March 2013, at 25 March 2012 and at 27 March 2011 and the associated derivative assets and liabilities.

	Commodity/ currency	Nominal amount	Maturity date	Average contracted commodity price/ exchange rate	Derivative asset non-current fair value £m	Derivative asset current fair value £m	Derivative liability non-current fair value £m	Derivative liability current fair value £m
<b>At 30 June 2013</b>								
Diesel fuel	Diesel fuel	206,000 tonnes	Jul 13 – Apr 16	US\$917/tonne	–	1	(3)	(3)
Diesel fuel	US\$	\$189m	Jul 13 – Apr 16	US\$1.56/£	–	–	–	–
Diesel fuel	Diesel fuel	89m litres	Jul 13 – Oct 15	£0.5/litre	2	1	–	–
Jet fuel	Jet fuel	11,000 tonnes	Jul 13 – Dec 13	US\$1,018/tonne	–	–	–	–
Jet fuel	Jet fuel	\$12m	Jul 13 – Dec 13	US\$1.56/£	–	–	–	–
Air conveyance	US\$	\$26m	Jul 13 – May 14	US\$1.58/£	–	1	–	–
Capital programmes	Euro	€4m	Aug 13 – Oct 14	£0.82/€	–	–	–	–
Electricity	Electricity	462k MWh	Jul 13 – Oct 15	£55/MWh	–	–	(1)	–
Gas	Gas	32m therms	Jul 13 – Oct 15	£0.71/therm	–	–	–	(1)
Cash flow hedges					2	3	(4)	(4)
Other derivatives					–	–	–	(1)
Total					2	3	(4)	(5)
<b>At 31 March 2013</b>								
Diesel fuel	Diesel fuel	182,000 tonnes	Apr 13 – Apr 15	US\$931/tonne	–	3	(1)	(1)
Diesel fuel	US\$	\$169m	Apr 13 – Apr 15	US\$1.56/£	1	2	–	–
Diesel fuel	Diesel fuel	93m litres	Apr 13 – Oct 15	£0.5/litre	2	–	–	–
Jet fuel	Jet fuel	17,000 tonnes	Apr 13 – Dec 13	US\$1,016/tonne	–	–	–	–
Jet fuel	Jet fuel	\$17m	Apr 13 – Dec 13	US\$1.56/£	–	–	–	–
Air conveyance	US\$	\$29m	Apr 13 – May 14	US\$1.60/£	–	1	–	–
Capital programmes	Euro	€4m	Jun 13 – Oct 14	£0.82/€	–	–	–	–
Electricity	Electricity	535k MWh	Apr 13 – Oct 15	£55/MWh	–	1	–	(1)
Gas	Gas	33m therms	Apr 13 – Oct 15	£0.70/therm	–	1	–	–
Cash flow hedges					3	8	(1)	(2)
Other derivatives					–	1	–	–
Total					3	9	(1)	(2)
<b>At 25 March 2012</b>								
Diesel fuel	Diesel fuel	191,000 tonnes	Apr 12 – Oct 14	US\$963/tonne	1	7	–	–
Diesel fuel	US\$	\$184m	Apr 12 – Oct 14	US\$1.58/£	–	1	–	(1)
Diesel fuel	Diesel fuel	32m litres	May 13 – Jul 14	£0.5/litre	1	–	–	–
Jet fuel	Jet fuel	29,000 tonnes	Apr 12 – Sep 13	US\$1,017/tonne	–	1	–	–
Jet fuel	Jet fuel	\$29m	Apr 12 – Sep 13	US\$1.58/£	–	–	–	–
Air conveyance	US\$	\$28m	Mar 12 – Apr 13	US\$1.60/£	–	–	–	–
Capital programmes	Euro	€21m	Mar 12 – Jun 12	£0.84/€	–	–	–	–
Electricity	Electricity	695k MWh	Apr 12 – Oct 14	£55/MWh	–	–	(1)	(2)
Gas	Gas	40m therms	Apr 12 – Oct 14	£0.70/therm	–	–	–	–
Cash flow hedges					2	9	(1)	(3)
Other derivatives					–	–	–	(1)
Total					2	9	(1)	(4)



## 17. Hedging programmes (continued)

	Commodity/ currency	Nominal amount	Maturity date	Average contracted commodity price/ exchange rate	Derivative asset non-current fair value £m	Derivative asset current fair value £m	Derivative liability non-current fair value £m	Derivative liability current fair value £m
<b>At 27 March 2011</b>								
Diesel fuel	Diesel fuel	148,000 tonnes	Apr 11 – Jan 13	US\$795/tonne	4	17	–	–
Diesel fuel	US\$	\$118m	Apr 11 – Jan 13	US\$1.57/£	–	–	–	(1)
Air conveyance	US\$	\$25m	Mar 11 – Apr 12	US\$1.63/£	–	–	–	–
Capital programmes	Euro	€67m	Mar 11 – Apr 12	£0.85/€	–	2	–	–
Electricity	Electricity	378k MWh	Apr 11 – Jan 13	£46/MWh	1	3	–	–
Gas	Gas	24m therms	Apr 11 – Apr 13	£0.56/therm	–	3	–	–
Cash flow hedges					5	25	–	(1)
Other derivatives					1	11	–	(2)
Total					6	36	–	(3)

Other derivatives represent hedges by the Group of other foreign exchange and commodity price exposures, which are not designated under IAS 39 (including the hedge of the trading balance with overseas postal operators and the hedge of inter-company loans with overseas subsidiaries).

There are timing differences between the maturity of the derivatives and the maturity of the underlying hedged transaction. For example, the diesel derivatives that hedge the exposure to purchasing fuel in June 2013 mature in July 2013. Hence at 30 June 2013, the balance sheet includes the market value of these derivatives but the cumulative gains and losses on these derivatives have been released from the hedging reserve to the income statement to match the exposure to purchasing fuel in June 2013. Therefore there are differences between derivative balances (shown above) and the balance on the hedging reserve.

## 18. Provisions

	Exceptional			
	Transformation £m	Non- transformation £m	Other £m	Total £m
At 28 March 2010	186	–	47	233
Arising during the year:				
– charged in operating exceptional items	254	30	–	284
– charged in other operating costs	–	–	23	23
Unused amounts reversed	(113)	–	(7)	(120)
Utilised in the year	(159)	–	(15)	(174)
Discount rate adjustment	6	–	–	6
At 27 March 2011	174	30	48	252
Arising during the year:				
– charged in operating exceptional items	89	19	–	108
– charged in other operating costs	–	–	32	32
Unused amounts reversed	(7)	(2)	(2)	(11)
Utilised in the year	(148)	(6)	(12)	(166)
Discount rate adjustment	–	2	–	2
At 25 March 2012	108	43	66	217
Arising during the year:				
– charged in operating exceptional items	87	48	–	135
– charged in other operating costs	–	–	27	27
Unused amounts reversed	(17)	–	(17)	(34)
Utilised in the year	(73)	(5)	(22)	(100)
Discount rate adjustment	–	1	–	1
At 31 March 2013	105	87	54	246
Arising during the year:				
– charged in operating exceptional items	2	–	–	2
– charged in other operating costs	–	–	5	5
Unused amounts reversed	–	(2)	–	(2)
Utilised in the year	(15)	–	(4)	(19)
Discount rate adjustment	–	1	–	1
At 30 June 2013	92	86	55	233

## 18. Provisions (continued)

	Exceptional			
	Transformation	Non- transformation	Other	Total
	£m	£m	£m	£m
Disclosed as:				
Current at 30 June 2013	62	18	33	113
Non-current at 30 June 2013	30	68	22	120
	92	86	55	233
Current at 31 March 2013	69	18	32	119
Non-current at 31 March 2013	36	69	22	127
	105	87	54	246
Current at 25 March 2012	73	7	52	132
Non-current at 25 March 2012	35	36	14	85
	108	43	66	217
Current at 27 March 2011	133	3	31	167
Non-current at 27 March 2011	41	27	17	85
	174	30	48	252

### Transformation provisions (charged as transformation operating exceptional items)

Transformation exceptional provisions of £92 million (at 31 March 2013 £105 million, at 25 March 2012 £108 million, at 27 March 2011 £174 million) principally comprise redundancy schemes of £80 million (at 31 March 2013 £92 million, at 25 March 2012 £87 million, at 27 March 2011 £156 million). A further £12 million (at 31 March 2013 £13 million, at 25 March 2012 £21 million, at 27 March 2011 £18 million) relates to onerous property contracts associated with restructuring. Current transformation provisions of £62 million are expected to be utilised within one year, with the remainder due within two to three years, except for onerous property provisions of £1 million, expected to be utilised within three to five years, and a further £1 million over a period greater than five years.

### Non-transformation provisions (charged as other operating exceptional items)

Included in non-transformation provisions of £86 million at 30 June 2013 (at 31 March 2013 £87 million, at 25 March 2012 £43 million, at 27 March 2011 £30 million) is £66 million (at 31 March 2013 £67 million, at 25 March 2012 £39 million, at 27 March 2011 £30 million) for potential industrial diseases claims relating to both current and former employees of the Group.

Royal Mail Group's liability in respect of former employees arose in 2010 as a result of a Court of Appeal judgment that held the Group liable for diseases claims brought by individuals who were employed in the General Post Office telecommunications division and whose employment ceased prior to October 1981. Consequently, a provision was first recognised in FYE 2011.

The Group has derived its current provision by using estimates and ranges calculated by its actuary, which are based on current experience of claims, and an assessment of potential future claims, the majority of which are expected to be received over the next 25 to 30 years. The Group has a rigorous process of ensuring that only valid claims are accepted. £4 million of this provision is expected to be utilised within one year.

The remaining £20 million (31 March 2013 £20 million, 25 March 2012 and 27 March 2011 £nil) relates to IT systems costs associated with Post Office Limited separation, of which £14 million is expected to be utilised within one year, with the remainder expected to be utilised in the following year.

### Other provisions (charged in normal operating expenses)

'Other' provisions of £55 million (at 31 March 2013 £54 million, at 25 March 2012 £66 million, at 27 March 2011 £48 million) mainly comprise onerous lease obligations, decommissioning costs and estimated exposures resulting from legal claims incurred in the normal course of business. The majority of 'Other' provision amounts are expected to be utilised within one year, with £5 million onerous lease obligations and decommissioning costs expected to be utilised within two to three years, £7 million within three to five years and a further £10 million over a period greater than five years.

## 19. Property, plant and equipment

	Land and buildings			Plant and machinery £m	Motor vehicles £m	Fixtures and equipment £m	Total £m
	Freehold £m	Long leasehold £m	Short leasehold £m				
Cost							
At 1 April 2013	1,622	262	650	1,187	538	362	4,621
Exchange rate movements	—	—	—	1	—	—	1
Reclassification	(7)	—	7	—	—	—	—
Additions	25	—	1	4	4	5	39
Disposals	(4)	—	(4)	(2)	(12)	(5)	(27)
Legal entity transfer to POL	—	—	—	—	—	—	—
Reclassification to non-current assets held for sale	(1)	—	—	—	—	—	(1)
At 30 June 2013	1,635	262	654	1,190	530	362	4,633
Depreciation and impairment							
At 1 April 2013	835	162	432	718	289	269	2,705
Exchange rate movements	—	—	—	1	—	—	1
Reclassification	—	—	—	—	—	—	—
Depreciation (note 10)	9	1	12	15	13	6	56
Impairment (note 4)	—	—	—	—	—	—	—
Disposals	(2)	—	(1)	(2)	(11)	(5)	(21)
Legal entity transfer to POL	—	—	—	—	—	—	—
Reclassification to non-current assets held for sale	—	—	—	—	—	—	—
At 30 June 2013	842	163	443	732	291	270	2,741
Net book value							
At 30 June 2013	793	99	211	458	239	92	1,892
At 1 April 2013	787	100	218	469	249	93	1,916

Depreciation rates are disclosed within accounting policies (page F-61). No depreciation is provided on land, which represents £200 million (at 31 March 2013 £196 million, at 25 March 2012 £199 million, at 27 March 2011 £166 million) of the total cost of properties. The net book value of the Group's property, plant and equipment held under finance leases amounts to £361 million (at 31 March 2013 £378 million, at 25 March 2012 £320 million, at 27 March 2011 £262 million) comprising £196 million (at 31 March 2013 £208 million, at 25 March 2012 £137 million, at 27 March 2011 £152 million) vehicles, £142 million (at 31 March 2013 £146 million, at 25 March 2012 £154 million, at 27 March 2011 £88 million) plant and machinery and £23 million (at 31 March 2013 £24 million, at 25 March 2012 £29 million, at 27 March 2011 £22 million) land and buildings. The net book value of the Group's property, plant and equipment includes £210 million (at 31 March 2013 £206 million, at 25 March 2012 £171 million, at 27 March 2011 £146 million) in respect of assets in the course of construction. The net book value of the Group's land and buildings includes £386 million (at 31 March 2013 £382 million, at 25 March 2012 £389 million, at 27 March 2011 £383 million) in respect of building fit-out.

The £39 million (at 31 March 2013 £392 million, at 25 March 2012 £327 million, at 27 March 2011 £262 million) additions include borrowing costs capitalised in relation to specific qualifying assets of £nil (at 31 March 2013 £nil, at 25 March 2012 £2 million, at 27 March 2011 £nil).

	Land and buildings			Plant and machinery £m	Motor vehicles £m	Fixtures and equipment £m	Total £m
	Freehold £m	Long leasehold £m	Short leasehold £m				
Cost							
At 26 March 2012	1,528	259	633	1,224	448	328	4,420
Exchange rate movements	4	—	—	2	1	2	9
Reclassification	(29)	1	27	1	—	—	—
Additions	176	4	19	47	110	36	392
Disposals	(33)	(2)	(29)	(87)	(21)	(4)	(176)
Legal entity transfer to POL	(22)	—	—	—	—	—	(22)
Reclassification to non-current assets held for sale	(2)	—	—	—	—	—	(2)
At 31 March 2013	1,622	262	650	1,187	538	362	4,621

## 19. Property, plant and equipment (continued)

	Land and buildings			Plant and machinery £m	Motor vehicles £m	Fixtures and equipment £m	Total £m
	Freehold £m	Long leasehold £m	Short leasehold £m				
Depreciation and impairment							
At 26 March 2012	801	157	403	735	262	240	2,598
Exchange rate movements	1	–	–	2	–	1	4
Reclassification	–	–	(1)	–	1	–	–
Depreciation (note 10)	40	6	46	68	46	32	238
Impairment (note 4)	21	–	–	–	–	–	21
Disposals	(16)	(1)	(16)	(87)	(20)	(4)	(144)
Legal entity transfer to POL	(11)	–	–	–	–	–	(11)
Reclassification to non-current assets held for sale	(1)	–	–	–	–	–	(1)
At 31 March 2013	835	162	432	718	289	269	2,705
Net book value							
At 31 March 2013	787	100	218	469	249	93	1,916
At 26 March 2012	727	102	230	489	186	88	1,822

	Land and buildings			Plant and machinery £m	Motor vehicles £m	Fixtures and equipment £m	Total £m
	Freehold £m	Long leasehold £m	Short leasehold £m				
Cost							
At 28 March 2011	1,524	260	580	1,178	438	312	4,292
Exchange rate movements	(16)	(1)	–	(8)	(3)	(5)	(33)
Reclassification	(32)	–	32	–	–	–	–
Additions	127	2	29	114	28	27	327
Disposals	(55)	(1)	(8)	(60)	(15)	(6)	(145)
Reclassification to non-current assets held for sale	(20)	(1)	–	–	–	–	(21)
At 25 March 2012	1,528	259	633	1,224	448	328	4,420
Depreciation and impairment							
At 28 March 2011	797	153	357	718	224	214	2,463
Exchange rate movements	(4)	(1)	–	(5)	(2)	(4)	(16)
Reclassification	(9)	–	9	–	–	–	–
Depreciation (note 10)	46	6	45	82	54	35	268
Impairment (note 4)	1	–	–	–	–	–	1
Disposals	(14)	(1)	(8)	(60)	(14)	(5)	(102)
Reclassification to non-current assets held for sale	(16)	–	–	–	–	–	(16)
At 25 March 2012	801	157	403	735	262	240	2,598
Net book value							
At 25 March 2012	727	102	230	489	186	88	1,822
At 28 March 2011	727	107	223	460	214	98	1,829

	Land and buildings			Plant and machinery £m	Motor vehicles £m	Fixtures and equipment £m	Total £m
	Freehold £m	Long leasehold £m	Short leasehold £m				
Cost							
At 29 March 2010	1,647	250	494	1,139	422	290	4,242
Exchange rate movements	(5)	–	–	(2)	(1)	(1)	(9)
Reclassification	(73)	(4)	77	(2)	3	(1)	–
Additions	73	19	12	85	43	30	262
Disposals	(106)	(5)	(3)	(42)	(29)	(6)	(191)
Reclassification to non-current assets held for sale	(12)	–	–	–	–	–	(12)
At 27 March 2011	1,524	260	580	1,178	438	312	4,292

## 19. Property, plant and equipment (continued)

	Land and buildings			Plant and machinery £m	Motor vehicles £m	Fixtures and equipment £m	Total £m
	Freehold £m	Long leasehold £m	Short leasehold £m				
Depreciation and impairment							
At 29 March 2010	821	150	280	678	195	186	2,310
Exchange rate movements	(1)	—	—	(2)	—	(1)	(4)
Reclassification	(40)	(3)	42	—	1	—	—
Depreciation (note 10)	44	7	38	74	53	34	250
Impairment (note 4)	2	—	—	10	—	—	12
Disposals	(19)	(1)	(3)	(42)	(25)	(5)	(95)
Reclassification to non-current assets held for sale	(10)	—	—	—	—	—	(10)
At 27 March 2011	797	153	357	718	224	214	2,463
Net book value							
At 27 March 2011	727	107	223	460	214	98	1,829
At 29 March 2010	826	100	214	461	227	104	1,932

## 20. Goodwill

	2014 £m	2013 £m	2012 £m	2011 £m
Cost				
At 1 April 2013, 26 March 2012, 28 March 2011 and 29 March 2010	611	599	628	636
Exchange rate movements	3	8	(32)	(11)
Acquisition of business	1	4	3	3
At 30 June 2013, 31 March 2013, 25 March 2012 and 27 March 2011	615	611	599	628
Impairment (including amortisation up to the date of transition to IFRS)				
At 1 April 2013, 26 March 2012, 28 March 2011 and 29 March 2010	415	410	431	439
Exchange rate movements	2	5	(21)	(8)
At 30 June 2013, 31 March 2013, 25 March 2012 and 27 March 2011	417	415	410	431
Net book value				
At 30 June 2013, 31 March 2013, 25 March 2012 and 27 March 2011	198	196	189	197
At 1 April 2013, 26 March 2012, 28 March 2011 and 29 March 2010	196	189	197	197

The Group's investment in General Logistics Systems (GLS) occurred substantially over FYE 1999 and FYE 2000. In FYE 2002, £256 million of the goodwill recognised on acquisition was impaired, based on the forecast under-performance of GLS. Whilst this forecast under-performance did not fully materialise, the goodwill impairment could not be reversed, as this is not permitted under IFRS. In retrospect, this impairment would not have been recognised based on GLS' actual financial performance.

The remaining impairment amount of £161 million at 30 June 2013 relates to amortisation prior to the Group's transition to IFRS in FYE 2006, and the impact of foreign exchange rates on translation of Euros to Pounds Sterling.

The carrying value of goodwill arising on business combinations of £198 million (at 31 March 2013 £196 million, at 25 March 2012 £189 million, at 27 March 2011 £197 million) at the balance sheet date includes £196 million (at 31 March 2013 £194 million, at 25 March 2012 £187 million, at 27 March 2011 £195 million) relating to the GLS business segment. In line with the Group's accounting policy (see page F-61), this goodwill was reviewed for impairment in March 2013. An impairment loss is recognised for the amount by which the carrying value of an asset or cash generating unit exceeds the recoverable amount. The recoverable amount is the higher of net realisable value and value in use. The net assets of GLS, excluding interest bearing and taxation related assets and liabilities, was £487 million at 31 March 2013 (at 25 March 2012 £446 million, at 27 March 2011 £450 million) and the operating profit before exceptional items was £101 million (at 25 March 2012 £128 million, at 27 March 2011 £118 million) for the year ended

## 20. Goodwill (continued)

31 March 2013 (note 2). On this basis the carrying value of GLS represents a multiple of 4.8 (at 25 March 2012 3.5, at 27 March 2011 3.8) on operating profit before exceptional items. The net realisable value of GLS, for the purposes of the impairment review (i.e. the 'fair value less costs to sell'), was assessed with reference to earnings multiples for quoted entities in a similar sector. On this basis, the net realisable value was assessed to be in excess of the carrying value. The earnings multiples referenced would have needed to reduce by more than 30 per cent. to reduce the net realisable value to below the carrying value.

No further impairment review has been undertaken since 31 March 2013 and no further review is planned, until the next anniversary review date of March 2014. There have been no events between 1 April 2013 and 30 June 2013 which have indicated further impairments are required.

## 21. Intangible assets

	2014			
	Master franchise licences £m	Customer listings £m	Software £m	Total £m
Cost				
At 1 April 2013	23	32	287	342
Additions	–	–	16	16
Disposals	–	–	–	–
Acquisition of business	–	–	–	–
At 30 June 2013	23	32	303	358
Amortisation and impairment				
At 1 April 2013	23	28	152	203
Impairment (note 4)	–	–	–	–
Amortisation (note 11)	–	–	8	8
Disposals	–	–	–	–
At 30 June 2013	23	28	160	211
Net book value				
At 30 June 2013	–	4	143	147
At 1 April 2013	–	4	135	139

The £16 million additions (at 31 March 2013 £44 million, at 25 March 2012 £43 million, at 27 March 2011 £62 million) include borrowing costs capitalised in relation to specific qualifying assets of £nil million (at 31 March 2013 £1 million, at 25 March 2012 £nil million, at 27 March 2011 £1 million).

	2013			
	Master franchise licences £m	Customer listings £m	Software £m	Total £m
Cost				
At 26 March 2012	23	30	248	301
Additions	–	–	44	44
Disposals	–	–	(5)	(5)
Acquisition of business	–	2	–	2
At 31 March 2013	23	32	287	342



## 21. Intangible assets (continued)

	2013			
	Master franchise licences £m	Customer listings £m	Software £m	Total £m
Amortisation and impairment				
At 26 March 2012	23	26	117	166
Impairment (note 4)	–	–	(1)	(1)
Amortisation (note 11)	–	2	41	43
Disposals	–	–	(5)	(5)
At 31 March 2013	23	28	152	203
Net book value				
At 31 March 2013	–	4	135	139
At 26 March 2012	–	4	131	135

	2012			
	Master franchise licences £m	Customer listings £m	Software £m	Total £m
Cost				
At 28 March 2011	24	29	216	269
Additions	–	–	43	43
Disposals	–	–	(10)	(10)
Acquisition of business	–	2	–	2
Exchange rate movements	(1)	(1)	(1)	(3)
At 25 March 2012	23	30	248	301
Amortisation and impairment				
At 28 March 2011	24	25	94	143
Impairment (note 4)	–	–	3	3
Amortisation (note 11)	–	2	31	33
Disposals	–	–	(10)	(10)
Exchange rate movements	(1)	(1)	(1)	(3)
At 25 March 2012	23	26	117	166
Net book value				
At 25 March 2012	–	4	131	135
At 28 March 2011	–	4	122	126

	2011			
	Master franchise licences £m	Customer listings £m	Software £m	Total £m
Cost				
At 29 March 2010	24	27	170	221
Additions	–	–	62	62
Disposals	–	–	(16)	(16)
Acquisition of business	–	2	–	2
At 27 March 2011	24	29	216	269
Amortisation and impairment				
At 29 March 2010	22	22	78	122
Impairment (note 4)	–	–	1	1
Amortisation (note 11)	2	3	31	36
Disposals	–	–	(16)	(16)
At 27 March 2011	24	25	94	143
Net book value				
At 27 March 2011	–	4	122	126
At 29 March 2010	2	5	92	99

The intangible assets above, none of which have been internally generated, have finite lives and are being written down on a straight-line basis.

## 22. Investments in associates

Details of the Group's two associate companies are provided in note 27. During March 2013 it was announced that one of these companies, G3 Worldwide Mail N.V. (Spring), was to be sold and, accordingly, the Group's share of its net assets was reclassified to the 'assets held for sale' category on the Group balance sheet. G3 Worldwide Mail N.V. (Spring) was subsequently sold on 2 April 2013.

The reporting year end date for Quadrant Catering Limited was 30 September 2012 (30 September 2011) and for G3 Worldwide Mail N.V. (Spring) was 31 December 2012 (31 December 2011). To ensure that the reported share of profit/loss of these two associate companies align with the Group's reporting period ending 30 June 2013 (53 weeks ended 31 March 2013, 52 weeks ended 25 March 2012, 52 weeks ended 27 March 2011), an estimated profit/loss, using forecasts from the respective companies' management reporting systems, was used for the month of June 2013 (March 2013, 2012 and 2011).

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

	At 1 April 2013 £m	Share of post taxation pre dividend profit £m	Impairment £m	Disposal £m	Reclassification £m	Dividend £m	At 30 June 2013 £m
Share of net assets	3	1	–	–	–	(2)	2
Total net investments in associates	3	1	–	–	–	(2)	2

	At 26 March 2012 £m	Share of post taxation pre dividend profit £m	Impairment £m	Disposal £m	Reclassification £m	Dividend £m	At 31 March 2013 £m
Share of net assets	3	1	–	–	(1)	–	3
Total net investments in associates	3	1	–	–	(1)	–	3

	At 28 March 2011 £m	Share of post taxation pre dividend profit £m	Impairment £m	Disposal £m	Dividend £m	At 25 March 2012 £m
Share of net assets	9	1	(3)	–	(4)	3
Total net investments in associates	9	1	(3)	–	(4)	3

	At 29 March 2010 £m	Share of post taxation pre dividend profit £m	Impairment £m	Disposal £m	Dividend £m	At 27 March 2011 £m
Share of net assets	35	3	–	(20)	(9)	9
Goodwill	11	–	(2)	(9)	–	–
Total net investments in associates	46	3	(2)	(29)	(9)	9

	At 30 June 2013 £m	At 31 March 2013 £m	At 25 March 2012 £m	At 27 March 2011 £m
Share of assets and liabilities:				
Current assets	7	6	10	25
Non-current assets	–	–	1	3
Share of gross assets	7	6	11	28
Current liabilities	(5)	(3)	(8)	(18)
Non-current liabilities	–	–	–	(1)
Share of gross liabilities	(5)	(3)	(8)	(19)
Share of net assets	2	3	3	9

**22. Investments in associates (continued)**

	13 weeks ended 30 June 2013 £m	13 weeks ended 24 June 2012 £m	53 weeks ended 31 March 2013 £m	52 weeks ended 25 March 2012 £m	52 weeks ended 27 March 2011 £m
Share of revenue and profit:					
Revenue (2011 results include share of Camelot (lottery) investment)	5	15	61	68	341
Profit after taxation	1	1	1	1	3

**23. Current trade and other receivables**

	At 30 June 2013 £m	At 31 March 2013 £m	At 25 March 2012 £m	At 27 March 2011 £m
Trade receivables	755	758	759	820
Prepayment and accrued income	249	241	275	86
Income taxation	5	5	2	—
Total	1,009	1,004	1,036	906

The amount of trade receivables that were past due but not provided for are as follows:

	At 30 June 2013 £m	At 31 March 2013 £m	At 25 March 2012 £m	At 27 March 2011 £m
Past due not more than one month	66	93	60	62
Past due more than one month and not more than two months	10	8	12	10
Past due more than two months	13	29	33	18
Total past due but not provided for	89	130	105	90
Current and specific amounts provided for	697	658	689	749
Specific provision for bad and doubtful debt	(31)	(30)	(35)	(19)
Total	755	758	759	820

Movements in the provision for bad and doubtful debts were as follows:

	At 30 June 2013 £m	At 31 March 2013 £m	At 25 March 2012 £m	At 27 March 2011 £m
At 1 April 2013 and 26 March 2012 and 28 March 2011 and 29 March 2010	30	35	19	23
Receivables provided for during the year	4	11	26	8
Release of provision	—	(10)	(4)	(4)
Utilisation of provision	(3)	(6)	(6)	(8)
At 30 June 2013, 31 March 2013, 25 March 2012 and 27 March 2011	31	30	35	19

**24. Current trade and other payables**

	At 30 June 2013 £m	At 31 March 2013 £m	At 25 March 2012 £m	At 27 March 2011 £m
Trade payables and accruals	1,004	1,076	1,044	1,004
Advance customer payments (mainly for stamps and meter credits held, not yet used by customers)	347	375	292	241
Social security	138	102	85	85
Capital expenditure payables	57	48	47	44
Other	16	10	44	20
Total	1,562	1,611	1,512	1,394

The Group recognises advance customer payments on its balance sheet mainly for stamps and meter credits purchased by customers but not used at the balance sheet date. The valuation of this deferred revenue is based on a number of different estimation and sampling methods using external specialist resource as appropriate, the results of which are reviewed by management in order to make a judgement of the carrying

## 24. Current trade and other payables (continued)

amount of the accrual. The total accrual is held within current trade and other payables but a proportion (which cannot be measured) will relate to stamps and meter credits used one year or more after the balance sheet date.

## 25. Issued share capital and reserves

### Authorised share capital

	At 30 June 2013 £	At 31 March 2013 £	At 25 March 2012 £	At 27 March 2011 £
Ordinary shares of £1 each	100,000	100,000	100,000	100,000
Special rights Redeemable Preference Share (Special Share) of £1 each	1	1	–	–
Total	100,001	100,001	100,000	100,000

### Issued and called up share capital

	At 30 June 2013 £	At 31 March 2013 £	At 25 March 2012 £	At 27 March 2011 £
Ordinary shares of £1 each	50,000	50,000	50,000	50,000
Special rights Redeemable Preference Share (Special Share) of £1 each	1	1	–	–
Total	50,001	50,001	50,000	50,000

The Special Share can be redeemed at any time by its holder (the Secretary of State for Business, Innovation & Skills), subject to such redemption being compliant with the Companies Act 2006. The Company cannot redeem the Special Share without the prior consent of its holder. No premium is payable on redemption.

On distribution in a winding up of the Company, the holder of the Special Share is entitled to repayment of the lower of (a) the capital paid up on the Special Share in priority to any repayment of capital to any other member; and (b) an amount equal to 24 per cent. of the assets available for distribution to equity holders of the Company. The Special Share does not carry any rights to vote.

Under section 63(7) of the Postal Services Act 2000, for the purposes of the Companies Act 2006, certain shares issued shall be treated as if their nominal value had been fully paid up.

Under section 72 of the Postal Services Act 2000, the Secretary of State for Business, Innovation & Skills may issue directions to Royal Mail Holdings plc (the Company's parent company) which, depending on the particulars of that direction, could result in the establishment of a separate reserve in equity by the Company.

### Share premium account

On 27 June 2012, the Company reduced the amount of its share premium account by £3,784 million with the Company reducing the deficit on its distributable reserves by the same amount at that time. This reduction of capital was approved by a special resolution of the Company, supported by a solvency statement made by its Directors pursuant to section 642 of the Companies Act 2006. The reduction was executed through a non-cash accounting entry and has no effect on total equity and the number of the Company's ordinary shares in issue or their nominal value.

### Other reserves identified in the consolidated statement of changes in equity

#### Financial assets reserve

The Financial Assets Reserve is used to record fair value changes on available for sale financial assets.

#### Foreign currency translation reserve

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

## 25. Issued share capital and reserves (continued)

### Hedging reserve

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

## 26. Commitments

### Operating lease commitments

The Group is committed to the following future minimum lease payments under non-cancellable operating leases at 30 June 2013 and at 31 March 2013 and at 25 March 2012 and at 27 March 2011:

	Land and buildings				Vehicles and equipment				IT equipment				Total			
	13 weeks to 30 June 2013	53 weeks to March 2013	52 weeks to March 2012	52 weeks to March 2011	13 weeks to 30 June 2013	53 weeks to March 2013	52 weeks to March 2012	52 weeks to March 2011	13 weeks to 30 June 2013	53 weeks to March 2013	52 weeks to March 2012	52 weeks to March 2011	13 weeks to 30 June 2013	53 weeks to March 2013	52 weeks to March 2012	52 weeks to March 2011
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Within one year	135	125	132	130	13	13	11	11	9	8	13	20	157	146	156	161
Between one and five years	419	391	414	412	13	14	18	13	16	17	16	19	448	422	448	444
Beyond five years	564	507	535	476	–	–	–	–	–	–	3	–	564	507	538	476
Total	1,118	1,023	1,081	1,018	26	27	29	24	25	25	32	39	1,169	1,075	1,142	1,081

Existing leases for UK land and buildings have an average term of 13 years and lease renewals tend to have a 10-year term with a break in year five. Existing land and buildings leased overseas by the GLS subsidiary have an average lease term of nine years. Vehicle leases generally have a term of between one and seven years, depending on the asset class, with the average term being two years – the existing leases have an average term remaining of one year. The IT commitments relate to 10-year contracts, with an average term remaining of four years.

### Finance lease commitments

	13 weeks to 30 June 2013		53 weeks to 31 March 2013		52 weeks to 25 March 2012		52 weeks to 27 March 2011	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
	£m	£m	£m	£m	£m	£m	£m	£m
Within one year	89	80	87	79	98	86	72	61
Between one and five years	239	224	208	195	213	194	166	150
Beyond five years	118	28	122	31	131	37	131	34
Total minimum lease payments	446	332	417	305	442	317	369	245
Less amounts representing finance charges	(114)	–	(112)	–	(125)	–	(124)	–
Present value of minimum lease payments	332	332	305	305	317	317	245	245

The Group has finance lease contracts for vehicles (54 per cent.), land and buildings (nine per cent) and plant and equipment (37 per cent.). The leases have no terms of renewal, purchase options or escalation clauses and there are no restrictions concerning dividends, borrowings or additional leases. Vehicle leases have a term of between one and seven years, depending on the class of vehicle, with the average term being three years. Property leases have a term of between 1 and 106 years with the average term being 41 years. The term of the plant and equipment leases range from five to eight years with the average being five years.

### Capital commitments

The Group has commitments of £88 million at 30 June 2013 (at 31 March 2013 £42 million, at 25 March 2012 £81 million, at 27 March 2011 £140 million) which are contracted for but not provided for in the financial statements.

## 27. Related party information

### Related party transactions

During the reporting period the Group entered into transactions with related parties. The transactions were in the ordinary course of business and included administration and investment services recharged to the Group's pension plan, Royal Mail Pension Plan (RMPP), by the Royal Mail Pensions Trustees Limited subsidiary. The material transactions entered into, and the balances outstanding at the year end reporting date were as follows:

	Sales/recharges to related party					Purchases/recharges from related party					Amounts owed from related party including outstanding loans					Amounts owed to related party including outstanding loans				
	13 weeks ended	13 weeks ended	53 weeks ended	52 weeks ended	52 weeks ended	13 weeks ended	13 weeks ended	53 weeks ended	52 weeks ended	52 weeks ended	13 weeks ended	13 weeks ended	53 weeks ended	52 weeks ended	52 weeks ended	13 weeks ended	13 weeks ended	53 weeks ended	52 weeks ended	52 weeks ended
	30 June 2013	24 June 2012	31 March 2013	25 March 2012	27 March 2011	30 June 2013	24 June 2012	31 March 2013	25 March 2012	27 March 2011	30 June 2013	24 June 2012	31 March 2013	25 March 2012	27 March 2011	30 June 2013	24 June 2012	31 March 2013	25 March 2012	27 March 2011
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Royal Mail Pension Plan (RMPP)	2	2	5	9	9	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Quadrant Catering Limited	–	–	–	–	–	6	8	26	35	34	–	–	1	1	–	4	–	–	3	3
G3 Worldwide Mail N.V. (Spring)	–	–	–	–	–	–	2	6	6	6	–	3	3	4	3	–	–	–	–	1
Post Office Limited	8	9	37	33	35	84	90	371	359	346	9	8	6	9	12	–	–	–	–	–

On 1 April 2012 Post Office Limited became a related party to Royal Mail Group Limited and the transactions summarised above are in respect of trading between the two entities from that date. Quadrant Catering Limited was an associate company of the Group throughout the reporting periods above. G3 Worldwide Mail N.V. ('Spring') was an associate company of the Group until its disposal on 2 April 2013.

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

The Group trades with numerous HM Government bodies on an arm's length basis. Transactions with these entities are not disclosed owing to the significant volume of transactions that are conducted.

### Key management compensation

	13 weeks ended 30 June 2013 £000	13 weeks ended 24 June 2012 £000	53 weeks ended 31 March 2013 £000	52 weeks ended 25 March 2012 £000	52 weeks ended 27 March 2011 £000
Short-term employee benefits	810	941	3,753	3,398	2,345
Post-employment benefits	–	–	–	–	–
Other long-term benefits	–	–	–	–	–
Total compensation earned by key management	810	941	3,753	3,398	2,345

Key management comprises Executive and Non-Executive Directors of the Royal Mail Group Limited Board.

HM Government is the Company's sole shareholder and accordingly the Directors have no interest in the shares of the Company.

### Royal Mail Group Limited – principal subsidiaries

Royal Mail Holdings plc is the immediate and ultimate parent company of Royal Mail Group Limited. The Royal Mail Group Limited consolidated historical financial information includes the financial results of the principal subsidiaries listed below:

Company	Principal activities	Country of incorporation	% equity interest at 30 June 2013	% equity interest at 31 March 2013	% equity interest at 25 March 2012	% equity interest at 27 March 2011
Royal Mail Investments Limited	Holding company	United Kingdom	100	100	100	100
General Logistics Systems B.V.	Parcel services	The Netherlands	100	100	100	100
Royal Mail Estates Limited	Property holdings	United Kingdom	100	100	100	100
Romec Limited	Facilities management	United Kingdom	51	51	51	51



## 27. Related party information (continued)

### Associates

The following companies were the principal associates of the Group during the reporting periods:

Company	Principal activities	Country of incorporation	% ownership at 30 June 2013	% ownership at 31 March 2013	% ownership at 25 March 2012	% ownership at 27 March 2011
Quadrant Catering Limited	Catering services	United Kingdom	51	51	51	51
G3 Worldwide Mail N.V. ('Spring')	Mail services	The Netherlands	–	32.45	32.45	32.45

The majority of Board membership and Board voting power in Quadrant Catering Limited is held by the Group's business partner, hence it is not accounted for as a subsidiary company under IFRS. The investment in Quadrant Catering Limited is held by Royal Mail Group Limited.

The investment in G3 Worldwide Mail N.V. ('Spring') was held by Royal Mail Investments Limited. During March 2013 it was announced that G3 Worldwide Mail N.V. ('Spring'), was to be sold and accordingly, the Group's share of its net assets was transferred to the 'assets held for sale' category on the Group balance sheet. G3 Worldwide Mail N.V. ('Spring') was subsequently sold on 2 April 2013.

## 28. Significant accounting policies

### Basis of consolidation

The consolidated historical financial information comprises the historical financial information of the Company and its subsidiary undertakings.

All intra-group balances and transactions have been eliminated in full. Transfer prices between business segments are set on a basis of charges reached through negotiation with the respective businesses.

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

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

### Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the revised IAS 19 'Employee Benefits' during the reporting period. The key impact of this revision has been to replace the separate assumptions for expected return on plan assets and discounting of scheme liabilities, and replace them with one single discount rate for the net surplus or deficit. This net interest income/cost is measured based on the plans' discount rate. Asset returns greater or less than the accounting discount rate are recognised in the Statement of Comprehensive Income (SOCi). The effect of this change has been to recognise a net pension interest credit of £30 million in FYE 2013 and a net pension interest charge of £230 million in FYE 2012 and £419 million in FYE 2011 compared with previous amounts recognised being a net pension interest credit of £34 million in FYE 2013 and £24 million in FYE 2012 and a net pension interest charge of £155 million in FYE 2011. Corresponding adjustments apply to other comprehensive income resulting in no net change to total equity. No other new or amended/revised accounting standards were required to be adopted by the Group during the reporting period.

### Key sources of estimation, uncertainty and critical accounting judgements

#### Pensions

The value of plan assets and liabilities is determined by long-term actuarial assumptions which include salary growth, inflation rates, returns on investments and mortality rates. Differences arising from actual experience or future changes in assumptions will be reflected in the Group's consolidated statement of comprehensive income. The Group exercises its judgement in determining the assumptions to be adopted, after discussion with its Actuary.

The pension deficit transfer to HM Government on 1 April 2012 was taken directly through equity as, in management's judgement, this transaction was undertaken with HM Government in its capacity as the owner of Royal Mail Holdings plc, the Company's parent company, rather than in its capacity as Government.

## **28. Significant accounting policies (continued)**

### **Deferred revenue**

The Group recognises advance customer payments on its balance sheet relating to stamps and meter credits purchased by customers but not used at the balance sheet date. The valuation of this deferred revenue is based on a number of different estimation and sampling methods using external specialist resource as appropriate, the results of which are reviewed by management in order to make a judgement of the carrying amount of the accrual. The total accrual is held within current trade and other payables (note 24) but a proportion (which cannot be measured) will relate to stamps and meter credits used one year or more after the balance sheet date.

### **Deferred taxation**

Assessment of the deferred taxation asset requires an estimation of future profitability. Such estimation is inherently uncertain in a market subject to various competitive pressures. Should estimates of future profitability change in future years, the amount of deferred taxation recognised will also change accordingly. The carrying values of the deferred taxation assets and liabilities are included within note 6.

### **Provisions**

Due to the nature of provisions, a significant part of their determination is based upon estimates and judgements concerning the future.

Restructuring provisions, including for redundancy and property costs, are derived based upon the most recent business plan for direct expenditure, where plans are sufficiently detailed and appropriate communication to those affected has been undertaken. This includes the expected number of employees impacted, rate of compensation per employee, rental costs and expected period of properties remaining vacant and dilapidation costs.

The industrial diseases claims provision is based on the best information available at the year end, including independent expert advice.

### **Revenue**

Revenue reported in the income statement is net of value added taxation and comprises Turnover which principally relates to the rendering of services as follows:

#### **UK Parcels, International & Letters**

Account revenue is derived from specific contracts and recognised when the delivery of an item is complete. Prepaid revenue mainly relating to stamp and meter income is recognised when the sale is made, adjusted to reflect a value of stamp and meter credits held but not used by the customer.

#### **General Logistics Systems**

Revenue is derived from specific contracts and is recognised at the time of delivery.

#### **Distribution and conveyance**

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

#### **Operating exceptional items**

Operating exceptional items are items of income and expenditure arising from the operations of the business which, due to the nature of the events giving rise to them, require separate presentation on the face of the income statement to allow a better understanding of financial performance in the reporting period, in comparison to prior years.

#### **‘ColleagueShare’ – legacy share scheme**

This scheme, introduced in FYE 2008, was a five-year scheme spanning the accounting years from April 2007 to March 2012 and comprised both a ‘share’ plan and a related stakeholder dividend throughout the life of the scheme.

## **28. Significant accounting policies (continued)**

The costs of the scheme were included in the income statement as an exceptional item throughout the life of the scheme and corresponding liabilities were included within payables or provisions as appropriate.

### **Operating profit**

Operating profit is the profit arising from the normal, recurring operations of the business and after charging operating exceptional items defined above. It excludes the non-operating exceptional items for profit or loss on disposal of businesses and profit or loss on disposal of property, plant and equipment. These items are not part of the normal recurring operations of the business but are material, so are presented separately on the face of the income statement to allow a better understanding of financial performance in the reporting period, in comparison to prior years.

### **Income taxation and deferred taxation**

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

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

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

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

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

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

### **Segment information**

The Group's operating segments are organised and managed separately according to the nature of the products and services provided, with each segment representing a business unit that offers different products and serves largely different markets. Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on EBITDA before transformation costs.

There is no aggregation of operating segments. The operating units that make up the three operating segments are detailed in note 2.

The operating segments comprise operations in both the UK and other parts of Europe, the latter being relevant to the GLS business segment. The UK operations include the UKPIL and 'Other' segments.

Segment revenues have been attributed to the respective countries based on the location of the customer.

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

## 28. Significant accounting policies (continued)

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

### Goodwill

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

After initial recognition, goodwill is stated at cost less any accumulated impairment losses. Goodwill arising from business combinations is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

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

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

### Intangible assets

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

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

Customer listings	3 to 4 years
Software	3 to 6 years

### Property, plant and equipment

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

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

### Impairment reviews

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

## **28. Significant accounting policies (continued)**

### **Investments in associates**

The Group's investments in its associates are accounted for under the equity method of accounting. Under the equity method, the investment is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of the net assets of the associates, less any impairment in value. The income statement reflects the Group's share of post taxation profits from the associates.

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

### **Non-current assets held for sale**

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

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

### **Leases**

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

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

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

### **Trade receivables**

Trade receivables are recognised and carried at original invoice amount less an allowance for any non-collectable amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

### **Financial instruments**

Financial assets within the scope of IAS 39 Financial Instruments: Recognition and Measurement are classified as: financial assets at fair value through the income statement (held for trading); held to maturity investments, loans and receivables or available for sale financial assets as appropriate. Financial liabilities within the scope of IAS 39 are classified as either financial liabilities at fair value through the income statement or financial liabilities measured at amortised cost.

The Group determines the classification of its financial instruments at initial recognition and re-evaluates this designation at each financial year end. When financial instruments are recognised initially, they are measured at fair value, being the market transaction price plus, in the case of financial instruments not at 'fair value through the income statement', any directly attributable transactional costs.

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

### **Loans and receivables**

Non-derivative financial assets with fixed or determinable payments that are not quoted on an active market, do not qualify as trading assets and have not been designated as either 'fair value through the income

## **28. Significant accounting policies (continued)**

statement' or available for sale, are carried at amortised cost using the effective interest rate method if the time value of money is significant. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

### **Available for sale financial assets**

'Available for sale financial assets' are non-derivative financial assets that are designated as such or are not classified in any of the three preceding categories. After initial recognition, interest is taken to the income statement using the effective interest rate method and the assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised, or until the investment is deemed to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

### **Financial liabilities at fair value through the income statement (held for trading)**

Derivatives liabilities are classified as held for trading unless they are designated as hedging instruments. They are carried in the balance sheet at fair value with gains or losses recognised in the income statement.

### **Financial liabilities measured at amortised cost**

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

### **Cash and cash equivalents**

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits (cash equivalents) with an original maturity date of three months or less. In addition, the Group uses money market funds as a readily available source of cash, and these funds are also categorised as cash equivalents.

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of bank overdrafts.

Cash equivalents are classified as loans and receivables financial instruments.

### **Financial assets – pension escrow investments**

Financial assets – pension escrow investments comprise cash at bank, conventional gilt edged securities, index-linked gilt edged securities and Treasury bills.

Conventional gilt edged securities, index-linked gilt edged securities and Treasury bills are classified as available for sale financial instruments on the basis that they are quoted investments that are not held for trading and may be disposed of prior to maturity.

### **Financial assets – other investments**

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

### **Financial liabilities – interest-bearing loans and borrowings**

All loans and borrowings are classified as financial liabilities measured at amortised cost.

### **Financial liabilities – obligations under finance leases**

All obligations under finance leases are classified as financial liabilities measured at amortised cost.



## **28. Significant accounting policies (continued)**

### **Derivative financial instruments**

The Group uses derivative instruments such as foreign currency contracts in order to manage the risk profile of any underlying risk exposure of the Group, in line with the Group's treasury management policies. Such derivative financial instruments are initially stated at fair value.

For the purpose of hedge accounting, hedges are classified as cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction.

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

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

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

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

### **Fair value measurement of financial instruments**

The fair value of quoted investments (including conventional gilt edged securities, index-linked gilt edged securities and Treasury bills) is determined by reference to bid prices at the close of business on the balance sheet date. Hence the conventional gilt edged securities, index-linked gilt edged securities and Treasury bills are within Level 1 of the fair value hierarchy as defined within IFRS 13.

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

For the purposes of disclosing the fair value of investments held at amortised cost in the balance sheet, in the absence of quoted market prices, fair values are calculated by discounting the future cash flows of the financial instrument using quoted equivalent interest rates at close of business on the balance sheet date.

### **Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at an appropriate pre-taxation rate.

### **Pensions and other post-retirement benefits**

The pension assets for the defined benefit plans are measured at fair value. Liabilities are measured on an actuarial basis using the projected unit credit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term. The resulting defined benefit asset or liability is presented separately on the face of the balance sheet. Full actuarial valuations are carried out

## **28. Significant accounting policies (continued)**

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

For defined benefit schemes, the amounts charged to operating profit are the current service costs and any gains and losses arising from settlements, curtailments and past service costs. Net pension interest is recognised in the income statement based on the plans' discount rate applied to the net surplus or deficit. Actuarial gains and losses are recognised immediately in the statement of comprehensive income. Any deferred taxation movement associated with the actuarial gains and losses is also recognised in the statement of comprehensive income.

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

### **Foreign currencies**

The functional and presentational currency of Royal Mail Group Limited is pounds Sterling (£). The functional currency of the overseas subsidiaries in Europe is mainly the Euro (€).

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

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

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

### **Contingent liabilities**

Contingent liabilities are not disclosed if the possibility of losses occurring is considered to be remote.

### **Accounting standards issued but not yet applied**

The following new and revised accounting standards are relevant to the Group and are in issue but were not effective (and in some instances have not yet been adopted by the EU) at 30 June 2013:

- IFRS 9 Financial Instruments: Classification and Measurement
- IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements
- IFRS 10, IFRS 12 and IAS 27 Investment Entities (amendments)
- IFRS 11 Joint Arrangements, IAS 28 Investments in Associates and Joint Ventures
- IFRS 12 Disclosures of Interests in Other Entities
- IAS 36 (amended) Impairment of Assets
- IAS 39 (amended) Financial Instruments: Recognition and Measurement

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

## **29. 52 week adjustment for the FYE 2013**

### **Adjusted 52 week basis**

The FYE 2013 financial year was a 53 week year and to provide meaningful comparisons, revenue and operating costs are also presented on an adjusted 52 week basis.

## 29. 52 week adjustment for the FYE 2013 (continued)

The adjustment removes the 53rd week's revenue and incremental costs associated with that revenue.

General Logistics Systems (GLS) reports results for a 52 week year ending 31 March. No adjustments have been made for GLS.

### Like-for-like revenue and cost growth

In addition to the 52 week adjustment, the impact of translating GLS' Euro results into Sterling using different average exchange rates has also been eliminated to permit revenue and cost growth rates to be calculated on a like-for-like basis.

The average rates for FYE 2013 are £1 = €1.2262 compared with £1 = €1.1572 for FYE 2012—a weakening in the Euro of six per cent. Had GLS' FYE 2012 revenue of €1,808 million (reported as £1,562 million) been translated at the FYE 2013 average rate, it would have been reported as £1,474 million, or £88 million lower. The translational impact of foreign currency on UKPIL's revenue is some £2 million, which is not material and therefore has not been included in the like-for-like calculations.

The transactional cash impact of foreign currency is not eliminated. There are natural hedges in the Group to cover this exposure and the impact on operating profit is estimated as £3 million.

The income statement below includes an 'Adjusted' revenue; costs; and operating profit before exceptional items, on a 52 week basis as described above.

	Reported 53 weeks 2013 £m	Adjusted 52 weeks 2013 £m	Reported 52 weeks 2012 £m	Reported 52 weeks 2011 £m
Revenue	9,279	9,146	8,764	8,415
People costs	(5,147)	(5,077)	(4,920)	(4,986)
Distribution and conveyance operating costs	(1,785)	(1,771)	(1,755)	(1,616)
Infrastructure costs (property, IT, depreciation/amortisation)	(1,052)	(1,047)	(1,060)	(1,025)
Other operating costs	(660)	(653)	(648)	(578)
Operating profit before exceptional items	635	598	381	210
Transformation costs – operating exceptional items	(195)	(195)	(229)	(192)
Profit after transformation costs <sup>1</sup>	440	403	152	18
Other operating exceptional items	(77)		(57)	(48)
Operating profit/(loss)	363		95	(30)
Profit on disposal of property, plant and equipment	4		156	60
Profit on disposal of business	–		26	44
Earnings before interest and taxation (EBIT)	367		277	74
Finance costs	(104)		(112)	(107)
Finance income	27		12	23
Net pension interest credit/(charge)	30		(230)	(419)
Profit/(loss) before taxation	320		(53)	(429)
Taxation – current charge	(38)		(36)	(35)
– deferred credit/(charge)	284		(15)	(88)
Profit/(loss) for the period	566		(104)	(552)
Profit/(loss) for the period attributable to:				
Equity holder of the parent company	562		(105)	(553)
Non-controlling interest (other partner interest in Romec Limited and NDC 2000 Limited)	4		1	1

<sup>1</sup> Before other operating exceptional items.

## 29. 52 week adjustment for the FYE 2013 (continued)

The profit and loss summary and commentary below provides an analysis of an equivalent 52-week period for 2013.

### Profit and loss summary

	Reported 53 weeks 2013 £m	Adjusted 52 weeks 2013 £m
Revenue	9,279	9,146
Operating costs	(8,644)	(8,548)
Transformation exceptional costs	(195)	(195)
Profit after transformation costs <sup>1</sup>	440	403
Other net exceptional items	(73)	
Earnings before interest and taxation	367	
Net finance costs and pension interest	(47)	
Taxation – current charge	(38)	
– deferred credit/(charge)	284	
Profit for the period	566	
Operating profit after transformation costs margin %	n/m	4.4%

<sup>1</sup> Before other exceptional items.

Comparison of 2013 vs 2012			Comparison of 2013 vs 2012		
	Reported 2013 %	Like-for-like 2013 %		Reported 2013 %	Like-for-like 2013 %
<b>Growth rates %</b>			<b>Growth rates %</b>		
Group revenue	6%	5%	Group volumes	n/a	n/a
– UKPIL letters and marketing mail	4%	3%	– Addressed letters	(7)%	(8)%
– UKPIL parcels	14%	13%	– UKPIL parcels	6%	5%
– GLS	(4)%	2%	– GLS	1%	1%
– Other	15%	15%			
Group operating costs	3%	3%			
– People	5%	4%			
– Distribution and conveyance	2%	4%			
– Infrastructure	(1)%	(1)%			
– Other	2%	1%			

	Reported 53 weeks 2013 €m	Reported 52 weeks 2012 €m	Reported 52 weeks 2011 €m	Like-for-like comparison of 2013 vs 2012 %
GLS financial information (in Euros)				
Revenue	1,837	1,808	1,746	2%
Costs	(1,714)	(1,660)	(1,607)	3%
Profit after transformation costs	123	148	139	(17)%
Average £ : € rate	1.2262	1.1572	1.1758	n/a

### **30. Events after the reporting period**

#### **The Pensions Reform**

In June 2013 the Company launched a consultation with employees in the Royal Mail Section with the aim of keeping the Royal Mail Section open to future accrual, subject to certain conditions, at least until the Company's next periodic pension review is concluded in March 2018. The consultation period closed on Sunday 25 August 2013. The Company has now agreed with the RMPP Trustee to implement the Pensions Reform, and has announced the agreed changes to the Royal Mail Section.

Under the Pensions Reform, the basic pay elements of members' pensionable pay (after subtraction of the Lower Earnings Deduction for Section C members) will increase by RPI (up to 5%) each year regardless of whether employees' actual basic pay increases by more or less, subject to potential additional increases to take account of certain increments or progressions within pay groups. Consistent with the assumptions used in the Pensions Transfer, it was assumed in the Company's accounting calculations as at 31 March 2013 and 30 June 2013 that increases in basic pensionable pay would average 1% above RPI each year over the longer term.

The Company currently makes significant cash contributions of around £400 million per annum to the Royal Mail Section, which were agreed as part of the March 2009 valuation of the RMPP. Through the Pensions Transfer to HM Government in March 2012, the historic liabilities were secured for the benefit of the members. However, the impact of the reduction in the yields on UK Government and AA-rated corporate bonds has meant the cost of future annual accruals has risen very significantly. In order to keep the Royal Mail Section open, changes have been made that create a surplus from assets left in that section. This surplus will be used to fund the gap between the existing Company contributions and the estimated cost of future accrual for the Royal Mail Section. This keeps the Royal Mail Section open for the benefit of the members over the period up to March 2018, without requiring either the Company or individuals to make unaffordable increases to their cash contributions.

The changes due to the Pensions Reform are considered to be a "plan amendment" as defined under IAS 19, and therefore their effect will be recognised in the reported accounts of the Company now the Pensions Reform have been agreed by the RMPP Trustee. Once implemented, the new defined benefit liability will be calculated and the financial effect of changes in assumptions arising from the Pensions Reform will then be accounted for as an adjustment to past service cost, resulting in a material one-time non-cash exceptional credit in the Income Statement for the half year 2014. In order to give an indication of the financial impact, had the Pensions Reform been reflected in the historical financial information, the pension surplus would have been disclosed as £1,824 million as at 30 June 2013, compared with £647 million, and deferred taxation liabilities would have increased by approximately £200 million.

#### **Group Reorganisation**

A new company, Royal Mail Limited, was incorporated on 6 September 2013 with Royal Mail Holdings plc as its immediate and ultimate parent company. Royal Mail Holdings plc changed its name to Postal Services Holding Company plc on 11 September 2013. The Special Share in Royal Mail Group Limited, held by HM Government, was redeemed on 12 September 2013. Subsequently on 12 September 2013, the entire issued share capital of Royal Mail Group Limited was transferred from Postal Services Holding Company plc to Royal Mail Limited. The effect of this reorganisation was to insert Royal Mail Limited as the new immediate parent company between Postal Services Holding Company plc and Royal Mail Group Limited. Royal Mail Limited was subsequently re-registered as Royal Mail plc on 19 September 2013.

**THIS DOCUMENT, THE REGISTRATION DOCUMENT AND THE SUMMARY** together comprise a prospectus (the “**Prospectus**”) relating to Royal Mail plc (the “**Company**”) prepared in accordance with the Prospectus Rules of the UK Listing Authority made under section 73A of FSMA, which has been approved by the UK Listing Authority in accordance with section 87A of FSMA and has been made available to the public in accordance with Rule 3.2 of the Prospectus Rules. This document has been prepared in connection with the offer of Ordinary Shares to certain institutional and other investors described in Part III (*Information About the Offer*) of this document and the admission of Ordinary Shares to the premium listing segment of the Official List of the UK Listing Authority and to the London Stock Exchange’s main market for listed securities. The Company has requested that the UK Listing Authority provides a certificate of approval, a copy of the Prospectus and a translation of the Summary (where applicable) to the relevant competent authority in each of Belgium, Cyprus, Germany, Gibraltar and Italy.

The Directors, whose names appear on page 16 of this document, and the Company accept responsibility for the information contained in this document. To the best of the knowledge of the Directors and the Company (who have taken all reasonable care to ensure that such is the case) such information is in accordance with the facts and this document does not omit anything likely to affect the import of such information.

Application will be made to the UK Listing Authority for all of the issued and to be issued Ordinary Shares to be admitted to the premium listing segment of the Official List and to the London Stock Exchange for the Ordinary Shares to be admitted to trading on the London Stock Exchange’s main market for listed securities, which together will constitute official listing on a stock exchange under the Listing Rules. No application has been made or is currently intended to be made for the Ordinary Shares to be admitted to listing or trading on any other exchange. Conditional dealings in the Ordinary Shares are expected to commence on the London Stock Exchange on 11 October 2013 (International Security Identification Number (ISIN): GB00BDVZY277). It is expected that Admission will become effective, and that unconditional dealings in the Ordinary Shares will commence on the London Stock Exchange, at 8.00 a.m. on 15 October 2013. Dealings on the London Stock Exchange before Admission will only be settled if Admission takes place. **All dealings before the commencement of unconditional dealings will be on a “when issued” basis and will be of no effect if Admission does not take place and such dealings will be at the sole risk of the parties concerned.**

Prospective investors should read the whole of this document, together with the Registration Document and the Summary, and in particular the discussion of certain risks and other factors that should be considered in connection with an investment in the Ordinary Shares as set out in the section entitled “Risk Factors” in this document and the Registration Document. Prospective investors should be aware that an investment in the Company involves a degree of risk and that, if one or more of the risks described in the Prospectus were to occur, investors may find that their investment is materially adversely affected. Accordingly, an investment in the Ordinary Shares is only suitable for investors who are knowledgeable in investment matters and who are able to bear the loss of the whole or part of their investment.



## Royal Mail plc

*(incorporated in England and Wales under the Companies Act 2006 with registered number 08680755)*

**Offer of up to 521,739,130 Ordinary Shares of 1p each  
at an Offer Price expected to be between £2.60 and £3.30 per Ordinary Share  
and admission to the premium listing segment of the Official List and to trading  
on the main market of the London Stock Exchange**

*Joint Global Co-ordinator and Joint Bookrunner*  
**Goldman Sachs International**

*Joint Global Co-ordinator and Joint Bookrunner*  
**UBS Investment Bank**

*Joint Bookrunner and Sponsor*  
**Barclays**

*Joint Bookrunner*  
**BofA Merrill Lynch**

*Co-Lead Manager*  
**Investec Bank plc**

*Co-Lead Manager*  
**Nomura**

*Co-Lead Manager*  
**RBC Capital Markets**

*Financial Adviser to HM Government*  
**Lazard & Co., Limited**

### Issued ordinary share capital on Admission

*Issued and fully paid Ordinary Shares*

*Number*  
1,000,000,000

*Nominal Amount*  
£10,000,000

Pursuant to the Offer, the Selling Shareholder is currently expected to sell between 401,000,000 and 521,739,130 Ordinary Shares, representing between 40.1 per cent. and 52.2 per cent. of the issued ordinary share capital of the Company on Admission. The Company will not receive any of the net proceeds of the sale of the Ordinary Shares, all of which will be paid to the Selling Shareholder. The Selling Shareholder is wholly-owned by HM Government (through the Secretary of State).



The Price Range and Offer Size Range have been set by the Secretary of State. It is currently expected that the Offer Price will be set within the Price Range and that the number of Ordinary Shares to be sold by the Selling Shareholder will be set within the Offer Size Range. A number of factors will be considered in determining the Offer Price, the Offer Size and the basis of allocation to investors, including the level and nature of the demand for the Ordinary Shares during the book-building process, the level of demand in the Retail Offer, prevailing market conditions and the objective of establishing an orderly after-market in the Ordinary Shares. Unless required to do so by law or regulation, the Company does not envisage publishing any supplementary prospectus or a pricing statement, as the case may be, until announcement of the Offer Price and Offer Size. A Pricing Statement containing the Offer Price, confirming the Offer Size and containing any other outstanding information is expected to be published on or about 11 October 2013. If the Offer Price is set above the Price Range and/or the number of Ordinary Shares to be sold by the Selling Shareholder is set above or below the Offer Size Range (subject to the minimum free float requirements of the UK Listing Authority), then the Secretary of State would make an announcement via a Regulatory Information Service and prospective investors would have a statutory right to withdraw their offer to purchase Ordinary Shares pursuant to section 87Q of FSMA. The arrangements for withdrawing offers to purchase Ordinary Shares would be made clear in the announcement. Further details of how the Offer Price and the Offer Size will be determined are contained in Part III (*Information About the Offer*) of this document.

The Company consents to the use of the Prospectus by the Intermediaries in connection with the Intermediaries Offer in the UK on the following terms: (i) in respect of Intermediaries who are appointed prior to the date of this document, from the date of this document; and (ii) in respect of Intermediaries who are appointed after the date of this document, from the date on which they are appointed to participate in the Intermediaries Offer and agree to adhere to and be bound by the terms of the Intermediaries Terms and Conditions, in each case until the closing of the Intermediaries Offer. The Company accepts responsibility for the information contained in the Prospectus with respect to any purchaser of Ordinary Shares pursuant to the Offer. **Any Intermediary that uses the Prospectus must state on its website that it uses this document in accordance with the Company's consent. Intermediaries are required to provide the terms and conditions of the Intermediaries Offer to any prospective investor who has expressed an interest in participating in the Intermediaries Offer. Any application made by investors to any Intermediary is subject to the terms and conditions imposed by each Intermediary.**

**This document does not constitute an offer of, or the solicitation of an offer to buy or to subscribe for, Ordinary Shares to any person in any jurisdiction to whom or in which jurisdiction such offer or solicitation is unlawful and, in particular, is not for distribution in Australia, Canada or Japan, in each case except in compliance with an exemption from applicable securities laws. The Ordinary Shares have not been and will not be registered under the US Securities Act of 1933, as amended (the "US Securities Act") or qualified for sale under the laws of any state of the United States or under any applicable securities laws of Australia, Canada or Japan. The Ordinary Shares are being offered and sold within the United States only to persons reasonably believed to be "qualified institutional buyers" (as defined in Rule 144A under the US Securities Act) in reliance on Rule 144A or pursuant to another exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act and outside the United States in reliance on Regulation S under the US Securities Act.**

**The Ordinary Shares have not been approved or disapproved by the US Securities and Exchange Commission ("SEC"), any state securities commission in the United States or any US regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of the Ordinary Shares or the accuracy or adequacy of this document. Any representation to the contrary is a criminal offence in the United States.**

The distribution of this document, the Registration Document and the Summary and the offer, sale and/or issue of Ordinary Shares in certain jurisdictions may be restricted by law. No action has been or will be taken by the Secretary of State, the Selling Shareholder, the Company, the Directors or any of the Underwriters to permit a public offer of Ordinary Shares or possession or distribution of this document (or any other offering or publicity material or application form relating to the Ordinary Shares) in any jurisdiction, other than in the UK and the EEA Passport Jurisdictions. Persons into whose possession this document comes are required by the Secretary of State, the Selling Shareholder, the Company, the Directors and the Underwriters to inform themselves about and to observe any such restrictions. This document, the Registration Document and the Summary do not constitute or form part of an offer to sell, or the solicitation of an offer to buy, Ordinary Shares to any person in any jurisdiction to whom or in which such offer or solicitation is unlawful.

Certain statements contained in this document, the Registration Document and the Summary, including any information as to the Group's strategy, plans or future financial or operating performance constitute "forward-looking statements". By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future or are beyond the Group's control. Forward-looking statements are not guarantees of future performance. Prospective investors should read the section entitled "Forward-looking statements" on page 14 of this document for further details.

Any reproduction or distribution of this document, the Registration Document and the Summary in whole or in part, and any disclosure of their contents or use of any information contained in these documents for any purpose other than considering an investment in the Ordinary Shares is prohibited. Recipients of this document, the Registration Document and the Summary agree to the foregoing by accepting delivery of these documents.

No person has been authorised to give any information or make any representations other than those contained in this document, the Registration Document and the Summary and, if given or made, such information or representations must not be relied upon as having been authorised by the Company, the Directors, the Selling Shareholder, the Secretary of State or any of the Underwriters. Neither the delivery of this document, the Registration Document and the Summary nor any acquisition or sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Group since the date of these documents or that the information in these documents is correct as at any time after their date.

The contents of this document, the Registration Document and the Summary are not to be construed as legal, business or tax advice. Each prospective investor should consult his or its own legal adviser, financial adviser or tax adviser for legal, financial or tax advice.

Without limitation, the contents of the websites of the Group and the Offer Website do not form part of this document, the Registration Document or the Summary, and prospective investors should not rely on them.

## THE UNDERWRITERS

Each of the Underwriters is authorised by the Prudential Regulation Authority and regulated by the FCA and the Prudential Regulation Authority in the UK and is acting exclusively for the Secretary of State, the Selling Shareholder and the Company and for no other person in connection with the Offer and Admission and will not regard any other person (whether or not a recipient of this document) as its client in relation to the Offer or Admission and will not be responsible to anyone other than the Secretary of State, the Selling Shareholder and the Company for providing the protections afforded to its clients or for providing advice in relation to the Offer, Admission or any transaction or arrangement referred to in this document.

The Underwriters and any of their respective affiliates may have engaged in transactions with, and provided various investment banking, financial advisory, lending and commercial banking, and other services for the Secretary of State, the Selling Shareholder and the Company, for which they would have received customary fees. The Underwriters and any of their respective affiliates may provide such services to the Secretary of State, the Selling Shareholder and the Company and any of their respective affiliates in the future.

In connection with the Offer, each of the Underwriters and any of their respective affiliates acting as an investor for its or their own account(s) may purchase Ordinary Shares and, in that capacity, may retain, purchase, sell, offer to sell or otherwise deal for its or their own account(s) in the Ordinary Shares, any other securities of the Company or other related investments in connection with the Offer or otherwise. Accordingly, references in this document, the Registration Document and the Summary to the Ordinary Shares being issued, offered, subscribed for or otherwise dealt with should be read as including any issue or offer to, or subscription or dealing by, the Underwriters or any of them and any of their respective affiliates acting as an investor for its or their own account(s). The Underwriters do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so. In addition, in connection with the Offer, certain of the Underwriters may enter into financing arrangements with investors, such as share swap arrangements or lending arrangements where Ordinary Shares are used as collateral, that could result in such Underwriters or any of their respective affiliates from time to time acquiring, holding and/or disposing of shareholdings in the Company.

Apart from the responsibilities and liabilities, if any, which may be imposed on the Underwriters by FSMA, or the regulatory regime established thereunder, or under the regulatory regime of any other jurisdiction where exclusion of liability under the relevant regulatory regime would be illegal, void or unenforceable, none of the Underwriters nor the Secretary of State nor the Selling Shareholder accepts any responsibility whatsoever or makes any representation or warranty, express or implied, for the contents of this document, including its accuracy, completeness or verification, or for any other statement made or purported to be made by any of them, or on behalf of them, the Company or any other person in connection with the Company, the Ordinary Shares or the Offer and nothing contained in this document is or shall be relied upon as a promise or representation in this respect, whether as to the past or future. Each of the Underwriters, the Secretary of State and the Selling Shareholder accordingly disclaims all and any responsibility or liability whether arising in tort, contract or otherwise (save as referred to above) which any of them might otherwise have in respect of this document or any such statement.

## STABILISATION

In connection with the Offer, UBS Limited (as Stabilising Manager), or any of its agents, may (but will be under no obligation to), to the extent permitted by applicable law and for stabilisation purposes, over-allot Ordinary Shares up to a total of 15 per cent. of the total number of Ordinary Shares comprised in the Offer or effect other transactions with a view to supporting the market price of the Ordinary Shares at a higher level than that which might otherwise prevail in the open market. The Stabilising Manager is not required to enter into such transactions and such transactions may be effected on any securities market, over-the-counter market, stock exchange or otherwise and may be undertaken at any time during the period commencing on the date of the conditional dealings of the Ordinary Shares on the London Stock Exchange and ending no later than 30 calendar days thereafter. Such stabilisation, if commenced, may be discontinued at any time without prior notice. In no event will measures be taken to stabilise the market price of the Ordinary Shares above the Offer Price. Except as required by law or regulation, neither the Stabilising Manager nor any of its agents intends to disclose the extent of any over-allotments made and/or stabilisation transactions conducted in relation to the Offer.

For the purposes of allowing the Stabilising Manager to cover short positions resulting from any such over-allotment and/or from sales of Ordinary Shares effected by it during the stabilising period, it has entered into the Over-allotment Option with the Selling Shareholder pursuant to which it may purchase (or nominate purchasers of) additional Ordinary Shares representing up to 15 per cent. of the total number of Ordinary Shares comprised in the Offer (before utilisation of the Over-allotment Arrangements) (the "**Over-allotment Shares**") at the Offer Price. The Over-allotment Option may be exercised in whole or in part upon notice by the Stabilising Manager at any time on or before the 30th calendar day after the commencement of conditional dealings of the Ordinary Shares on the London Stock Exchange. Any Over-allotment Shares made available pursuant to the Over-allotment Option will be sold on the same terms and conditions as Ordinary Shares being offered pursuant to the Offer and will rank *pari passu* in all respects with, and form a single class with, the other Ordinary Shares (including for all dividends and other distributions declared, made or paid on the Ordinary Shares).

## NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED STATES

The Ordinary Shares have not been and will not be registered under the US Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act and in compliance with any applicable state securities laws. Prospective investors are hereby notified that sales of Ordinary Shares may be made in reliance on an exemption from the provisions of Section 5 of the US Securities Act. The Underwriters, through their respective selling agents, may arrange for the offer and resale of the Ordinary Shares in the United States only to persons reasonably believed to be QIBs in reliance on Rule 144A or pursuant to another exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act. Any offer or sale of shares in the United States will be made by broker-dealers who are registered as such under the US Securities Exchange Act of 1934, as amended (the "**US Exchange Act**").

For a description of these and certain further restrictions on the offer, sale and transfer of the Ordinary Shares and distribution of this document, see section 15 of Part III (*Information About the Offer*) of this document. Please note that, by receiving this

document, purchasers shall be deemed to have made certain representations, acknowledgements and agreements set out in the Prospectus including, without limitation, those set out in section 15 of Part III (*Information About the Offer*) of this document and, in the case of investors who submit an Application Form, those set out in section 17.8 of Part III (*Information About the Offer*).

#### **NOTICE TO NEW HAMPSHIRE RESIDENTS ONLY**

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ("RSA 421-B") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

#### **AVAILABLE INFORMATION FOR INVESTORS IN THE UNITED STATES**

Neither the Company nor any of its subsidiaries is required to file periodic reports under Section 13 or Section 15(d) of the US Exchange Act. For so long as any Ordinary Shares are "restricted securities" within the meaning of Rule 144(a)(3) of the US Securities Act, the Company will, during any period in which it is neither subject to Section 13 or 15(d) of the US Exchange Act nor exempt from reporting pursuant to Rule 12g3-2(b) of the US Exchange Act, provide, upon written request, to holders of Ordinary Shares, any owner of any beneficial interest in Ordinary Shares or any prospective purchaser designated by such holder or owner, the information required to be delivered pursuant to Rule 144A(d)(4) under the US Securities Act.

This document, the Registration Document and the Summary are being furnished by the Company in connection with an offering exempt from the registration requirements of the US Securities Act, solely for the purpose of enabling a prospective investor to consider the subscription for or acquisition of Ordinary Shares described herein. The information contained in this document, the Registration Document and the Summary has been provided by the Company and other sources identified herein or therein. This document, the Registration Document and the Summary are being furnished on a confidential basis only to persons reasonably believed to be QIBs in the United States. Any reproduction or distribution of this document, the Registration Document and/or the Summary, in whole or in part, in the United States and any disclosure of its contents or use of any information herein or therein in the United States for any purpose, other than in considering an investment by the recipient in the Ordinary Shares offered hereby or thereby, is prohibited. Each potential investor in the Ordinary Shares, by accepting delivery of this document, the Registration Document and the Summary, agrees to the foregoing.

#### **NOTICE TO OVERSEAS SHAREHOLDERS**

The distribution of this document, the Registration Document and the Summary and the offer of the Ordinary Shares in certain jurisdictions may be restricted by law and therefore persons into whose possession this document, the Registration Document and/or the Summary comes should inform themselves about and observe any restrictions, including those set out in the paragraphs that follow. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

No action has been or will be taken in any jurisdiction (other than the UK and the EEA Passported Jurisdictions) that would permit a public offering of the Ordinary Shares, or possession or distribution of this document, the Registration Document, the Summary or any other offering material in any country or jurisdiction where action for that purpose is required. Accordingly, the Ordinary Shares may not be offered or sold, directly or indirectly, and neither this document, the Registration Document, the Summary nor any other offering material or advertisement in connection with the Ordinary Shares may be distributed or published, in or from any country or jurisdiction except in circumstances that will result in compliance with any and all applicable rules and regulations of any such country or jurisdiction. Persons into whose possession this document, the Registration Document and/or the Summary comes should inform themselves about and observe any restrictions on the distribution of this document, the Registration Document, the Summary and the Offer.

In addition, the Ordinary Shares are subject to restrictions on transferability and resale in certain jurisdictions and may not be transferred or resold except as permitted under applicable securities laws and regulations. Investors should be aware that they may be required to bear the financial risk of this investment for an indefinite period of time. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. This document, the Registration Document and the Summary do not constitute or form part of an offer to subscribe for or purchase any of the Ordinary Shares offered hereby to any person in any jurisdiction to whom it is unlawful to make such offer or solicitation in such jurisdiction.

Further information with regard to the restrictions on the distribution of this Prospectus and the offering, sale and transfer and resale of the Ordinary Shares is set out at section 15 of Part III (*Information About the Offer*) of this document. Each purchaser of Ordinary Shares will be deemed to have made the relevant representations made therein.

#### **INTERPRETATION**

Certain terms used in this document are defined in the Schedule (*Definitions*) to this document.

References to the singular in this document shall include the plural and vice versa, where the context so requires. References to sections or Parts are to sections or Parts of this document. The terms "subsidiary", "subsidiary undertaking" and "undertaking" have the meanings given to them by the Companies Act.

All references to time in this document are to UK time unless otherwise stated.

The date of this document is 27 September 2013.

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## EXPECTED TIMETABLE OF PRINCIPAL EVENTS

*Time and Date<sup>(1)(2)</sup>*

Latest date for receipt of completed application forms by the Intermediaries in respect of the Intermediaries Offer	8 October 2013
Latest time and date for completion of Online Applications in respect of the Direct Retail Offer (including the Employee Priority Offer)	11.59 p.m. on 8 October 2013
Latest time and date for receipt of completed hard copy Application Forms in respect of the Direct Retail Offer (including the Employee Priority Offer) by the Receiving Agent	11.59 p.m. on 8 October 2013
Latest time and date for receipt of indications of interest in the Institutional Offer	5.00 p.m. on 8 October 2013
Announcement of the Offer Price and Offer Size, publication of the Pricing Statement and notification of allocations of Ordinary Shares <sup>(3)</sup>	7.00 a.m. on 11 October 2013
Commencement of conditional dealings in Ordinary Shares on the London Stock Exchange	8.00 a.m. on 11 October 2013
Admission and commencement of unconditional dealings in Ordinary Shares on the London Stock Exchange	8.00 a.m. on 15 October 2013
CREST accounts credited in respect of Ordinary Shares in uncertificated form	8.00 a.m. on 15 October 2013
Share Account Statements in respect of Ordinary Shares held through the Royal Mail Nominee Share Service sent by email to Shareholders who submitted an Online Application and elected to receive this via email <sup>(4)</sup>	On 15 October 2013
Latest date for despatch by post of Share Account Statements to all Shareholders holding Ordinary Shares through the Royal Mail Nominee Share Service, other than those who are sent this via email	By 21 October 2013
Latest date for despatch by post of definitive share certificates (where applicable) for Ordinary Shares in certificated form	By 21 October 2013

### Notes:

- (1) Times and dates set out in the timetable above and mentioned throughout this document that fall after the date of publication of this document are indicative only and may be subject to change without further notice.
- (2) All references to time in this timetable are to UK time.
- (3) The Offer Price and Offer Size will be set out in the Pricing Statement. The Pricing Statement will not automatically be sent to persons who receive this document but it will be available free of charge at the Company's registered office at 100 Victoria Embankment, London EC4Y 0HQ. In addition, the Pricing Statement will (subject to certain restrictions) be published on the Company's website at [www.royalmailgroup.com](http://www.royalmailgroup.com) and the Offer Website.
- (4) Shareholders who, pursuant to the Direct Retail Offer (including the Employee Priority Offer), choose to hold their Ordinary Shares in the Royal Mail Nominee Share Service will not be able to deal in Ordinary Shares on a conditional basis prior to Admission but will be able to buy and sell Ordinary Shares from Admission, subject to a charge. For further details on how to effect sales and purchases from Admission, and the charges payable, please refer to section 7 of Part V (*Terms and Conditions of the Royal Mail Nominee Share Service*).

**It should be noted that, if Admission does not occur, all conditional dealings will be of no effect and any such dealings will be at the sole risk of the parties concerned.**



## OFFER AND ADMISSION STATISTICS

Price Range (per Ordinary Share) <sup>(1)</sup>	£2.60 to £3.30
Number of Ordinary Shares in issue on Admission	1,000,000,000
Expected minimum number of Ordinary Shares which may be comprised in the Offer <sup>(2)</sup>	401,000,000
Expected maximum number of Ordinary Shares which may be comprised in the Offer <sup>(2)</sup>	521,739,130
Expected number of Ordinary Shares in the Offer as a percentage of total number of Ordinary Shares in existence on Admission <sup>(2)</sup>	Between 40.1% and 52.2%
Number of Ordinary Shares to be transferred by the Selling Shareholder to the trustee of the Royal Mail Share Incentive Plan <sup>(3)</sup>	100,160,000
Expected maximum number of Ordinary Shares subject to the Over-allotment Arrangements <sup>(4)</sup>	Between 60,150,000 and 78,260,870
Estimated gross proceeds of the Offer receivable by the Selling Shareholder at the mid-point of the Price Range and the Offer Size Range <sup>(5)</sup>	£1,361,040,217
Market capitalisation of the Company at the mid-point of the Price Range <sup>(6)</sup>	£2,950,000,000

### Notes:

- (1) It is currently expected that the Offer Price will be set by the Secretary of State within the Price Range. The Company expects to publish the Pricing Statement containing the Offer Price and the Offer Size on or around 11 October 2013. If the Offer Price is set above the Price Range, then prospective investors would have a statutory right to withdraw their offer to purchase Ordinary Shares in the Offer pursuant to section 87Q of FSMA before the end of a period of two Business Days commencing on the first Business Day after the date on which an announcement of this is published by the Secretary of State via a Regulatory Information Service announcement. The arrangements for withdrawing offers to purchase Ordinary Shares would be made clear in the announcement.
- (2) Calculated (i) on the basis that the Offer Size will be set within the Offer Size Range of between 40.1 per cent. and 52.2 per cent. of the total number of Ordinary Shares in issue on Admission and (ii) before taking into account any over-allotment of Ordinary Shares pursuant to the Over-allotment Arrangements. It is currently expected that the Offer Size will be set by the Secretary of State within the Offer Size Range. However, the number of Ordinary Shares subject to the Offer may represent a higher or lower percentage than that indicated (subject to meeting the free float requirements set by the UK Listing Authority for Admission). If the Offer Size is set above or below the Offer Size Range, then prospective investors would have a statutory right to withdraw their offer to purchase Ordinary Shares in the Offer pursuant to section 87Q of FSMA before the end of a period of two Business Days commencing on the first Business Day after the date on which an announcement of this is published by the Secretary of State via a Regulatory Information Service announcement. The Company expects to publish the Pricing Statement containing the Offer Price and the Offer Size on or around 11 October 2013.
- (3) Subject to Admission and HMRC approval of the Royal Mail Share Incentive Plan, the Secretary of State will procure that the Selling Shareholder transfers the Employee Free Shares to the trustee of the Royal Mail Share Incentive Plan on or immediately after Admission. Each Eligible Employee will then automatically be awarded a number of Employee Free Shares on or around Admission, unless the Eligible Employee completes and submits to Equiniti Limited an opt-out form by 9.00 a.m. on 7 October 2013. The Employee Free Shares Offer is not part of the Offer.
- (4) Calculated on the basis that the Offer Size is set within the Offer Size Range. The maximum number of Ordinary Shares subject to the Over-allotment Arrangements is subject at all times to a maximum of 15 per cent. of the number of Ordinary Shares subject to the Offer (before utilisation of the Over-allotment Arrangements). In the event that the Offer Size is set outside the Offer Size Range, the maximum number of Ordinary Shares subject to the Over-allotment Arrangements would correspondingly increase or decrease.
- (5) Calculated on the basis that the Offer Size is set at the mid-point of the Offer Size Range and the Offer Price is set at the mid-point of the Price Range. The estimated gross proceeds receivable by the Selling Shareholder are stated before taking into account any proceeds which may be receivable by the Selling Shareholder pursuant to exercise of the Over-allotment Option. The estimated gross proceeds are stated without the deduction of the following amounts incurred by the Secretary of State and the Selling Shareholder: (i) underwriting commissions payable by the Selling Shareholder to the Underwriters in connection with the Offer (excluding any underwriting commissions payable in connection with any sales of Ordinary Shares pursuant to the exercise of the Over-allotment Option) (which are estimated to be approximately £11.4 million); (ii) transaction advisory fees and expenses incurred by the Secretary of State and the Selling Shareholder in respect of the Offer and fees and expenses in connection with the Retail Offer (including commissions payable to Intermediaries pursuant to the Intermediaries Offer) (which in aggregate are estimated to be approximately £10.3 million); and (iii) amounts in respect of stamp duty and SDRT payable by the Selling Shareholder in connection with the Offer which are payable to HM Government (which are estimated to be approximately £6.8 million). The amounts referred to above are calculated on the basis of the following assumptions: (a) the Offer Size is set at the mid-point of the Offer Size Range; (b) the Offer Price is set at the mid-point of the Price Range; (c) approximately 70 per cent. of the Ordinary Shares sold in the Offer (excluding pursuant to any exercise of the Over-allotment Option) are sold pursuant to the Institutional Offer and 30 per cent. are sold pursuant to the Retail Offer; and (d) the underwriting commissions payable by the Selling Shareholder to the Underwriters in connection with the Offer are, for the purposes of the deductions set out above, assumed to be the maximum percentage payable by the Selling Shareholder.
- (6) Calculated on the basis of the number of Ordinary Shares in issue at Admission. The market capitalisation of the Company at any given time will depend on the market price of the Ordinary Shares at that time. There can be no assurance that the market price of an Ordinary Share will be equal to or exceed the Offer Price.



## RISK FACTORS

*Any investment in the Company is subject to a number of risks. Accordingly, prospective investors should carefully consider the risks and uncertainties associated with the Offer and the Ordinary Shares, described below, together with all other information contained in this document, the Registration Document and the Summary, prior to making an investment decision. In particular and in addition to the risk factors included below, prospective investors should carefully review the risks associated with the Group's business and the legal and regulatory framework within which it operates, detailed in the section entitled "Risk Factors" in the Registration Document.*

*Prospective investors should note that the risks relating to the Group's business, the legal and regulatory environment within which it operates, the Offer and the Ordinary Shares summarised in the Summary are the risks that the Directors believe to be the most essential to an assessment by a prospective investor of whether to consider an investment in the Ordinary Shares. However, as the risks which the Group faces relate to events and depend on circumstances that may or may not occur in the future, prospective investors should consider not only the information on the key risks summarised in the Summary but also, among other things, the additional risks and uncertainties described below and in the section entitled "Risk Factors" in the Registration Document.*

*The risks and uncertainties described below and in the section entitled "Risk Factors" in the Registration Document represent those the Directors consider to be material as at the date of this document. However, these risks and uncertainties are not the only ones facing the Group. Additional risks and uncertainties not presently known to the Directors, or that the Directors currently consider to be immaterial, may individually or cumulatively also materially and adversely affect the business, results of operations, financial condition and/or prospects of the Group. If any or a combination of these risks actually occurs, the business, results of operations, financial condition and/or prospects of the Group could be materially and adversely affected. In such case, the market price of the Ordinary Shares could decline and investors may lose all or part of their investment. Investors should consider carefully whether an investment in the Ordinary Shares is suitable for them in the light of the information in this document and their personal circumstances.*

### RISKS RELATING TO THE OFFER AND THE ORDINARY SHARES

#### **1. There are risks associated with the Group ceasing to be wholly-owned by HM Government**

The Group faces a number of risks associated with it ceasing to be wholly-owned by HM Government. There may be a change in perception on the part of third parties, including customers, suppliers and contractors of the Group as to the financial strength of the Group. In these circumstances, third parties may seek to terminate or renegotiate the contractual and other arrangements they have in place with the Group. Furthermore, the ceasing of HM Government to wholly-own the Group as well as any future sale by HM Government of all, or part, of its shareholding in the Company may trigger termination, and other, rights under contractual arrangements to which the Group is party which, in the absence of a waiver, approval or consent from the relevant counterparty, could entitle counterparties to terminate or amend the contract. As part of any discussions relating to a requested waiver, approval or consent, counterparties might seek to renegotiate the terms under which they supply services to, or receive services from, the Group. Any such termination or requirement for the Group to agree to less favourable terms in return for the receipt of any necessary waiver, approval or consent may have an adverse effect on the Group's results of operations, financial condition and prospects.

#### **2. Investors may misinterpret the Group's future relationship with HM Government**

Given HM Government's continued shareholding in the Group following the Offer and its current customer relationship with the Group, some investors may assume that if the Group or any members of the Group were to encounter financial, trading or other difficulties, HM Government would provide support to the Group or to the relevant member of the Group.

Investors should be aware that neither the Secretary of State, nor any department or agency of HM Government, nor any of its or their respective employees, servants or agents has given any guarantee, undertaking or assurance (whether express or implied and whether or not the same is legally binding) to provide any financial or other support (whether in the form of debt, equity, trading support or otherwise) to the Group or any member of the Group at any time in the future. Accordingly, there can be no assurance that the Secretary of State or any other such person will do so.

**3. Government policy in relation to the Group and its business may change over time, in particular as a result of a change in UK government**

The Secretary of State has written to the Company to inform it of certain policies, plans, views, expectations and intentions of HM Government and the Secretary of State, as described further in Part V (*Relationship with HM Government*) of the Registration Document. However, investors should note that, except where bound by contract, HM Government and the Secretary of State are at liberty to change their policies, plans, views, expectations or intentions (as the case may be) on the relevant issue and there can be no assurance that such changes will not occur in the future. In particular, investors should note that this risk is likely to be particularly relevant following any change in UK government. The next general election in the UK is currently scheduled to take place on 7 May 2015. The Labour Party has indicated that it is opposed to the privatisation of Royal Mail. The Labour Party may seek to hold a Parliamentary debate on the privatisation of Royal Mail either during, or in the period after, the Offer Period. On 25 September 2013, the Labour Party conference passed a motion calling for the return of Royal Mail to public ownership in the event that it is privatised. The motion is not binding and does not represent official Labour Party policy. It is, however, possible that a future Labour government might seek to return the Group (or part of it) to public ownership. At the present time, it is not clear how any such action might be implemented and the Company is unable to quantify the potential impact, whether financial or otherwise, that it might have on the Group.

**4. There has been no prior public trading market for the Ordinary Shares, and an active trading market may not develop or be sustained in the future**

Prior to Admission, there has been no public trading market for the Ordinary Shares. Although the Company has applied to the UK Listing Authority for admission to the premium listing segment of the Official List and has applied to the London Stock Exchange for admission to trading on its main market for listed securities, the Company can give no assurance that an active trading market for the Ordinary Shares will develop or, if developed, could be sustained following the closing of the Offer. If an active trading market is not developed or maintained, the liquidity and trading price of the Ordinary Shares could be adversely affected.

**5. The share price of publicly traded companies can be highly volatile, including for reasons related to differences between expected and actual operating performance, corporate and strategic actions taken by such companies or their competitors, speculation and general market conditions and regulatory changes**

Prospective investors should be aware that, following Admission, the value of an investment in the Ordinary Shares may decrease or increase abruptly. In addition, stock markets have, from time to time, and especially in recent years, experienced significant price and volume fluctuations (including as a result of technical failures or market disruptions) which have affected the market price of securities. A number of factors outside the control of the Group may impact the price and performance of the Ordinary Shares. The factors which may affect the Company's share price include:

- differences between the Group's expected and actual operating performance as well as between the expected and actual performance of the Group's competitors and the postal and delivery services industries generally;
- industrial action, or the threat of industrial action, affecting the Group;
- seasonal and cyclical fluctuations in the performance of the Group's business and the market in general;
- conditions or trends in online commerce;
- strategic actions by the Group or its competitors, such as mergers, acquisitions, divestitures, partnerships and restructurings;
- the relative performance or activities (or speculation about the relative performance or activities) of other postal services companies admitted or seeking admission to the premium listing segment of the Official List and to trading on the London Stock Exchange's main market for listed securities;
- speculation in the press, media or investment community, whether or not well founded, about the Group's business or the Group's competitors, mergers or acquisitions involving the Group or the Group's competitors and/or major divestments by the Group or the Group's competitors;

- speculation, whether or not well founded, regarding the intentions of the Company's major Shareholders or significant sales of shares by any such Shareholders or short-selling of the Company's shares;
- speculation, whether or not well founded, about possible changes in the Group's management team;
- the publication of research reports, appraisals and other commentary by market analysts; and
- general market conditions, and legislative and regulatory changes affecting the Group.

**6. The issue of additional shares in the Company in connection with future acquisitions, capital raisings, any share incentive or share option plan or otherwise may dilute all other shareholdings**

The Group may seek to raise financing to fund future acquisitions, future investments and other growth opportunities. The Group may, for these and other purposes, such as in connection with share incentive and share option plans, issue additional equity or convertible equity securities. As a result, the Company's existing Shareholders would suffer dilution in their percentage ownership.

**7. The Company's ability to pay dividends in the future depends on, among other things, the Group's financial performance and is therefore not guaranteed**

The Company's ability to pay dividends in the future will depend on, among other things, the Group's financial performance. In addition, under English law, a company can only pay cash dividends to the extent that it has distributable reserves and cash available for this purpose. As a holding company, the Company's ability to pay dividends in the future is affected by a number of factors, principally the receipt of sufficient dividends from its subsidiaries. The payment of dividends by subsidiaries is, in turn, subject to restrictions, including the existence of sufficient distributable reserves and cash in those subsidiaries. These restrictions could limit the payment of dividends to the Company by its subsidiaries, which could restrict the Company's ability to fund its operations or to pay dividends to its Shareholders.

**8. Future substantial sales of Ordinary Shares, or the perception that such sales might occur, could depress the market price of the Ordinary Shares. In particular, the Group is unable to predict whether, or when, following the termination of the lock-up restrictions put in place in connection with the Offer, substantial amounts of Ordinary Shares will be sold in the open market by the Selling Shareholder**

The Selling Shareholder is expected to be the beneficial owner of at least 30 per cent. of the issued Ordinary Shares immediately following Admission and it may retain a holding of more than 50 per cent. of the issued Ordinary Shares following Admission. Except as a result of exercise of the Over-allotment Option or pursuant to certain other customary exceptions, the Selling Shareholder has agreed to refrain from selling any more of its Ordinary Shares for a period of 180 days from the date of Admission. The Group is unable to control or predict whether, following the termination of the lock-up restrictions put in place in connection with the Offer, substantial amounts of Ordinary Shares will be sold in the open market by the Selling Shareholder. Any sales of substantial amounts of Ordinary Shares in the public market by the Selling Shareholder or by the Company, or the perception that such sales might occur, could result in a material adverse effect on the market price of the Ordinary Shares.

**9. Holders of Ordinary Shares in jurisdictions outside the UK may not be able to exercise their pre-emption rights unless the Company decides to take additional steps to comply with applicable local laws and regulations of such jurisdictions**

In the case of certain increases in the Company's issued share capital, the Company's existing Shareholders are generally entitled to pre-emption rights pursuant to the Companies Act unless such rights are waived by a special resolution of the Shareholders at a general meeting or, in certain circumstances, pursuant to the Articles. Holders of Ordinary Shares outside the UK may not be able to exercise their pre-emption rights over Ordinary Shares unless the Company decides to comply with applicable local laws and regulations and, in the case of holders of Ordinary Shares in the United States, a registration statement under the US Securities Act is effective with respect to such rights and Ordinary Shares, or an exemption from the registration requirements of the US Securities Act is available. The Company cannot assure any Shareholders outside the UK that steps will be taken to enable them to exercise their pre-emption rights, or to permit them to receive any proceeds or other amounts relating to their pre-emption rights.

**10. The Selling Shareholder will have significant influence over matters requiring the approval of the Company's shareholders after the Offer as a result of its shareholding, and its interests may not be aligned with those of the other Shareholders**

The Selling Shareholder is expected to be the beneficial owner of at least 30 per cent. of the issued Ordinary Shares immediately following Admission and it may retain a holding of more than 50 per cent. of the issued Ordinary Shares following Admission.

If the Selling Shareholder remains the beneficial owner of more than 25 per cent. of the issued Ordinary Shares following Admission, it will have the power to block special resolutions of the Company. If the Selling Shareholder remains the beneficial owner of 50 per cent. or more of the issued Ordinary Shares following Admission, it will have the power to block ordinary resolutions and special resolutions of the Company. In practice, the Selling Shareholder may be able to block special resolutions of the Company in circumstances where it is the beneficial owner of less than 25 per cent. of the issued Ordinary Shares following Admission if not all Shareholders exercise their votes in respect of the relevant special resolutions.

The Secretary of State and the Selling Shareholder have entered into a Relationship Agreement with the Company which is conditional only on Admission. In the Relationship Agreement, the Selling Shareholder and the Secretary of State agree, among other things, that they will exercise their respective powers to ensure that the Group is capable of operating independently of them and that they will not influence the day-to-day running of the Company and the Group at an operational level. The Relationship Agreement grants the Selling Shareholder the right to nominate one non-executive director for appointment to the Board for so long as the Selling Shareholder (together with its associates) is entitled to exercise or to control the exercise of 10 per cent. or more of the voting rights exercisable at a general meeting of the Company.

The Secretary of State has also informed the Company that, in order to limit HM Government control over the Company, the Secretary of State and the Selling Shareholder intend, following Admission and the exercise or lapse of the Over-allotment Option, to execute a deed poll in which the Secretary of State and the Selling Shareholder undertake to limit their exercise of voting rights in the Company to a level below the retained stake of the Selling Shareholder and in any event no higher than 30 per cent. of the issued share capital of the Company from time to time. The deed poll will not be executed if the Selling Shareholder holds less than 30 per cent. or more than 50 per cent. of the issued Ordinary Shares following exercise or lapse of the Over-allotment Option. The provisions of the deed poll will terminate if the interests of the Secretary of State and the Selling Shareholder in the issued Ordinary Shares are reduced below 30 per cent. The Secretary of State will make an announcement via the Regulatory Information Service of the London Stock Exchange when the deed poll is executed.

Notwithstanding the terms of the Relationship Agreement and the deed poll (when executed), the Selling Shareholder will be able to exercise significant influence over matters requiring shareholder approval, including the election of directors, approval of the Company's remuneration policy and significant corporate transactions. The Selling Shareholder's influence may have the effect of delaying, deferring or preventing a change in control, merger, consolidation, takeover or other business combination or discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control, which in turn could have an adverse effect on the trading price of the Ordinary Shares. The interests of the Selling Shareholder may not necessarily be aligned with the interests of other Shareholders.

See section 1 of Part V (*Relationship with HM Government*) of the Registration Document for further details of the deed poll and the relationship between the Company and the Selling Shareholder, and section 16.1(A) of Part XI (*Additional Information*) of the Registration Document for further details of the Relationship Agreement.

## IMPORTANT NOTICES

### STABILISATION

In connection with the Offer, UBS Limited (as Stabilising Manager), or any of its agents, may (but will be under no obligation to), to the extent permitted by applicable law and for stabilisation purposes, over-allot Ordinary Shares up to a total of 15 per cent. of the final Offer Size or effect other transactions with a view to supporting the market price of the Ordinary Shares at a higher level than that which might otherwise prevail in the open market. The Stabilising Manager is not required to enter into such transactions and such transactions may be effected on any securities market, over-the-counter market, stock exchange or otherwise and may be undertaken at any time during the period commencing on the date of the conditional dealings of the Ordinary Shares on the London Stock Exchange and ending no later than 30 calendar days thereafter. Such stabilisation, if commenced, may be discontinued at any time without prior notice. In no event will measures be taken to stabilise the market price of the Ordinary Shares above the Offer Price. Except as required by law or regulation, neither the Stabilising Manager nor any of its agents intends to disclose the extent of any over-allotments made and/or stabilisation transactions conducted in relation to the Offer.

For the purposes of allowing the Stabilising Manager to cover short positions resulting from any such over-allotment and/or from sales of Ordinary Shares effected by it during the stabilising period, it has entered into the Over-allotment Option with the Selling Shareholder pursuant to which it may purchase (or nominate purchasers of) additional Ordinary Shares representing up to 15 per cent. of the final Offer Size (before any utilisation of the Over-allotment Arrangements) (the “**Over-allotment Shares**”) at the Offer Price. The Over-allotment Option may be exercised in whole or in part upon notice by the Stabilising Manager at any time on or before the 30th calendar day after the commencement of conditional dealings of the Ordinary Shares on the London Stock Exchange. Any Over-allotment Shares made available pursuant to the Over-allotment Option will be sold on the same terms and conditions as Ordinary Shares being offered pursuant to the Offer and will rank *pari passu* in all respects with, and form a single class with, the other Ordinary Shares (including for all dividends and other distributions declared, made or paid on the Ordinary Shares).

### THE UNDERWRITERS

Each of the Underwriters is authorised by the Prudential Regulation Authority and regulated by the FCA and the Prudential Regulation Authority in the UK and is acting exclusively for the Secretary of State, the Selling Shareholder and the Company and for no other person in connection with the Offer and Admission and will not regard any other person (whether or not a recipient of this document, the Registration Document or the Summary) as its client in relation to the Offer or Admission and will not be responsible to anyone other than the Company for providing the protections afforded to its clients or for providing advice in relation to the Offer, Admission or any transaction or arrangement referred to in the Prospectus.

The Underwriters and any of their respective affiliates may have engaged in transactions with, and provided various investment banking, financial advisory, lending and commercial banking, and other services to, the Secretary of State, the Selling Shareholder and the Company, for which they would have received customary fees. The Underwriters and any of their respective affiliates may provide such services to the Secretary of State, the Selling Shareholder and the Company and any of their respective affiliates in the future.

In connection with the Offer, each of the Underwriters and any of their respective affiliates acting as an investor for its or their own account(s) may purchase Ordinary Shares and, in that capacity, may retain, purchase, sell, offer to sell or otherwise deal for its or their own account(s) in the Ordinary Shares, any other securities of the Company or other related investments in connection with the Offer or otherwise. Accordingly, references in the Prospectus to the Ordinary Shares being issued, offered, subscribed for or otherwise dealt with should be read as including any issue or offer to, or subscription or dealing by, the Underwriters or any of them and any of their respective affiliates acting as an investor for its or their own account(s). The Underwriters do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so. In addition, in connection with the Offer, certain of the Underwriters may enter into financing arrangements with investors, such as share swap arrangements or lending arrangements where Ordinary Shares are used as collateral, that could result in such Underwriters acquiring shareholdings in the Company.

Apart from the responsibilities and liabilities, if any, which may be imposed on the Underwriters by FSMA, or the regulatory regime established thereunder, or under the regulatory regime of any other jurisdiction where exclusion of liability under the relevant regulatory regime would be illegal, void or unenforceable, none of the



Underwriters accepts any responsibility whatsoever or makes any representation or warranty, express or implied, for the contents of the Prospectus, including its accuracy or completeness, or for any other statement made or purported to be made by any of them, or on behalf of them, the Company or any other person in connection with the Secretary of State, the Selling Shareholder, the Company, the Ordinary Shares or the Offer and nothing contained in the Prospectus is or shall be relied upon as a promise or representation in this respect, whether as to the past or future. Each of the Underwriters accordingly disclaims all and any responsibility or liability whether arising in tort, contract or otherwise (save as referred to above) which any of them might otherwise have in respect of the Prospectus or any such statement.

### **NOTICE TO INVESTORS**

Prospective investors should rely only on the information in the Prospectus (and any supplementary prospectus required to be published by the Company pursuant to section 87G of FSMA and paragraph 3.4 of the Prospectus Rules) when making a decision as to whether to invest in Ordinary Shares. No person has been authorised to give any information or make any representations in connection with Admission or the Offer other than those contained in the Prospectus and, if given or made, such information or representations must not be relied upon as having been authorised by the Secretary of State, the Selling Shareholder, the Company, the Directors or any of the Underwriters.

In making an investment decision, each investor must rely on their own examination, analysis and enquiry of the Company and the terms of the Offer, including the merits and risks involved.

Without prejudice to any obligation of the Company to publish a supplementary prospectus pursuant to section 87G of FSMA and paragraph 3.4 of the Prospectus Rules, neither the delivery nor the publication of the Prospectus nor any subscription or sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Company or the Group taken as a whole since the date of the Prospectus or that the information contained herein is correct as at any time after the date of the Prospectus.

In the event the Company is required to publish a supplementary prospectus pursuant to section 87G of FSMA and paragraph 3.4 of the Prospectus Rules, prospective investors will have a statutory right to withdraw their offer to purchase Ordinary Shares in the Offer before the end of a period of two Business Days commencing on the first Business Day after the date on which the supplementary prospectus is published pursuant to section 87Q of FSMA. In addition, if the Offer Price is set by the Secretary of State above the Price Range and/or the number of Ordinary Shares to be sold by the Selling Shareholder is set by the Secretary of State above or below the Offer Size Range (subject to the minimum free float requirements of the UK Listing Authority), then prospective investors would have a statutory right to withdraw their offer to purchase Ordinary Shares in the Offer pursuant to section 87Q of FSMA before the end of a period of two Business Days commencing on the first Business Day after the date on which an announcement of this is published by the Secretary of State via a Regulatory Information Service announcement. The arrangements for withdrawing offers to purchase Ordinary Shares would be made clear in the announcement.

None of the Secretary of State, the Selling Shareholder, the Company or the Underwriters, or any of their respective representatives, is making any representation to any offeree or purchaser of the Ordinary Shares regarding the legality of an investment in the Ordinary Shares by such offeree or purchaser under the laws applicable to such offeree or purchaser.

The contents of the Prospectus are not to be construed as legal, financial or tax advice. Each prospective investor should consult his, her or its own legal adviser, financial adviser or tax adviser for legal, financial or tax advice and related aspects of a purchase of Ordinary Shares.

Investors also acknowledge that: (i) they have not relied on the Underwriters or any person affiliated with the Underwriters in connection with any investigation of the accuracy of any information contained in the Prospectus or their investment decision; and (ii) they have relied only on the information contained in the Prospectus, and that no person has been authorised to give any information or to make any representation concerning the Group or the Ordinary Shares (other than as contained in the Prospectus) and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Secretary of State, the Selling Shareholder, the Company or the Underwriters.

Any reproduction or distribution of the Prospectus, in whole or in part, and any disclosure of its contents or use of any information contained in the Prospectus for any purpose other than considering an investment in the Ordinary Shares, is prohibited.



## **NO INCORPORATION OF WEBSITES**

The contents of the websites of the Group and the Offer Website do not form part of the Prospectus, and prospective investors should not rely on them.

## **NO INCORPORATION OF REGULATORY ACCOUNTS**

The regulatory financial statements filed by RMG with Ofcom do not form part of the Prospectus, and prospective investors should not rely on them.

## **FORWARD-LOOKING STATEMENTS**

Certain statements contained in the Prospectus, including any information as to the Group's strategy, plans or future financial or operating performance constitute "forward-looking statements". In some cases, these forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "forecasts", "plans", "projects", "predicts", "prepares", "anticipates", "expects", "intends", "may", "will", "should", "target" or "objective" or, in each case, their negative or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout the Prospectus and include statements regarding the intentions, belief or current expectations of the Directors concerning, among other things: the Company's results of operations, financial condition, prospects, growth, strategies and the industry in which the Group operates. Examples of forward-looking statements include financial targets which are contained in this document specifically with respect to single digit growth, net operating costs (operating costs and transformation costs) and operating profit margin after costs, each of which are described in further detail in the section entitled "Risk Factors" in the Registration Document, Part II (*The Business*) of the Registration Document and Part VII (*Operating and Financial Review*) of the Registration Document. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of the Group or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future or are beyond the Group's control. Forward-looking statements are not guarantees of future performance. The forward-looking statements in the Prospectus are made based upon the Directors' expectations and beliefs concerning future events impacting the Group and therefore involve a number of known and unknown risks and uncertainties. Such forward-looking statements are based on numerous assumptions regarding the Group's present and future business strategies and the environment in which it will operate, which may prove to be inaccurate. The Company's actual results of operations, financial condition and the development of the business sectors in which the Group operates may differ materially from those suggested by the forward-looking statements contained in the Prospectus due to certain factors including, but not limited to, UK and EU domestic and global economic business conditions, market-related risks such as fluctuations in interest rates and exchange rates, the policies and actions of regulatory authorities, market developments regarding volumes of letters and parcels handled by the Group or delivered in the UK and the other core markets of the Group, the impact of competition, currency changes, inflation, deflation, the timing, impact and other uncertainties of future acquisitions or combinations within relevant industries, as well as the impact of tax and other legislation and other regulations in the jurisdictions in which the Group and its affiliates operate. In addition, even if the Company's actual results of operations, financial condition and the development of the business sectors in which the Group operates are consistent with the forward-looking statements contained in the Prospectus, those results or developments may not be indicative of results or developments in subsequent periods.

It is strongly recommended that prospective investors read the sections titled "Risk Factors" set out on pages 8 to 11 of this document and on pages 8 to 43 of the Registration Document for a more complete discussion of the factors that could affect the Group's future performance and the industry in which it operates. In light of these risks, uncertainties and assumptions, the forward-looking events described in the Prospectus may not occur. The forward-looking statements referred to above speak only as at the date of the Prospectus. Subject to any obligations under applicable law, including the Prospectus Rules, the Listing Rules and the Disclosure and Transparency Rules, the Company undertakes no obligation to release publicly any revisions or updates to these forward-looking statements to reflect events, circumstances or unanticipated events occurring after the date of the Prospectus. All subsequent written and oral forward-looking statements attributable to the Group or individuals acting on behalf of the Group are expressly qualified in their entirety by this paragraph.

#### **SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES**

The Company has been incorporated under the laws of England and Wales. Substantially all of the assets of the Company are located in the UK. Except for Jan Babiak, none of the Directors or officers is a citizen or resident of the United States. As a result, it may not be possible for Investors to effect service of process within the United States upon the Company or such persons or to enforce outside the United States judgments obtained against the Company or such persons in US courts, including, without limitation, judgments based upon the civil liability provisions of the US federal securities laws or the laws of any state or territory within the United States. In addition, awards of punitive damages in actions brought in the United States or elsewhere may be unenforceable in the UK. Investors may also have difficulties enforcing, in original actions brought in courts in jurisdictions outside the United States, liabilities under the US securities laws.

## DIRECTORS, COMPANY SECRETARY, REGISTERED OFFICE AND ADVISERS

<b>Directors</b>	<b>Donald Brydon CBE</b> ( <i>Chairman</i> ) <b>Orna Ni-Chionna</b> ( <i>Senior Independent Non-Executive Director</i> ) <b>Moya Greene</b> ( <i>Chief Executive Officer</i> ) <b>Matthew Lester</b> ( <i>Chief Finance Officer</i> ) <b>Mark Higson</b> ( <i>Executive Director</i> ) <b>John Allan CBE</b> ( <i>Non-Executive Director</i> ) <b>Jan Babiak</b> ( <i>Non-Executive Director</i> ) <b>Nick Horler</b> ( <i>Non-Executive Director</i> ) <b>Cath Keers</b> ( <i>Non-Executive Director</i> ) <b>Paul Murray</b> ( <i>Non-Executive Director</i> ) <b>Les Owen</b> ( <i>Non-Executive Director</i> )
<b>Company Secretary</b>	<b>Jon Millidge</b>
<b>Registered Office</b>	100 Victoria Embankment, London EC4Y 0HQ, United Kingdom
<b>Joint Global Co-ordinator and Joint Bookrunner</b>	<b>Goldman Sachs International</b> Peterborough Court, 133 Fleet Street, London EC4A 2BB, United Kingdom
<b>Joint Global Co-ordinator and Joint Bookrunner</b>	<b>UBS Limited</b> 1 Finsbury Avenue, London EC2M 2PP, United Kingdom
<b>Joint Bookrunner and Sponsor</b>	<b>Barclays Bank PLC</b> 5 The North Colonnade, Canary Wharf, London E14 4BB, United Kingdom
<b>Joint Bookrunner</b>	<b>BofA Merrill Lynch International</b> 2 King Edward Street, London EC1A 1HQ, United Kingdom
<b>Co-Lead Manager</b>	<b>Investec Bank plc</b> 2 Gresham Street, London EC2V 7QP, United Kingdom
<b>Co-Lead Manager</b>	<b>Nomura International plc</b> 1 Angel Lane, London EC4R 3AB, United Kingdom
<b>Co-Lead Manager</b>	<b>RBC Europe Limited</b> Riverbank House, 2 Swan Lane, London EC4R 3BF, United Kingdom
<b>Financial Adviser to HM Government</b>	<b>Lazard &amp; Co., Limited</b> 50 Stratton Street, London W1J 8LL, United Kingdom
<b>Reporting Accountants and Auditors</b>	<b>Ernst &amp; Young LLP</b> 1 More London Place, London SE1 2AF, United Kingdom
<b>Legal Advisers to the Company as to English law</b>	<b>Slaughter and May</b> One Bunhill Row, London EC1Y 8YY, United Kingdom
<b>Legal Advisers to the Company as to US law</b>	<b>Davis Polk &amp; Wardwell London LLP</b> 99 Gresham Street, London EC2V 7NG, United Kingdom
<b>Legal Advisers to the Secretary of State and the Selling Shareholder as to English and US law</b>	<b>Freshfields Bruckhaus Deringer LLP</b> 65 Fleet Street, London EC4Y 1HS, United Kingdom
<b>Legal Advisers to the Underwriters and Sponsor as to English and US law</b>	<b>Linklaters LLP</b> One Silk Street, London EC2Y 8HQ, United Kingdom
<b>Retail Offer Adviser to the Secretary of State</b>	<b>Solid Solutions Associates (UK) Limited</b> 5 St John's Lane, London EC1M 4BH, United Kingdom
<b>Registrar and Receiving Agent</b>	<b>Equiniti Limited</b> Aspect House, Spencer Road, Lancing, West Sussex BN9 6DA, United Kingdom

## PART I

### CAPITALISATION AND INDEBTEDNESS

The following tables show the capitalisation and indebtedness of Royal Mail Group Limited as at 30 June 2013 and net indebtedness at 1 September 2013. The following tables do not reflect the impact of the Offer on the Group's capitalisation and indebtedness. Please refer to Part VIII (*Unaudited Pro Forma Financial Information*) of the Registration Document for an analysis of the impact of the Offer on the consolidated net assets of the Group.

#### 1. CAPITALISATION AND INDEBTEDNESS

The information contained in this table sets out the unaudited capitalisation and indebtedness of Royal Mail Group Limited as at 30 June 2013 and, unless otherwise noted, has been extracted without material adjustment from Schedule III (*Historical Financial Information*) to the Registration Document.

	£m
<b>Current debt</b>	
– Guaranteed	–
– Secured <sup>(1)</sup>	80
– Unguaranteed/Unsecured <sup>(2)</sup>	–
<b>Total current debt</b>	80
<b>Non-current debt (excluding current portion of long-term debt)</b>	
– Guaranteed	–
– Secured <sup>(1)</sup>	752
– Unguaranteed/Unsecured <sup>(2)</sup>	473
<b>Total non-current debt</b>	1,225
<b>Shareholders' equity</b>	
– Share capital	–
– Share premium	–
– Other reserves	73
<b>Total shareholders' equity</b>	73
<b>Total capitalisation</b>	1,378

#### Notes:

- (1) Secured debt comprises: (A) the Mails Facilities, which are secured by way of fixed charges over the Selling Shareholder's shares in Royal Mail Group Limited and Royal Mail Group Limited's shares in Royal Mail Estates Limited and floating charges over all assets of the Selling Shareholder, Royal Mail Group Limited and Royal Mail Estates Limited, as described more fully in section 16.5(A) of Part XI (*Additional Information*) of the Registration Document; (B) the GLS Facility, which is secured by way of fixed charges over any Royal Mail Group Limited loans to General Logistics Systems B.V., any Royal Mail Group Limited loans to subsidiaries of General Logistics Systems B.V. and Royal Mail Investments Limited's shares in General Logistics Systems B.V. and a floating charge over non-regulated assets of Royal Mail Group Limited, as described more fully in section 16.5(B) of Part XI (*Additional Information*) of the Registration Document; and (C) obligations under finance leases that are secured on leased assets. The Mails Facilities and the GLS Facility will be repaid in full on Admission and replaced by the New Facilities, described more fully in section 16.5(D) of Part XI (*Additional Information*) of the Registration Document.
- (2) Unsecured debt represents the Subordinated Facility, as described more fully in section 16.5(C) of Part XI (*Additional Information*) of the Registration Document. The Subordinated Facility will be repaid in full on Admission and replaced by the New Facilities.
- (3) Capitalisation and indebtedness does not include the fair value of the Group's derivatives.

#### Impact on Shareholders' Equity of the acquisition of Royal Mail Group Limited by the Company

In connection with Admission, the Group undertook the Corporate Reorganisation that included the Company becoming the holding company of RMG. The Corporate Reorganisation occurred between 12 September 2013 and 19 September 2013. It included the following steps impacting shareholders' equity:

- (A) the redemption and cancellation of the fully paid special rights redeemable preference share in RMG that was at that point issued to the Secretary of State;
- (B) pursuant to a transfer scheme made in accordance with section 8 of the Postal Services Act 2011 on 12 September 2013, the transfer of all shares in RMG by the Selling Shareholder to the Company, and, in consideration for such transfer, the allotment and issue of 999,999,900 ordinary shares of 150 pence each in the capital of the Company to the Selling Shareholder; and

- (C) the share capital of the Company was reduced from £1,500 million to £10 million by the cancellation of 149 pence from the nominal value of each issued ordinary share of the Company.

The effect on the shareholders' equity of the Company is detailed in Part VIII (*Unaudited Pro Forma Financial Information*) of the Registration Document.

## 2. NET INDEBTEDNESS

The information contained in this table sets out the unaudited net indebtedness of Royal Mail Group Limited as at 1 September 2013.

	£m
<b>Current debt</b>	
Cash	140
Cash equivalents <sup>(1)</sup>	390
Trading securities	—
<b>Liquidity</b>	530
<b>Current financial receivables<sup>(2)</sup></b>	21
Current portion of non-current debt	—
Other current financial debt	(78)
<b>Current financial debt</b>	(78)
<b>Net current financial indebtedness</b>	473
Other non-current loans <sup>(3)</sup>	(1,225)
<b>Non-current financial indebtedness</b>	(1,225)
<b>Net financial indebtedness<sup>(5)</sup></b>	(752)

### Notes:

- (1) Cash equivalents represents short-term deposits with an original maturity date of three months or less. In addition, the Group uses money market funds as a readily available source of cash, and these funds are also categorised as cash equivalents.
- (2) Current financial receivables comprises the money market instrument established to provide security to the RMSEPP and a short-term deposit.
- (3) Other non-current loans comprises: (A) the Mails Facilities; (B) the Subordinated Facility; (C) the GLS Facility; and (D) obligations under finance leases.
- (4) The Company did not have any indirect or contingent indebtedness as at 1 September 2013.
- (5) Net financial indebtedness does not include the fair value of the Group's derivatives.

## 3. REFINANCING OF DEBT ON ADMISSION

On Admission and as set out in section 16.5 of Part XI (*Additional Information*) of the Registration Document, the Mails Facilities, the GLS Facility and the Subordinated Facility will be repaid in full by a combination of the Group's cash resources and by drawing down under the New Facilities. Further details of this refinancing are set out in Part VIII (*Unaudited Pro Forma Financial Information*) of the Registration Document.

## **PART II**

### **REASONS FOR THE OFFER AND USE OF PROCEEDS**

The Directors believe that the Offer and Admission are important steps in the Group's development.

The Offer represents the first stage of HM Government's divestment of the Group from public ownership to the private sector – the final element in the package of formal recommendations that arose out of the independent review of the postal services sector originally commissioned by HM Government in 2007 and conducted by Richard Hooper CBE.

The Directors believe that private sector ownership will enable the Group to become more flexible and responsive to the dynamics of the competitive markets in which it operates.

Through making available free Ordinary Shares representing 10 per cent. of the Company's issued share capital on Admission plus an additional 160,000 Ordinary Shares to Eligible Employees, the Employee Free Shares Offer will also provide the Group's existing employee body with a substantial and meaningful stake in the business, helping to align their interests with those of the Group and offering the potential for them to benefit from growth and the performance of the modernised business. Admission will also permit the introduction of further employee share ownership schemes, which will assist on an ongoing basis in the recruitment, retention and incentivisation of both employees and senior management.

In addition, while the Company is not receiving any proceeds from the Offer, Admission does provide the Group with the opportunity for future access to public capital markets, as well as a wider range of debt financing possibilities. Since HM Government has made it clear that, in the current fiscal environment and given competing demands for HM Government investment, public sector capital investment is much less likely to be forthcoming than private sector capital (which can be raised more quickly and does not require lengthy clearance under EU State Aid rules), the Directors believe that Admission will provide the Group with greater freedom to take advantage of market opportunities that may present themselves in the future through increased access to private capital and investment.



## PART III

### INFORMATION ABOUT THE OFFER

#### 1. OVERVIEW OF THE OFFER

Pursuant to the Offer, the Selling Shareholder is currently expected to sell between 401,000,000 and 521,739,130 Ordinary Shares, representing between 40.1 per cent. and 52.2 per cent. of the issued ordinary share capital of the Company on Admission. In addition, up to a further 78,260,870 Ordinary Shares (representing 7.8 per cent. of the issued ordinary share capital of the Company on Admission) may be sold by the Selling Shareholder pursuant to the Over-allotment Arrangements.

Net proceeds of approximately £1,333 million will be received by the Selling Shareholder from the sale of Ordinary Shares (assuming that the Offer Size is set at the mid-point of the Offer Size Range and that the Offer Price is set at the mid-point of the Price Range). The estimated net proceeds receivable by the Selling Shareholder are stated net of the following amounts incurred by the Secretary of State and the Selling Shareholder: (i) underwriting commissions payable by the Selling Shareholder to the Underwriters in connection with the Offer (excluding any underwriting commissions payable in connection with any sales of Ordinary Shares pursuant to the exercise of the Over-allotment Option) (which are estimated to be approximately £11.4 million); (ii) transaction advisory fees and expenses incurred by the Secretary of State and the Selling Shareholder in respect of the Offer and fees and expenses in connection with the Retail Offer (including commissions payable to Intermediaries pursuant to the Intermediaries Offer) (which in aggregate are estimated to be approximately £10.3 million); and (iii) amounts in respect of stamp duty and SDRT payable by the Selling Shareholder in connection with the Offer which are payable to HM Government (which are estimated to be approximately £6.8 million). The amounts referred to above are calculated on the basis of the following assumptions: (a) the Offer Size is set at the mid-point of the Offer Size Range; (b) the Offer Price is set at the mid-point of the Price Range; (c) approximately 70 per cent. of the Ordinary Shares sold in the Offer (excluding pursuant to any exercise of the Over-allotment Option) are sold pursuant to the Institutional Offer and 30 per cent. are sold pursuant to the Retail Offer; and (d) the underwriting commissions payable by the Selling Shareholder to the Underwriters in connection with the Offer are, for the purposes of the deductions set out above, assumed to be the maximum percentage payable by the Selling Shareholder.

All Ordinary Shares being sold to Investors pursuant to the Offer will be sold at the Offer Price.

Immediately following Admission and assuming an offering of 461,369,565 Ordinary Shares (being the mid-point of the Offer Size Range), it is expected that 46.1 per cent. of the Ordinary Shares will be held in public hands (within the meaning of Rule 6.1.19 of the Listing Rules), assuming no exercise of the Over-allotment Option (it is expected that 53.1 per cent. will be held in public hands if the Over-allotment Option is exercised in full, assuming an offering at the mid-point of the Offer Size Range).

The Offer (excluding the Direct Retail Offer) is, subject to certain conditions, fully underwritten by the Underwriters in accordance with the terms of the Underwriting Agreement summarised in section 16.1(B) of Part XI (*Additional Information*) of the Registration Document. The Direct Retail Offer is not underwritten by the Underwriters. The Employee Free Shares Offer is separate to the Offer and the Employee Free Shares Offer is also not underwritten by the Underwriters.

The Offer is being made by way of:

- an Institutional Offer by the Selling Shareholder: (i) to certain institutional investors in the UK and elsewhere outside the United States in reliance on Regulation S and in accordance with locally applicable laws and regulations, and (ii) in the United States, only to QIBs in reliance on Rule 144A or pursuant to another exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act; and
- a Retail Offer by the Selling Shareholder to investors located in the UK pursuant to:
  - an Intermediaries Offer to Intermediaries for onward distribution to retail investors located in the UK; and
  - a Direct Retail Offer to retail investors located in the UK, which is also open to Eligible Employees on a priority allocation basis (such offering to Eligible Employees within the Direct Retail Offer being referred to as the Employee Priority Offer).

The Direct Retail Offer is also being made by the Selling Shareholder to Permitted Service Personnel located in certain jurisdictions outside the UK including, without limitation, in the EEA Passported Jurisdictions, but excluding members of the regular forces located in the United States, Canada, Australia and Japan.

There are therefore two ways in which a retail investor can apply to purchase Ordinary Shares in the Retail Offer:

- (A) **through Intermediaries:** Intermediaries are firms which have been appointed by the Secretary of State to act as Intermediaries in the Intermediaries Offer. This means that Intermediaries have been appointed by the Secretary of State to accept applications for Ordinary Shares from retail investors and to submit those applications to the Secretary of State. Each of the Intermediaries is regulated by the Financial Conduct Authority.
- (B) **direct from the Selling Shareholder:** the Direct Retail Offer allows retail investors to apply for Ordinary Shares directly in the Direct Retail Offer through online or postal applications, as further described below.

In addition to the Offer, a separate Employee Free Shares Offer has been made to Eligible Employees. The terms and conditions of the Employee Free Shares Offer and instructions regarding how to participate in the Employee Free Shares Offer have been communicated to Eligible Employees. For further information see Part IV (*Employee Free Shares Offer*).

Certain restrictions that apply to the distribution of the Prospectus and the Ordinary Shares being sold in jurisdictions outside the UK are described in section 15 of this Part.

The Offer is conditional on:

- (A) the Underwriting Agreement becoming unconditional (save for Admission) and not having been terminated in accordance with its terms prior to Admission; and
- (B) Admission occurring on or prior to 15 October 2013 or such later date as the Secretary of State and the Joint Global Co-ordinators (on behalf of the Underwriters) and the Sponsor may agree (not being later than 22 October 2013).

The Secretary of State expressly reserves the right to determine, at any time prior to Admission, not to proceed with the Offer. If such right is exercised, the Offer will lapse and any monies received in respect of the Offer will be returned to investors without interest.

## 2. ALLOCATION

Allocations of Ordinary Shares under the Offer will be determined after the Offer Period has ended at the discretion of the Secretary of State (after having consulted with the Joint Global Co-ordinators). A number of factors will be considered in determining the basis of allocation, including the level and nature of demand for Ordinary Shares and the objective of establishing an orderly after-market in the Ordinary Shares. It is expected that the Secretary of State will publish the basis of allocation for the Retail Offer on the date that the Offer Price is announced and the Pricing Statement is published.

If the demand for Ordinary Shares exceeds the number of Ordinary Shares made available in the Offer, allocations may be scaled down at the discretion of the Secretary of State and applicants may be allocated Ordinary Shares having an aggregate value (based on the Offer Price) which is less than the sum applied for. The Secretary of State may allocate such Ordinary Shares at its discretion. In such an event, there is no obligation for the Secretary of State to allocate such shares proportionately.

Prior to allocation, there is no fixed allocation of Ordinary Shares to investors in each of the Institutional Offer, the Intermediaries Offer or the Direct Retail Offer (other than the arrangements in respect of the Employee Priority Offer). After the Offer Period has ended, the Secretary of State, after having consulted with the Joint Global Co-ordinators, will determine the number of Ordinary Shares to be allocated in each of the Institutional Offer and Retail Offer. For the purpose of allocation, no distinction will be made between the Intermediaries Offer and the Direct Retail Offer (save for the special arrangements in relation to the Employee Priority Offer). Investors who apply for Ordinary Shares in either the Intermediaries Offer or the Direct Retail Offer shall be treated in the same way (save for the special arrangements in relation to the Employee Priority Offer).

In addition, the Secretary of State intends that all Eligible Employees who submit a valid and complete Employee Priority Application Form in the Employee Priority Offer will, subject to the terms of the Direct Retail

Offer, receive all of the Ordinary Shares (up to a maximum value (based on the Offer Price) of £10,000 per Eligible Employee) for which they apply, subject to reduction under certain circumstances. For further details on the Employee Priority Offer, see section 12 of this Part.

The Selling Shareholder has agreed to pay any stamp duty chargeable on a transfer on sale of Ordinary Shares and/or SDRT chargeable on an agreement to transfer Ordinary Shares arising in the UK (currently at a rate of 0.5 per cent.) on the initial sale of Ordinary Shares under the Offer and the sale of Ordinary Shares pursuant to the Over-allotment Arrangements. The Selling Shareholder will not assume any liability in relation to any element of any stamp duty or SDRT arising in the UK on a transfer of Ordinary Shares to a clearance service or depositary receipt issuer or any agent or nominee thereof (currently imposed at a rate of 1.5 per cent.). For further details in relation to stamp duty and SDRT, see Part VI (*Taxation*).

### **3. LISTING, CONDITIONAL DEALING, UNCONDITIONAL DEALING AND SETTLEMENT ARRANGEMENTS**

It is expected that Admission will take place and unconditional dealings in the Ordinary Shares will commence on the London Stock Exchange at 8.00 a.m. on 15 October 2013. Prior to Admission, it is expected that dealings in the Ordinary Shares will commence on a conditional basis on the London Stock Exchange on 11 October 2013. The earliest date for settlement of such conditional dealings will be 16 October 2013. **All dealings in the Ordinary Shares prior to the commencement of unconditional dealings will be on a “when issued” basis and will be of no effect if Admission does not take place and such dealings will be at the sole risk of the parties concerned. These dates and times may be changed without further notice.**

Investors should note that only investors who apply for, and are allocated, Ordinary Shares in the Institutional Offer or (save in certain circumstances) the Intermediaries Offer will be able to deal in Ordinary Shares on a conditional basis. Investors who apply for, and are allocated, Ordinary Shares in the Direct Retail Offer will not be able to deal in Ordinary Shares on a conditional basis. Therefore, the earliest time at which such investors in the Direct Retail Offer will be able to deal in Ordinary Shares is at the start of unconditional dealings on Admission.

Where Ordinary Shares allocated to investors pursuant to the Offer are to be delivered in uncertificated form, settlement will take place through CREST on Admission. Dealings in advance of crediting of the relevant CREST stock account shall be at the risk of the parties concerned. Where Ordinary Shares allocated to investors pursuant to the Offer are to be delivered in certificated form, definitive share certificates will be despatched by the Registrar, or if such Ordinary Shares are to be held via the Royal Mail Nominee Share Service, Share Account Statements will be despatched by the Nominee. No temporary documents of title will be issued.

CREST is a paperless settlement system allowing securities to be transferred from one person's CREST account to another's without the need to use share certificates or written instruments of transfer. On Admission, the Articles of Association will permit the holding of Ordinary Shares under the CREST system. The Company has applied for the Ordinary Shares to be admitted to CREST with effect from Admission. Accordingly, settlement of transactions in the Ordinary Shares following Admission may take place within the CREST system if any Shareholder so wishes. CREST is a voluntary system and holders of Ordinary Shares who wish to receive and retain share certificates will be able to do so.

### **4. OVER-ALLOTMENT AND STABILISATION**

In connection with the Offer, UBS Limited (as Stabilising Manager), or any of its agents, may (but will be under no obligation to), to the extent permitted by applicable law and for stabilisation purposes, over-allot Ordinary Shares up to a total of 15 per cent. of the total number of Ordinary Shares comprised in the Offer and effect other transactions with a view to supporting the market price of the Ordinary Shares at a higher level than that which might otherwise prevail in the open market. The Stabilising Manager is not required to enter into such transactions and such transactions may be effected on any securities market, over-the-counter market, stock exchange or otherwise and may be undertaken at any time during the period commencing on the date that conditional dealings of the Ordinary Shares commence on the London Stock Exchange and ending no later than 30 calendar days thereafter. Such stabilisation, if commenced, may be discontinued at any time without prior notice. In no event will measures be taken to stabilise the market price of the Ordinary Shares above the Offer Price. Except as required by law or regulation, neither the Stabilising Manager nor any of its agents intends to disclose the extent of any over-allotments made and/or stabilisation transactions conducted in relation to the Offer.

For the purposes of allowing the Stabilising Manager to cover short positions resulting from any such over-allotment and/or from sales of Ordinary Shares effected by it during the stabilising period, it has, in the Underwriting Agreement, entered into the Over-allotment Option with the Selling Shareholder pursuant to which it may require the Selling Shareholder to make available additional Ordinary Shares representing up to 15 per cent. of the total number of Ordinary Shares comprised in the Offer (before any utilisation of the Over-allotment Option) at the Offer Price. The Over-allotment Option is exercisable only once (in whole or in part), and may be exercised upon notice by the Stabilising Manager at any time on or before the 30th calendar day after the commencement of conditional dealings of the Ordinary Shares on the London Stock Exchange. Any Ordinary Shares made available pursuant to the Over-allotment Option will be sold on the same terms and conditions as Ordinary Shares being offered pursuant to the Offer and will rank *pari passu* in all respects with, and will form a single class with, the other Ordinary Shares (including for all dividends and other distributions declared, made or paid on the Ordinary Shares).

In connection with the Over-allotment Option, UBS Limited (as Stabilising Manager) will enter into the Stock Lending Agreement with the Selling Shareholder on the date of the Pricing Statement pursuant to which the Stabilising Manager will be able to borrow up to 15 per cent. of the Ordinary Shares on Admission for the purposes, among other things, of allowing the Stabilising Manager to settle, at Admission, over-allotments, if any, made in connection with the Offer. If the Stabilising Manager borrows any Ordinary Shares pursuant to the Stock Lending Agreement, it will be required to return equivalent shares to the Selling Shareholder in accordance with the terms of the Stock Lending Agreement.

For further details regarding the Over-allotment Option, please refer to section 16.1(B) of Part XI (*Additional Information*) of the Registration Document.

## **5. UNDERWRITING ARRANGEMENTS**

The Offer (excluding the Direct Retail Offer) is fully underwritten by the Underwriters in accordance with the terms of the Underwriting Agreement, which was entered into by the Underwriters, the Secretary of State, the Selling Shareholder and the Company on 27 September 2013. A description of the key terms of the Underwriting Agreement is set out in section 16.1(B) of Part XI (*Additional Information*) of the Registration Document.

## **6. LOCK-UP ARRANGEMENTS**

Each of the Selling Shareholder, the Company and each of the Directors has agreed to certain lock-up arrangements.

Pursuant to the Underwriting Agreement, the Selling Shareholder has agreed that, subject to certain exceptions, during the period of 180 days from the date of Admission, it will not, without the prior written consent of the Joint Global Co-ordinators, offer, sell or contract to sell, or otherwise dispose of any Ordinary Shares (or any interest therein in respect thereof) or enter into any transaction with the same economic effect as any of the foregoing.

Pursuant to the Underwriting Agreement, the Company has agreed that, subject to certain exceptions, during the period of 180 days from the date of Admission, it will not, without the prior written consent of the Joint Global Co-ordinators, issue, offer, sell or contract to sell, or otherwise dispose of any Ordinary Shares (or any interest therein or in respect thereof) or enter into any transaction with the same economic effect as any of the foregoing.

Pursuant to deeds of lock-up, each of the Directors has agreed that, subject to certain exceptions, during the period of 365 days from the date of Admission, he or she will not, without the prior written consent of the Joint Global Co-ordinators, offer, sell or contract to sell, or otherwise dispose of any Ordinary Shares (or any interest therein in respect thereof) or enter into any transaction with the same economic effect as any of the foregoing, including in respect of any Ordinary Shares acquired by them pursuant to the Offer (including the Employee Priority Offer) and/or the Employee Free Shares Offer.

Further details of the arrangements in respect of the Selling Shareholder and the Company, which are contained in the Underwriting Agreement, are set out in section 16.1(B) of Part XI (*Additional Information*) of the Registration Document.

## **7. OFFER PRICE, OFFER SIZE AND BOOKBUILDING**

The Offer Price and the Offer Size will be determined by the Secretary of State, in consultation with the Joint Global Co-ordinators, and are expected to be announced on or around 11 October 2013. The Pricing Statement, which will contain, among other things, the Offer Price and the Offer Size, will (subject to certain

restrictions) be published on the Company's website at [www.royalmailgroup.com](http://www.royalmailgroup.com) and on [www.gov.uk/royalmailshares](http://www.gov.uk/royalmailshares) and will be available in printed form, free of charge, at the registered office of the Company until 14 days after Admission.

It is currently expected that the Offer Price and the Offer Size will be within the Price Range and the Offer Size Range, respectively. A number of factors will be considered in deciding the Offer Price and the Offer Size, including the level and the nature of the demand for Ordinary Shares and the objective of encouraging the development of an orderly and liquid after-market in the Ordinary Shares. The Offer Price and the Offer Size will be established at a level determined in accordance with these arrangements, taking into account indications of interest received (whether before or after the times and/or dates stated).

Unless required to do so by law or regulation, the Company does not envisage publishing any supplementary prospectus or pricing statement until announcement of the Offer Price and the Offer Size. If the Offer Price is set by the Secretary of State above the Price Range and/or the number of Ordinary Shares to be sold by the Selling Shareholder is set by the Secretary of State above or below the Offer Size Range (subject to the minimum free float requirements of the UK Listing Authority), then the Secretary of State would make an announcement via a Regulatory Information Service and prospective investors would have a statutory right to withdraw their offer to purchase Ordinary Shares pursuant to section 87Q of FSMA. The arrangements for withdrawing offers to purchase Ordinary Shares would be made clear in the announcement.

The Underwriters will solicit from prospective investors indications of interest in acquiring Ordinary Shares under the Institutional Offer. Prospective institutional investors will be required to specify the number of Ordinary Shares which they would be prepared to acquire either at specified prices or at the Offer Price (as finally determined). There is no minimum or maximum number of Ordinary Shares which can be applied for.

In addition, applications for Ordinary Shares are expected to be sought by the Intermediaries from their retail clients under the Intermediaries Offer on the basis that the number of Ordinary Shares which may be allocated will vary depending on the Offer Price. Applications will then be aggregated and submitted by each Intermediary on behalf of its clients and this demand will be taken into account by the Secretary of State alongside indications of interest in the Institutional Offer and the Direct Retail Offer in establishing the Offer Price and the Offer Size as described above in respect of the Offer.

## **8. THE INSTITUTIONAL OFFER**

Under the Institutional Offer, the Ordinary Shares will be offered to (i) certain institutional investors in the UK and elsewhere outside the United States in reliance on Regulation S and in accordance with locally applicable laws and regulations, and (ii) in the United States, only to QIBs in reliance on Rule 144A or pursuant to another exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act. Certain restrictions that apply to the distribution of the Prospectus and the offer and sale of the Ordinary Shares in jurisdictions outside the UK are described below in section 15 of this Part.

The latest time and date for indications of interest in acquiring Ordinary Shares under the Institutional Offer is set out on page 6 (*Expected Timetable of Principal Events*) but that time may be extended at the discretion of the Joint Global Co-ordinators (with the agreement of the Secretary of State).

Each investor in the Institutional Offer will be required to undertake to pay the Offer Price for the Ordinary Shares sold to such investor in such manner as shall be directed by the Underwriters, which is the same price at which all Ordinary Shares are to be sold in the Offer.

The Selling Shareholder has agreed to pay any stamp duty chargeable on a transfer on sale of Ordinary Shares and/or SDRT chargeable on an agreement to transfer Ordinary Shares arising in the UK (currently at a rate of 0.5 per cent.) on the initial sale of Ordinary Shares under the Offer and the sale of Ordinary Shares pursuant to the Over-allotment Arrangements. Each investor in the Institutional Offer will be deemed to undertake that such investor shall not submit any reclaim to HMRC in respect of any stamp duty or SDRT so paid or accounted for by the Selling Shareholder in respect of the Offer.

Participants in the Institutional Offer will be notified verbally or by email of the number of Ordinary Shares that they have been allocated as soon as practicable following pricing and allocation, and in any event by 11 October 2013. Each prospective investor in the Institutional Offer will be contractually committed to acquire the number of Ordinary Shares allocated to it at the Offer Price and, to the fullest extent permitted by law, will be deemed to have agreed that it will not be entitled to exercise any rights to rescind or terminate or, subject to any statutory withdrawal rights, otherwise withdraw from, such commitment.



## 9. THE RETAIL OFFER

The Retail Offer to investors located in the UK is being made pursuant to:

- an Intermediaries Offer to Intermediaries for onward distribution to retail investors located in the UK, as described in section 10 of this Part; and
- a Direct Retail Offer to retail investors located in the UK, which also includes the Employee Priority Offer which is open to Eligible Employees on a priority basis, as described in section 11 of this Part. The Direct Retail Offer is also being made to Permitted Service Personnel located in certain jurisdictions outside the UK including, without limitation, in the EEA Passport Jurisdictions, but excluding members of the regular forces located in the United States, Canada, Australia and Japan.

Certain of the terms of the Retail Offer are common to both the Intermediaries Offer and the Direct Retail Offer, as described below.

Investors in the Retail Offer will be deemed to have invested solely on the basis of the Prospectus, together with any supplements thereto, and the Pricing Statement.

In the Retail Offer (comprising both the Intermediaries Offer and the Direct Retail Offer), for investors other than Eligible Employees, the minimum application amount is £750.00 and applications must be for one of the following amounts:

£750	£1,000	£1,500	£2,000	£2,500	£3,000	£4,000
£5,000	£6,000	£7,000	£8,000	£9,000	£10,000	£15,000
£20,000	£25,000	£30,000	£35,000	£40,000	£45,000	£50,000

To apply to invest an amount of more than £50,000, it must be in a multiple of £10,000 (together, the **"Prescribed Application Amounts"**).

For Eligible Employees applying in the Employee Priority Offer, a lower minimum application amount of £500 applies. For further details on the Employee Priority Offer, see section 12 of this Part.

Joint applications from more than one investor are not permitted in the Direct Retail Offer (including the Employee Priority Offer), but are not prohibited in the Intermediaries Offer. Investors acting on their own behalf are only permitted to make one application in the Retail Offer (whether directly or through other means). This means that investors are permitted to submit one application in the Intermediaries Offer or one application in the Direct Retail Offer. Investors are prohibited from making applications in both the Intermediaries Offer and the Direct Retail Offer. Intermediaries have agreed not to permit any investors applying for Ordinary Shares in the Intermediaries Offer to submit any such multiple applications.

Investors who apply for Ordinary Shares in the Intermediaries Offer or investors (other than Eligible Employees) who apply for Ordinary Shares in the Direct Retail Offer, as the case may be, will receive the same allocation of Ordinary Shares as if they had applied in the Direct Retail Offer or the Intermediaries Offer, as the case may be.

Allocations of Ordinary Shares under the Retail Offer will be determined after the Offer Period has ended at the discretion of the Secretary of State after having consulted with the Joint Global Co-ordinators. The amount which an applicant in the Retail Offer offers to invest may be scaled back on a basis to be determined by the Secretary of State in its absolute discretion. Accordingly, persons who apply for Ordinary Shares under the Retail Offer may not receive all of the Ordinary Shares that they apply for and it is possible that they may not receive any. In the event that applications in the Retail Offer are scaled back, the allocation policy may favour smaller applications. There is, however, no guaranteed minimum amount for which valid applications will be successful. The basis of allocation for applications will be determined by the Secretary of State. It is expected that the Secretary of State will publish the basis of allocation for the Retail Offer on the date that the Offer Price is announced and the Pricing Statement is published.

Because the Offer Price will not be known until after the closing date for applications, applications for Ordinary Shares are required to be based on the amount in Pounds Sterling that retail investors wish to invest and not the number of Ordinary Shares they wish to purchase.



As noted above, the minimum application under the Retail Offer is for £750 (or £500 for Eligible Employees applying in the Employee Priority Offer). There is no maximum limit on the monetary amount applicants may apply to invest in the Retail Offer (although the maximum value (based on the Offer Price) of Ordinary Shares that can be applied and paid for using online payment is £10,000, applications for amounts above £10,000 can be made by submitting the Application Forms by post).

The Underwriters and their affiliates are not in any way involved in the procurement of applications under the Retail Offer (save where an Underwriter or an affiliate is acting as an Intermediary) and are not underwriting the Direct Retail Offer.

## **10. THE INTERMEDIARIES OFFER**

In addition to the terms of the Retail Offer described in section 9 of this Part, the following are additional terms which apply to the Intermediaries Offer.

Individuals who are aged 18 or over and who are located in the UK will have the opportunity to apply to acquire at the Offer Price (subject to it being determined) Ordinary Shares in the manner outlined below. Investors eligible to apply in the Intermediaries Offer may apply for Ordinary Shares through the Intermediaries by following their relevant application procedures, by no later than 8 October 2013. Intermediaries are prohibited from charging any fees, charges or commissions to a retail investor for making an application for Ordinary Shares on behalf of such retail investor in the Intermediaries Offer. However, Intermediaries may charge retail investors a fee for holding the allocated Ordinary Shares for them (including any fees relating to the opening of an Individual Savings Account or a Self-Invested Personal Pension for that purpose), provided that the Intermediary has disclosed the fees and terms and conditions of providing those services to each retail investor prior to the underlying application being made. Any application made by investors through any Intermediary is subject to the terms and conditions agreed with each Intermediary.

The Intermediaries Offer is being made only to individual retail investors located in the UK. Ordinary Shares allocated under the Intermediaries Offer will only be registered in the name of persons whose registered address is in the UK.

An application for Ordinary Shares in the Intermediaries Offer means that the applicant agrees (subject to any statutory withdrawal rights that may apply) to acquire the Ordinary Shares at the Offer Price and each applicant will be informed by the relevant Intermediary of the payment arrangements required by such Intermediary. Each applicant must comply with the appropriate money laundering checks required by the relevant Intermediary. Where an application is not accepted or there are insufficient Ordinary Shares available to satisfy an application in full, the relevant Intermediary will be obliged to refund the applicant as required and all such refunds shall be made without interest and such refund shall be sent at the relevant Intermediary's risk. The Secretary of State, the Selling Shareholder, the Company and the Underwriters accept no responsibility with respect to the obligation of the Intermediaries to refund monies in such circumstances.

In making an application, each Intermediary will also be required to represent and warrant that they are not located in the United States and are not acting on behalf of anyone located in the United States. Under the Intermediaries Offer, the Ordinary Shares will be offered outside the United States only in offshore transactions as defined in, and in reliance on, Regulation S.

The Intermediaries may prepare certain materials for distribution or may otherwise provide information or advice to retail investors located in the UK, subject to certain restrictions. Any such materials, information or advice prepared or provided by any Intermediary are solely the responsibility of such Intermediary and shall not be reviewed or approved by any of the Secretary of State, the Selling Shareholder, the Company or the Underwriters. Any liability relating to such materials, information or advice will be for the relevant Intermediary only.

Each Intermediary will be informed by email of the aggregate number of Ordinary Shares allocated in aggregate to their underlying clients (or to the Intermediaries themselves) and the total amount payable in respect thereof. The basis of allocation for the Retail Offer is expected to be announced on the date that the Offer Price is announced and the Pricing Statement is published. Each Intermediary will be required by the Secretary of State to apply the basis of allocation to all allocations to retail investors who applied through such Intermediary.

Pursuant to the Intermediaries Terms and Conditions, the Intermediaries have undertaken to make payment on their own behalf (not on behalf of any other person) of the consideration for the Ordinary Shares allocated, at the Offer Price, to Barclays Bank PLC in accordance with details to be communicated on or after the time of allocation, by means of CREST against the delivery of the Ordinary Shares at the time and/or date set out on page 6 (*Expected Timetable of Principal Events*), or at some other time and/or date after the day of publication of the Offer Price as may be agreed by the Secretary of State and the Joint Global Co-ordinators and notified to the Intermediaries.

No fractional entitlements to Ordinary Shares will be allocated and therefore allocations will be satisfied by rounding down to the nearest whole Ordinary Share. Refunds in respect of the difference between the aggregate Offer Price of the Ordinary Shares applied for and the application monies tendered will be paid by the Intermediaries to retail investors who applied through the relevant Intermediary.

Each investor who applies for Ordinary Shares in the Intermediaries Offer through an Intermediary shall, by submitting an application to such Intermediary, be deemed to acknowledge and agree that such investor is a person aged 18 or over who is located in the UK and is not relying on any information or representation other than as is contained in the Prospectus, the Pricing Statement or any supplementary prospectus, that if the laws of any jurisdiction outside the UK are applicable to such investor's agreement to purchase Ordinary Shares, such investor has complied with all such laws and none of the Secretary of State, the Selling Shareholder, the Company or the Underwriters will infringe any laws of any jurisdiction outside the UK as a result of such investor's rights and obligations under such investor's agreement to purchase Ordinary Shares and under the Articles of Association, and that such investor's personal information may be held and used by the Intermediary, the Secretary of State, the Selling Shareholder, the Company, Solid Solutions and the Underwriters for purposes relating to the Retail Offer, which may include providing its details to third parties for the purpose of performing credit reference checks, money laundering checks and making tax returns, and keeping a record of applicants under the Retail Offer for a reasonable period of time. Such investor also thereby acknowledges and agrees that if such investor is allocated shares under the Intermediaries Offer, its personal information will be shared with the Company and the Receiving Agent and held and used by the Company and the Receiving Agent for purposes relating to the Retail Offer and for their ongoing purposes that require the keeping of records of, and dealing with, the Company's shareholders in the ordinary course of business (which may involve providing such investor's personal information to third parties, such as Euroclear UK).

The Secretary of State, the Selling Shareholder and the Intermediaries have agreed to be bound by the Intermediaries Terms and Conditions. Pursuant to the Intermediaries Terms and Conditions, the Intermediaries agree that, among other things:

- (A) in connection with the Intermediaries Offer, the Intermediaries will be acting as agent for their clients who apply for shares in the Intermediaries Offer (the "**Underlying Applicants**"). None of the Secretary of State, the Selling Shareholder, the Company, Solid Solutions or any of the Underwriters will have any liability to the Intermediaries for liabilities, costs and expenses incurred by the Intermediaries in connection with the Intermediaries Offer;
- (B) determination of the number of Ordinary Shares to be allocated to investors in the Intermediaries Offer will be determined solely by the Secretary of State. Allocations to Intermediaries will be determined solely by the Secretary of State. No specific number of Ordinary Shares has been set aside for allocation to the Intermediaries Offer and there will be no preferential treatment of Intermediaries;
- (C) conditional upon Admission, the Secretary of State agrees to pay the Intermediaries a commission of, in aggregate, 0.75 per cent. of the aggregate value of the Ordinary Shares allocated to and paid for by each Intermediary in the Intermediaries Offer, subject to provisions relating to timing of payment and permanent withholding of commissions as set out in the Intermediaries Terms and Conditions. No deductions may be made directly by Intermediaries from any amount they are required to pay under the Intermediaries Offer in respect of this commission;
- (D) the Intermediaries give certain undertakings regarding their role and responsibilities in the Intermediaries Offer and certain restrictions on their conduct in connection with the Intermediaries Offer, including in relation to their use of appointed representatives, their responsibility for information, communications, websites, advertisements and their communications with clients and the press; and
- (E) the Intermediaries also give representations and warranties which are relevant for the Intermediaries Offer, and indemnify the Secretary of State, the Selling Shareholder, the Company, Solid Solutions and

each of the Underwriters against any loss or claim arising out of any breach by the Intermediary of the representations, warranties, undertakings and obligations contained in the Intermediaries Terms and Conditions or any breach by the Intermediary of its duties or obligations under FSMA or any rules of the FCA or applicable laws.

## **11. THE DIRECT RETAIL OFFER**

In addition to the terms of the Retail Offer described in section 9 of this Part, the following are additional terms which apply to the Direct Retail Offer.

Individuals who are aged 18 or over and who are located in the UK, together with all Eligible Employees (including those aged between 16 and 18), will have the opportunity to acquire at the Offer Price (subject to it being determined) Ordinary Shares in the manner outlined below. The Direct Retail Offer is also being made to Permitted Service Personnel located in certain jurisdictions outside the UK including, without limitation, in the EEA Passport Jurisdictions, but excluding members of the regular forces located in the United States, Canada, Australia and Japan.

Prospective investors located in the UK who wish to apply for Ordinary Shares in the Direct Retail Offer should:

- visit [www.gov.uk/royalmailshares](http://www.gov.uk/royalmailshares) and complete and submit an online Application Form or, in the case of Eligible Employees only, an online Employee Priority Application Form together with the applicant's payment details for the total amount which they wish to invest, by the date shown below; **OR**
- download an Application Form from or, in the case of Eligible Employees only (and for a limited period only), request that an Employee Priority Application Form be posted to the Eligible Employee when registering on the website [www.gov.uk/royalmailshares](http://www.gov.uk/royalmailshares), and then complete, sign and return the Application Form or, in the case of Eligible Employees, the Employee Priority Application Form, by post, together with their cheque or a bankers' draft crossed "account payee" and made payable to "Equiniti Limited Re: Royal Mail Share Offer", for the total amount which they wish to invest, so as to be received by the date shown below.

For the purposes of Permitted Service Personnel submitting an Application Form or Online Application, such member of Permitted Service Personnel is treated as being located in the UK for the purposes of such Application Form or an Online Application (including for the purposes of the declarations on such Application Form or an Online Application).

Alternatively, prospective investors may collect a copy of the Summary and an Application Form from one of a selected group of Post Office branches in the UK. The Application Form available at the selected group of Post Office branches in the UK cannot be used by Eligible Employees to apply in the Employee Priority Offer. Eligible Employees only (and for a limited period only) may request through the Employee Priority Offer helpline on 0800 0 12 12 13 (open from 8.30 a.m. to 6.00 p.m. (UK time) Mondays to Fridays (except UK public holidays) and from 9.00 a.m. to 12 noon (UK time) on Saturdays) a copy of the Summary and an Employee Priority Application Form to be posted to the Eligible Employee, which pack will also contain details of the website at which prospective investors can obtain a copy of the Prospectus. Prospective investors must then complete, sign and return the Application Form by post, together with their cheque or a bankers' draft crossed "account payee" and made payable to "Equiniti Limited Re: Royal Mail Share Offer", for the total amount which they wish to invest, so as to be received by the date shown below.

A list of the selected group of Post Office branches is available online at [www.postoffice.co.uk/branch-finder](http://www.postoffice.co.uk/branch-finder) and can be obtained through the Retail Offer helpline on 0330 123 0147. UK network providers' standard geographic call charges apply (plus network extras). Lines are open from 8.30 a.m. to 6.00 p.m. (UK time) Mondays to Fridays (except UK public holidays) and from 9.00 a.m. to 12 noon (UK time) on Saturdays.

There is no maximum limit on the monetary amount applicants may apply to invest in the Retail Offer (although the maximum value (based on the Offer Price) of Ordinary Shares that can be applied and paid for using online payment is £10,000, applications for amounts above £10,000 can be made by submitting the Application Forms by post).

Eligible Employees will only receive the preferential allocation to which they are entitled if they apply on the Employee Priority Application Form and not on the Application Form for use by investors other than Eligible Employees.

The latest time for receipt of applications in the Direct Retail Offer by the Receiving Agent is as follows:

- 11.59 p.m. (UK time) on 8 October 2013 for prospective investors completing and submitting an Online Application; and
- 11.59 p.m. (UK time) on 8 October 2013 for prospective investors completing an Application Form and submitting it by post.

Investors should ensure that they allow sufficient time in order to complete an Online Application or, as the case may be, sufficient time for the Application Form to be sent by post in order that the application is received by the Receiving Agent by the relevant time and date specified above.

All applications under the Direct Retail Offer will be made on the terms and conditions of the Direct Retail Offer set out in section 16 of this Part. If no part of an application is accepted, all monies paid on application will be returned, without interest. No fractional entitlements to Ordinary Shares will be allocated and therefore allocations will be satisfied by rounding down to the nearest whole Ordinary Share. If an application is accepted in part, refunds in respect of the difference between the aggregate Offer Price of the Ordinary Shares applied for and the application monies tendered will be paid to relevant applicants without interest. However, any sums less than the Offer Price of one Ordinary Share will not be refunded but will be given by the Secretary of State to charity.

Children under the age of 18 (other than those who are Eligible Employees) are not permitted to apply for Ordinary Shares in the Direct Retail Offer in their own name. A parent, grandparent or guardian may, however, invest in the Ordinary Shares for the benefit of the child in the Direct Retail Offer (but not in the Employee Priority Offer). If a parent, grandparent or guardian applies for Ordinary Shares in the Direct Retail Offer for the benefit of a child, he or she can do so in his or her own name and designate on the Application Form that he or she will hold such Ordinary Shares for the benefit of a child by adding the child's initials in the designation box on the Application Form.

For further details in relation to the Employee Priority Offer, see section 12 of this Part.

Applicants in the Direct Retail Offer who have any questions about how to complete their Application Form should access the website [www.gov.uk/royalmailshares](http://www.gov.uk/royalmailshares) or contact 0330 123 0147.

Applicants under the Direct Retail Offer will have their Ordinary Shares held on their behalf by the Nominee in the Royal Mail Nominee Share Service unless they elect on their Application Form to receive a share certificate instead. The terms and conditions of the Royal Mail Nominee Share Service are set out in Part V (*Terms and Conditions of the Royal Mail Nominee Share Service*). If an investor whose Ordinary Shares are held in the Royal Mail Nominee Share Service wishes to receive a share certificate in respect of their Ordinary Shares after Admission, sections 14 and 17 of Part V (*Terms and Conditions of the Royal Mail Nominee Share Service*) sets out what the investor should do and the charges that are payable to the Nominee, respectively.

## 12. EMPLOYEE PRIORITY OFFER

The Employee Priority Offer is part of the Direct Retail Offer. Ordinary Shares in the Employee Priority Offer are offered at the Offer Price i.e. the same price at which Ordinary Shares are offered to members of the public in the UK and to institutional investors under the Institutional Offer. For Eligible Employees applying in the Employee Priority Offer, however, a minimum application amount of £500 applies and applications can only be made for one of the application amounts specified on the Employee Priority Application Form. The minimum application amount in the Employee Priority Offer is lower than the minimum application amount of £750 which applies to members of the public who apply in the Direct Retail Offer. In order for Eligible Employees to apply for Ordinary Shares in the Direct Retail Offer, they should follow the procedures described in section 11 of this Part.

Eligible Employees who submit a valid Employee Priority Application Form will be given priority in allocation over members of the public who submit valid Application Forms. Subject to the overall limit on the Employee Priority Offer described below, all valid applications submitted by Eligible Employees will be satisfied in full up to a total number of Ordinary Shares worth £10,000 at the Offer Price (the "**Individual Priority Limit**"). Any valid application submitted by an Eligible Employee for an amount of Ordinary Shares greater than the Individual Priority Limit will be treated as (a) an application for £10,000 of Ordinary Shares in the Employee Priority Offer (being subject to the priority allocation in the Employee Priority Offer) and (b) a separate application in the Direct Retail Offer for the amount in excess of £10,000 (being subject to the same allocation policy that applies to members of the public who apply in the Direct Retail Offer).

There is an overall limit on the total number of Ordinary Shares available for allocation with priority to Eligible Employees in the Employee Priority Offer. This limit is 10 per cent. of the total number of Ordinary Shares which are allocated to investors who apply in the Retail Offer (the “**Employee Priority Offer Maximum Limit**”). Since the overall size of the Retail Offer will not be determined by the Secretary of State until after the Offer Period has ended, the number of Ordinary Shares which the Employee Priority Offer Maximum Limit represents will not be known until allocation of Ordinary Shares in the Offer. HMRC has confirmed that Eligible Employees who are allocated Ordinary Shares in the Employee Priority Offer will not be subject to UK income tax and National Insurance contributions in respect of any priority allocation given to Eligible Employees, and the inclusion of the Employee Priority Offer Maximum Limit has been a necessary part of the HMRC requirements to obtain that clearance.

If Eligible Employees submit valid applications for Ordinary Shares (up to the Individual Priority Limit) in aggregate in excess of the Employee Priority Offer Maximum Limit, the Individual Priority Limit will be reduced at the time of allocation in order that the aggregate number of Ordinary Shares allocated to Eligible Employees at or below the Individual Priority Limit will be equal to the Employee Priority Offer Maximum Limit. In certain circumstances, the Individual Priority Limit could be lower than the minimum application amount. If the Individual Priority Limit is reduced from £10,000, the application amount in excess of the revised Individual Priority Limit will be deemed to be an additional application for Ordinary Shares by a member of the public in the Direct Retail Offer and will be subject to the same allocation policy that applies to members of the public who apply in the Direct Retail Offer.

Therefore, Eligible Employees will be allocated some Ordinary Shares with priority (i.e. those Ordinary Shares applied for up to the Individual Priority Limit) and may be allocated further Ordinary Shares without priority (i.e. those Ordinary Shares, if any, applied for in excess of the Individual Priority Limit).

### **13. WITHDRAWAL RIGHTS**

In the event that the Company is required to publish any supplementary prospectus, applicants who have applied for Ordinary Shares in the Offer shall have a statutory right to withdraw their offer to purchase Ordinary Shares in the Offer in its entirety before the end of a period of two Business Days commencing on the first Business Day after the date on which the supplementary prospectus is published (or such later date as may be specified in the supplementary prospectus).

In addition, in the event that the Offer Price is set by the Secretary of State above the Price Range and/or the number of Ordinary Shares to be sold by the Selling Shareholder is set by the Secretary of State above or below the Offer Size Range (subject to the minimum free float requirements of the UK Listing Authority), then applicants who have applied for Ordinary Shares in the Offer would have a statutory right to withdraw their offer to purchase Ordinary Shares in the Offer in its entirety pursuant to section 87Q of FSMA before the end of a period of two Business Days commencing on the first Business Day after the date on which an announcement of this is published by the Secretary of State via a Regulatory Information Service announcement (or such later date as may be specified in that announcement).

The right to withdraw an application to purchase Ordinary Shares in the Offer in the circumstances set out above will be available to all investors. If the application is not withdrawn within the period stipulated in any supplementary prospectus or announcement (as described above), any offer to apply for Ordinary Shares in the Offer will remain valid and binding.

Investors in the Direct Retail Offer wishing to withdraw their offer to purchase Ordinary Shares after the publication of any supplementary prospectus or announcement (as described above) must do so by:

- registering the withdrawal on the website [www.gov.uk/royalmailshares](http://www.gov.uk/royalmailshares);
- lodging a written notice of withdrawal by hand with the Receiving Agent (during normal business hours only) at Equiniti Limited at Corporate Actions, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA; or
- scanning a signed written notice of withdrawal and sending it by email to the Receiving Agent at [offer@equiniti.com](mailto:offer@equiniti.com).

In each of the cases above, such notification must provide (i) the investor's name, (ii) the investor's address and postcode, (iii) the method by which the investor submitted its application (i.e. whether by posting an Application Form or by submitting an Online Application), (iv) whether the application was under the Employee Priority Offer or not, and (v) the amount in Pounds Sterling of Ordinary Shares that such investor



has applied for, and it must be received by the Receiving Agent no later than the end of the period stipulated in the supplementary prospectus or announcement (as described above) (which will be at least a period of two Business Days commencing on the first Business Day after the date on which the supplementary prospectus or announcement, as the case may be, is published).

Notice of withdrawal given by any other means or which is deposited with or received by the Receiving Agent after expiry of such period will not constitute a valid withdrawal. Applicants who have applied for Ordinary Shares in the Intermediaries Offer through an Intermediary should contact the relevant Intermediary for details on how to withdraw an application.

Any supplementary prospectus will be published in accordance with the Prospectus Rules of the UK Listing Authority (and notification thereof will be made to a Regulatory Information Service) but will not be distributed to prospective investors individually. Any such supplementary prospectus will be available in printed form free of charge at the registered office of the Company until 14 days after Admission.

#### **14. CONDITIONALITY OF THE OFFER**

The Offer is conditional on:

- (A) the Underwriting Agreement becoming unconditional (save for Admission) and not having been terminated in accordance with its terms prior to Admission; and
- (B) Admission occurring on or prior to 15 October 2013 or such later date as the Secretary of State and the Joint Global Co-ordinators (on behalf of the Underwriters) and the Sponsor may agree (not being later than 22 October 2013).

The Secretary of State expressly reserves the right to determine, at any time prior to Admission, not to proceed with the Offer. If such right is exercised, the Offer will lapse and any monies received in respect of the Offer will be returned to investors without interest.

#### **15. SELLING RESTRICTIONS**

The distribution of the Prospectus and the offer of Ordinary Shares in certain jurisdictions may be restricted by law and therefore persons into whose possession the Prospectus comes should inform themselves about and observe any restrictions, including those set out in the paragraphs that follow. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

No action has been or will be taken by the Secretary of State, the Selling Shareholder, the Company, the Directors or any of the Underwriters in any jurisdiction (other than the UK and the EEA Passported Jurisdictions) that would permit a public offering of the Ordinary Shares, or possession or distribution of the Prospectus or any other offering material in any country or jurisdiction where action for that purpose is required. Accordingly, the Ordinary Shares may not be offered or sold, directly or indirectly, and neither the Prospectus nor any other offering material or advertisement in connection with the Ordinary Shares may be distributed or published, in or from any country or jurisdiction except in circumstances that will result in compliance with any and all applicable rules and regulations of any such country or jurisdiction. Persons into whose possession the Prospectus comes should inform themselves about and observe any restrictions on the distribution of the Prospectus and the Offer. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. The Prospectus does not constitute an offer to subscribe for or purchase any of the Ordinary Shares offered hereby to any person in any jurisdiction to whom it is unlawful to make such offer or solicitation in such jurisdiction.

##### **15.1 United States**

The Prospectus is not an offer of securities for sale in the United States. The Ordinary Shares have not been, and will not be, registered under the US Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered or sold in the United States except in transactions exempt from or not subject to the registration requirements of the US Securities Act. Accordingly, the Underwriters may offer Ordinary Shares (1) in the United States only through their US registered broker affiliates to persons reasonably believed to be QIBs in reliance on Rule 144A or pursuant to another exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act or (2) outside the United States in offshore transactions in reliance on Regulation S under the US Securities Act.

In addition, until 40 days after the commencement of the Offer, any offer or sale of Ordinary Shares within the United States by any dealer (whether or not participating in the Offer) may violate the registration



requirements of the US Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A or another available exemption from registration under the US Securities Act.

Each purchaser of Ordinary Shares within the United States, by accepting delivery of the Prospectus, will be deemed to have represented, agreed and acknowledged that it has received a copy of the Prospectus and such other information as it deems necessary to make an investment decision and that:

- (A) it is (i) a QIB within the meaning of Rule 144A, (ii) acquiring the Ordinary Shares for its own account or for the account of one or more QIBs with respect to whom it has the authority to make, and does make, the representations and warranties set forth herein, (iii) acquiring the Ordinary Shares for investment purposes, and not with a view to further distribution of such Ordinary Shares, and (iv) aware, and each beneficial owner of the Ordinary Shares has been advised, that the sale of the Ordinary Shares to it is being made in reliance on Rule 144A or in reliance on another exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act;
- (B) it understands that the Ordinary Shares are being offered and sold in the United States only in a transaction not involving any public offering within the meaning of the US Securities Act and that the Ordinary Shares have not been and will not be registered under the US Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered, sold, pledged or otherwise transferred except (i) to a person that it and any person acting on its behalf reasonably believes is purchasing for its own account or for the account of a QIB in a transaction meeting the requirements of Rule 144A, or another exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act, (ii) in an Offshore Transaction in accordance with Rule 903 or Rule 904 of Regulation S, (iii) pursuant to an exemption from registration under the US Securities Act provided by Rule 144 thereunder (if available) or (iv) pursuant to an effective registration statement under the US Securities Act, in each case in accordance with any applicable securities laws of any state of the United States. It further (a) understands that the Ordinary Shares may not be deposited into any unrestricted depositary receipt facility in respect of the Ordinary Shares established or maintained by a depositary bank, (b) acknowledges that the Ordinary Shares (whether in physical certificated form or in uncertificated form held in CREST) are “restricted securities” within the meaning of Rule 144(a)(3) under the US Securities Act and that no representation is made as to the availability of the exemption provided by Rule 144 for resales of the Ordinary Shares and (c) understands that the Company may not recognise any offer, sale, resale, pledge or other transfer of the Ordinary Shares made other than in compliance with the above-stated restrictions; and
- (C) it understands that the Ordinary Shares (to the extent they are in certificated form), unless otherwise determined by the Company in accordance with applicable law, will bear a legend substantially to the following effect:

**THE ORDINARY SHARES REPRESENTED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE US SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”) OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) TO A PERSON THAT THE SELLER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE) OR (4) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALES OF THE SHARES. NOTWITHSTANDING ANYTHING TO THE CONTRARY IN THE FOREGOING, THE ORDINARY SHARES REPRESENTED HEREBY MAY NOT BE DEPOSITED INTO ANY UNRESTRICTED DEPOSITARY RECEIPT FACILITY IN RESPECT OF THE ORDINARY SHARES ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK. EACH HOLDER, BY ITS ACCEPTANCE OF ORDINARY SHARES, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING RESTRICTIONS.**

The Company, the Underwriters and their affiliates and others will rely on the truth and accuracy of the foregoing acknowledgements, representations and agreements.

## 15.2 European Economic Area

In relation to each EEA State which has implemented the Prospectus Directive (each a “**relevant member state**”), no Ordinary Shares have been offered or will be offered pursuant to the Offer to the public in that relevant member state prior to the publication of a prospectus in relation to the Ordinary Shares which has been approved by the competent authority in that relevant member state or, where appropriate, approved in another relevant member state and notified to the competent authority in the relevant member state, all in accordance with the Prospectus Directive, except that offers of Ordinary Shares may be made to the public in that relevant member state at any time under the following exemptions under the Prospectus Directive, if they are implemented in that relevant member state:

- (A) to any legal entity which is a “qualified investor” as defined under the Prospectus Directive;
- (B) to fewer than 100, or, if the relevant member state has implemented the relevant provision of the 2010 PD Amending Directive, 150 natural or legal persons in a relevant member state (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the Joint Global Co-ordinators; or
- (C) in any other circumstances which do not require the publication by the Company of a prospectus pursuant to Article 3(2) of the Prospectus Directive,

provided that no such offer of Ordinary Shares shall result in a requirement for the publication of a prospectus pursuant to Article 3 of the Prospectus Directive or of a supplement to a prospectus pursuant to Article 16 of the Prospectus Directive.

In the case of any Ordinary Shares being offered to a financial intermediary as that term is used in Article 3(2) of the Prospectus Directive, each such financial intermediary will be deemed to have represented, acknowledged and agreed that the Ordinary Shares acquired by it in the Offer have not been acquired on a non-discretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to, persons in circumstances which may give rise to an offer to the public in a relevant member state prior to the publication of a prospectus in relation to the Ordinary Shares which has been approved by the competent authority in that relevant member state or, where appropriate, approved in another relevant member state and notified to the competent authority in the relevant member state, all in accordance with the Prospectus Directive, other than their offer or resale in a relevant member state to qualified investors, in circumstances in which the prior consent of the Underwriters has been obtained to each such proposed offer or resale.

The Company, the Underwriters and their affiliates will rely upon the truth and accuracy of the foregoing representations, acknowledgements and agreements.

For the purposes of the above provisions, the expression an “offer to the public” in relation to any Ordinary Shares in any relevant member state means the communication in any form and by any means of sufficient information on the terms of the offer and any Ordinary Shares to be offered so as to enable an investor to decide to purchase any Ordinary Shares, as the same may be varied for that relevant member state by any measure implementing the Prospectus Directive in the relevant member state. The expression “Prospectus Directive” means Directive 2003/71/EC (with amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the relevant member state) and includes any relevant implementing measure in each relevant member state. The expression “2010 PD Amending Directive” means Directive 2010/73/EU.

## 15.3 Australia

The Prospectus is not a prospectus for the purposes of the Corporations Act of Australia 2001 (the “**Australian Corporations Act**”) and may not, and does not purport to, contain all of the information that an Australian investor may find in a prospectus prepared in accordance with the Australian Corporations Act which may be required in order to make an informed investment decision regarding, or about the rights attaching to, the Ordinary Shares. As no prospectus has been or will be lodged with the Australian Securities & Investments Commission (“**ASIC**”) or otherwise prepared in accordance with the Australian Corporations Act in respect of the Offer, the Ordinary Shares will only be offered or issued to persons in Australia to whom an offer of shares for issue may be made without a prospectus under Part 6D.2 of the Australian

Corporations Act or to persons outside Australia in accordance with the laws of any other applicable jurisdiction.

If you are located in Australia, (i) you confirm and warrant that you are a person to whom an offer of securities may be made under section 708(11) of the Australian Corporations Act such that any offer or invitation to you does not require a prospectus or other form of disclosure document under the Australian Corporations Act and (ii) you agree that you will not offer to sell the Ordinary Shares to any person that is not a professional investor under section 708(11) of the Australian Corporations Act until the day after a notice is lodged by the Company with ASX that complies with subsections 708A(5)(e) and (6) of the Australian Corporations Act and unless such offer for sale does not otherwise require a prospectus or disclosure document under the Australian Corporations Act.

#### **15.4 Canada**

The information contained in the Prospectus is not, and under no circumstances is to be construed as, a prospectus, an advertisement, a public offering or an offer to sell Ordinary Shares in Canada or any province or territory thereof. The Ordinary Shares may not be offered or sold, directly or indirectly, in any province or territory of Canada or to or for the benefit of any resident of any province or territory of Canada, except pursuant to an exemption from the requirement to file a prospectus in the province or territory of Canada in which the offer or sale is made and only by a dealer duly registered under applicable securities laws or, alternatively, pursuant to an exemption from the dealer registration requirement in the relevant province or territory of Canada in which such offer or sale is made. The information contained herein is not tailored to the needs of the recipient and under no circumstances is such information to be construed as investment advice in any province or territory of Canada.

The Ordinary Shares will not be offered, sold or distributed, directly or indirectly, in Canada or to or for the benefit of any resident of Canada, other than in compliance with applicable securities laws. Neither the Prospectus, nor any other offering material in connection with the offer of the Ordinary Shares pursuant to the Offer, will be distributed or delivered in Canada other than in compliance with applicable securities laws. No securities commission or similar regulatory authority in Canada has reviewed or in any way passed upon the Prospectus, the information contained herein, or the merits of the Ordinary Shares and any representation to the contrary is an offence.

#### **15.5 Dubai International Financial Centre (“DIFC”)**

The Prospectus relates to an Exempt Offer in accordance with the Offered Securities Rules of the Dubai Financial Services Authority (“**DFSA**”). The Prospectus is intended for distribution only to persons of a type specified in the Offered Securities Rules of the DFSA. It must not be delivered to, or relied on by, any other person. The DFSA has no responsibility for reviewing or verifying any documents in connection with Exempt Offers. The DFSA has not approved the Prospectus nor taken steps to verify the information set forth herein and has no responsibility for the Prospectus. The Ordinary Shares to which the Prospectus relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the Ordinary Shares offered should conduct their own due diligence on the Ordinary Shares. If you do not understand the contents of the Prospectus you should consult an authorised financial adviser.

In relation to its use in the DIFC, the Prospectus is strictly private and confidential and is being distributed to a limited number of investors and must not be provided to any person other than the original recipient, and may not be reproduced or used for any other purpose. The interests in the Ordinary Shares may not be offered or sold directly or indirectly to the public in the DIFC.

#### **15.6 Japan**

The Ordinary Shares have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the “**Financial Instruments and Exchange Act**”). The Ordinary Shares may not be offered or sold, directly or indirectly, in Japan or to, or for the benefit of, any resident in Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and other relevant laws, regulations and ministerial guidelines of Japan.

### 15.7 Jersey

There shall be no circulation in Jersey of any offer for subscription, sale or exchange of the Ordinary Shares unless such offer does not for the purposes of Article 8 of the Control of Borrowing (Jersey) Order 1958, as amended, constitute an offer to the public.

### 15.8 Guernsey

To the extent to which any promotion of the Ordinary Shares is deemed to take place in Guernsey, the Ordinary Shares are only being promoted in or from within the Bailiwick of Guernsey either (i) by persons licensed to do so under the Protection of Investors (Bailiwick of Guernsey) Law, 1987 (as amended) or (ii) to persons licensed under the Protection of Investors (Bailiwick of Guernsey) Law, 1987 (as amended), the Insurance Business (Bailiwick of Guernsey) Law, 2002 (as amended), the Banking Supervision (Bailiwick of Guernsey) Law, 1994 (as amended) or the Regulation of Fiduciaries, Administration Businesses and Company Directors, etc. (Bailiwick of Guernsey) Law, 2000 (as amended). Promotion is not being made in any other way.

### 15.9 Hong Kong

No Ordinary Shares have been offered or sold or will be offered or sold in Hong Kong, by means of any document, other than (a) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance.

No advertisement, invitation or document relating to the Ordinary Shares has been issued or has been in the possession of any person for the purposes of issue, nor will any such advertisement, invitation or document be issued or be in the possession of any person for the purpose of issue, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Ordinary Shares which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance.

### 15.10 Singapore

The Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act, Cap. 289 of Singapore (the “SFA”) and, accordingly, the Ordinary Shares may not be offered or sold, nor may the Ordinary Shares be the subject of an invitation for subscription or purchase, nor may the Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase of the Ordinary Shares be circulated or distributed, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor under section 274 of the SFA, (ii) to a relevant person pursuant to section 275(1), or any person pursuant to section 275(1A), and in accordance with the conditions specified in section 275, of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Ordinary Shares are acquired by persons who are relevant persons specified in section 276 of the SFA, namely:

- (i) a corporation (which is not an accredited investor (as defined in section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (ii) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor;

securities (as defined in section 239(1) of the SFA) of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Ordinary Shares pursuant to an offer made under section 275 of the SFA except:

- (A) to an institutional investor or to a relevant person defined in section 275(2) of the SFA, or to any person arising from an offer referred to in section 275(1A) or section 276(4)(i)(B) of the SFA;
- (B) where no consideration is or will be given for the transfer;

- (C) where the transfer is by operation of law;
- (D) as specified in section 276(7) of the SFA; or
- (E) as specified in Regulation 32 of the Securities and Futures (Offer of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

### 15.11 Switzerland

The Ordinary Shares may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange (“**SIX**”) or on any other stock exchange or regulated trading facility in Switzerland.

The Prospectus has been prepared without regard to the disclosure standards for issuance prospectuses under article 652a or article 1156 of the Swiss Code of Obligations or the disclosure standards for listing prospectuses under article 27 ff. of the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland. Neither the Prospectus nor any other offering or marketing material relating to the Ordinary Shares or the Offer may be publicly distributed or otherwise made publicly available in Switzerland.

Neither the Prospectus nor any other offering or marketing material relating to the Offer, the Company or the Ordinary Shares have been or will be filed with, and the offer of Ordinary Shares will not be supervised by, the Swiss Finance Market Supervisory Authority FINMA, and the offer of Ordinary Shares has not been and will not be authorised under the Swiss Federal Act on collective investment schemes (“**CISA**”). The investor protection afforded to acquirers of interests in collective investment schemes under the CISA does not extend to acquirers of Ordinary Shares.

### 15.12 United Arab Emirates

By receiving the Prospectus, the person or entity to whom it has been issued understands, acknowledges and agrees that none of the Ordinary Shares or the Prospectus has been approved by the U.A.E. Central Bank, the U.A.E. Ministry of Economy and Planning, the Emirates Securities and Commodities Authority (“**ESCA**”) or any other authorities in the United Arab Emirates, nor has the placement agent, if any, received authorisation or licensing from the U.A.E. Central Bank, the U.A.E. Ministry of Economy and Planning, the ESCA or any other authorities in the United Arab Emirates to market or sell the Ordinary Shares or other investments within the United Arab Emirates. No marketing of the Ordinary Shares has been or will be made from within the United Arab Emirates other than in compliance with the laws of the United Arab Emirates and no subscription to the Ordinary Shares or other investments may or will be consummated within the United Arab Emirates. It should not be assumed that the placement agent, if any, is a licensed broker, dealer or investment adviser under the laws applicable in the United Arab Emirates, or that it advises individuals resident in the United Arab Emirates as to the appropriateness of investing in or purchasing or selling securities or other financial products. The interests in the Ordinary Shares may not be offered or sold directly or indirectly to the public in the United Arab Emirates. This does not constitute a public offer of securities in the United Arab Emirates in accordance with the Commercial Companies Law, Federal Law No. 8 of 1984 (as amended) or otherwise.

## 16. HOLDING AND DEALING IN ORDINARY SHARES

This section 16 applies to Shareholders who acquire Ordinary Shares in the Offer and does not apply to Ordinary Shares allocated to Eligible Employees pursuant to the Employee Free Shares Offer.

The Company’s shareholders, depending on their circumstances, will be able to hold their Ordinary Shares in a number of ways. The principal options available where the shareholder does not have a CREST account are to have their Ordinary Shares held on their behalf in the Royal Mail Nominee Share Service or to receive a share certificate in respect of their Ordinary Shares.

All Ordinary Shares acquired in the Direct Retail Offer will be held either in the Royal Mail Nominee Share Service or in certificated form, and will automatically be held in the Royal Mail Nominee Share Service unless the share certificate box on the relevant valid Application Form is checked. After Admission, such shareholders will be able to withdraw their Ordinary Shares from the Royal Mail Nominee Share Service upon payment of an administration charge to the Nominee.

The Company expects that most non-institutional shareholders will find the Royal Mail Nominee Share Service to be a convenient way of holding Ordinary Shares.



## 16.1 Royal Mail Nominee Share Service

This section and section 16.2 below should be read in conjunction with the terms and conditions of the Royal Mail Nominee Share Service set out in Part V (*Terms and Conditions of the Royal Mail Nominee Share Service*). This section 16.1 and section 16.2 below only apply to Shareholders who acquire Ordinary Shares through the Direct Retail Offer and not the Intermediaries Offer. The Royal Mail Nominee Share Service will only be available to persons who acquire Ordinary Shares in the Direct Retail Offer if they have a registered address in the UK or are members of Permitted Service Personnel. Following Admission, the Royal Mail Nominee Share Service will be available to all persons holding Ordinary Shares who have a registered address in the UK or the rest of the EEA.

The Royal Mail Nominee Share Service, a Company-sponsored nominee arrangement, provides a convenient way of holding Ordinary Shares, which removes the need to have a share certificate which has to be kept safe and secure. In addition, individuals' names will not appear on the Company's shareholder register, which is a public register, so their details remain confidential. Instead, the Ordinary Shares will be held on behalf of those individuals in the name of Equiniti Corporate Nominees Limited. The Royal Mail Nominee Share Service has been set up exclusively for persons who hold Ordinary Shares in the Company and holds Ordinary Shares electronically in a system managed and administered by Equiniti Financial Services Limited.

Persons holding Ordinary Shares in the Royal Mail Nominee Share Service:

- will have similar rights to those Shareholders who hold share certificates (including the right to receive the same annual and other financial information as is sent to Shareholders who hold a share certificate, should they wish to receive it, and to attend, speak and vote on a show of hands and on a poll at general meetings of the Company);
- will receive Share Account Statements showing the number of Ordinary Shares held at the point at which they become members and at least once every 12 months thereafter; and
- are entitled to leave the Royal Mail Nominee Share Service at any time and obtain a share certificate instead or have their Ordinary Shares transferred into another nominee arrangement or deposit account. However, there may be an administration charge for removing Ordinary Shares from the Royal Mail Nominee Share Service.

Children under the age of 18 (other than those who are Eligible Employees) are not permitted to apply for Ordinary Shares in the Direct Retail Offer in their own name. A parent, grandparent or guardian may, however, invest in the Ordinary Shares for the benefit of the child in the Direct Retail Offer (other than in the Employee Priority Offer). If a parent, grandparent or guardian applies for Ordinary Shares in the Direct Retail Offer for the benefit of a child, he or she can do so in his or her own name and designate on the Application Form that he or she will hold such Ordinary Shares for the benefit of a child by adding the child's initials in the designation box on the Application Form. Accordingly, the Royal Mail Nominee Share Service is also available to persons holding Ordinary Shares for the benefit of their children, grandchildren or wards under the age of 18.

## 16.2 Dealing in Ordinary Shares held through the Royal Mail Nominee Share Service

Share dealing services will be available to persons holding Ordinary Shares in the Royal Mail Nominee Share Service once they have received their shareholder reference numbers following Admission. It is expected that Shareholders who applied for Ordinary Shares in the Direct Retail Offer through an Online Application will be sent their shareholder reference number by email within two days following Admission. It is expected that Shareholders who applied for Ordinary Shares in the Direct Retail Offer through a postal Application Form will be sent their shareholder reference number by post within one week following Admission.

Share dealing activity in companies immediately after flotation is typically very high. In order to help manage the volumes of dealing in Ordinary Shares after Admission, the following share dealing options will be made available. If a Shareholder wishes to sell their Ordinary Shares, they should note that demand for the following share dealing services may be high in the days and weeks after Admission. Each of the share dealing options set out below is subject to limitations on the volume of transactions which can be processed using the share dealing services. Equiniti Financial Services Limited charges fees for dealing in Ordinary Shares and these charges vary depending on the share dealing service used.

- **Online at [www.shareview.co.uk](http://www.shareview.co.uk).** Shareholders can access the online share dealing facility, which will provide real-time price quotes for Shareholders wishing to sell some or all of their Ordinary Shares.



Share dealing online will be charged at one per cent. of the value of the transaction, subject to a minimum charge of £17.50. The service is available during market opening hours, from 8.00 a.m. to 4.30 p.m. (UK time), Monday to Friday, excluding UK public holidays.

- **Using the telephone helpline on 0845 268 0282 (when calling from the UK) or +44 121 415 0250 (when calling from outside the UK).** Shareholders can call the share dealing helpline, which will provide real-time price quotes for Shareholders wishing to sell some or all of their Ordinary Shares. Share dealing using the telephone helpline will be charged at one per cent. of the value of the transaction, subject to a minimum charge of £25.00. The service is available during market opening hours, from 8.00 a.m. to 4.30 p.m. (UK time), Monday to Friday, excluding UK public holidays.
- **Through the Automated Telephone Instruction facility on 0845 268 8405 (when calling from the UK) or +44 1133 697777 (when calling from outside the UK).** Shareholders can sell all (but not some only) of their Ordinary Shares through the Automated Telephone Instruction ("ATI") facility. This facility will only be available to persons holding Ordinary Shares in the Royal Mail Nominee Share Service in the period from the date of Admission to 8 November 2013. The sale price for the Ordinary Shares will not be quoted to a Shareholder at the time of confirming the sale transaction. Sale instructions from shareholders using the ATI facility will be added together and sold at intervals. Instructions received before 9.00 a.m. (UK time) on a Business Day will be added together and the sales will normally be processed by 11.00 a.m. (UK time) on that Business Day. Instructions received between 9.00 a.m. and 1.00 p.m. (UK time) on a Business Day will normally be processed by 3.00 p.m. (UK time) on that Business Day. Instructions received after 1.00 p.m. (UK time) will be added together with instructions received before 9.00 a.m. on the next Business Day. The charge for this service will be 0.75 per cent. of the value of the relevant transaction, subject to a minimum charge of £7.50. Calls to this helpline from within the UK cost 8p per minute plus network extras. Lines are open 24 hours.
- **By Post:** Shareholders wishing to sell all of their Ordinary Shares can use a postal instruction. This facility will be available from the date of Admission to 8 November 2013. Shareholders can only apply to sell their Ordinary Shares by post using the postal dealing form enclosed with their confirmation of allocation or a postal dealing form obtained from Equiniti Financial Services Limited by calling 0871 384 2656 (when calling from the UK) or +44 121 415 7086 (when calling from outside the UK). Calls to this helpline from within the UK cost 8p per minute plus network extras and lines are open 8.30 a.m. to 5.30 p.m. (UK time), Monday to Friday, excluding UK public holidays. The sale price for the Ordinary Shares will normally be determined on the next Business Day following which Equiniti Financial Services Limited receives the fully completed postal dealing form in the post. The charge for this service will be 0.75 per cent. of the value of the relevant transaction, subject to a minimum charge of £7.50.

The charges referred to above are correct as at the date of this Securities Note. Please refer to the latest Terms and Conditions of the relevant share dealing service which will be available at [www.shareview.co.uk](http://www.shareview.co.uk) for up to date charges after the date of this Securities Note.

### 16.3 Share certificates

Applicants in the Direct Retail Offer may alternatively elect to receive a share certificate in respect of their holding of Ordinary Shares. Share certificates are valuable documents and should be looked after carefully. If a share certificate is lost, damaged or defaced, a charge may be made for its replacement.

Shareholders who hold their Ordinary Shares in certificated form will, subject to certain eligibility conditions, be able to buy and sell Ordinary Shares through banks, stockbrokers or intermediaries offering share dealing facilities.

## 17. TERMS AND CONDITIONS OF THE DIRECT RETAIL OFFER

These terms and conditions apply to investors agreeing to purchase Ordinary Shares under the Direct Retail Offer. Each investor in the Direct Retail Offer agrees with each of the Secretary of State, the Selling Shareholder, the Company and the Underwriters to be bound by these terms and conditions as being the terms and conditions upon which Ordinary Shares will be sold under the Direct Retail Offer. For the avoidance of doubt, these terms and conditions also apply to Eligible Employees applying in the Employee Priority Offer.

## 17.1 Introduction

For the purposes of these terms and conditions only, references to “you” are to the person applying to buy Ordinary Shares in the Direct Retail Offer using the Application Form.

If you apply for Ordinary Shares in the Direct Retail Offer you will be agreeing with the Secretary of State, the Selling Shareholder, the Company and the Underwriters to the terms and conditions set out below.

## 17.2 Offer to Purchase Shares

Applications must be made on an Application Form. By completing and submitting an Application Form, you, as the applicant (or, if you sign or submit the Application Form on behalf of somebody else, that person, and references in this section 17.2 to “you” shall be to that person) shall:

- (A) offer to acquire at the Offer Price the maximum number of Ordinary Shares (rounded down to the nearest whole Ordinary Share) that may be acquired with the amount that you have specified in your Application Form as the amount which you wish to invest (or any smaller amount in respect of which your application to acquire Ordinary Shares in the Direct Retail Offer is accepted), subject to the provisions of the Prospectus, these terms and conditions, the terms of the Application Form, the Pricing Statement, any supplementary prospectus and the Articles of Association;
- (B) agree that your application to acquire Ordinary Shares in the Direct Retail Offer must be for:
  - (i) if you are a member of the public other than an Eligible Employee: one of the Prescribed Application Amounts at the Offer Price, with a minimum investment of £750; or
  - (ii) if you are an Eligible Employee: one of the Prescribed Application Amounts at the Offer Price, except that you can apply for a minimum investment of £500;
- (C) agree that the maximum value (based on the Offer Price) of Ordinary Shares that you can apply and pay for using an Online Application is £10,000 and, since you are permitted to make only one application in the Retail Offer, any application over £10,000 must be made by a paper Application Form accompanied by your cheque or bankers’ draft;
- (D) acknowledge and agree that if the Offer Price is set above the Price Range and/or the number of Ordinary Shares to be sold by the Selling Shareholder is set above or below the Offer Size Range, prospective investors would have a statutory right to withdraw their offer to purchase Ordinary Shares pursuant to section 87Q of FSMA, but if the application for Ordinary Shares is not withdrawn within the period stipulated in any supplementary prospectus or announcement (as described above), any offer to apply for Ordinary Shares in the Offer will remain valid and binding;
- (E) agree that there is no minimum allocation of Ordinary Shares in the Direct Retail Offer and that, in the event your application is scaled back by the Secretary of State in its absolute discretion, you may not receive Ordinary Shares representing the full value or any (based on the Offer Price) of the amount you applied to invest;
- (F) authorise the Receiving Agent to send on behalf of the Company and/or the Selling Shareholder (i) a Share Account Statement or share certificate and/or (ii) a Pounds Sterling cheque crossed “account payee” for any monies returnable (without interest) or your cheque or bankers’ draft, used by you to pay the application monies payable by you in each case by post to your address or, in the case of investors who submitted an Online Application, a refund back to the debit card used for payment, and (iii) to do all things and, where applicable, to take all actions necessary to procure that your name or the name of Equiniti Corporate Nominees Limited is placed on the register of members of the Company in respect of the Ordinary Shares for which your application is accepted;
- (G) in consideration of the Selling Shareholder agreeing that it will not, prior to the date of Admission (or such later date as the Secretary of State may determine), sell to any person or assist in the sale to any person of any of the Ordinary Shares comprised in the Offer other than by means of the procedures referred to in the Prospectus and as a collateral contract between you, the Secretary of State, the Selling Shareholder, the Company, and the Underwriters which will become binding on you on despatch by post or delivery to the Receiving Agent of your Application Form:
  - (i) agree that, subject to any statutory rights of withdrawal, your application may not be revoked or withdrawn by you until after 22 October 2013 in the event that Admission has not taken place by that date;

- (ii) undertake to pay the Offer Price for the Ordinary Shares (payable in full on application) in respect of which your application to acquire Ordinary Shares from the Selling Shareholder is accepted (in the manner indicated in section 17.3 below);
- (iii) warrant that your cheque or bankers' draft accompanying your Application Form will be honoured on first presentation (or your debit card payment, in the case of an Online Application, will be honoured at the time such application is made) and agree that, if such remittance is not so honoured, you will not be entitled to receive a Share Account Statement (notwithstanding that the Nominee may have been entered on the register of members of the Company) or a share certificate, as relevant, in respect of the Ordinary Shares applied for or to enjoy or receive any rights, dividend, distribution or other payment in respect of such Ordinary Shares unless and until you make payment in cleared funds for such Ordinary Shares and such payment is accepted by the Receiving Agent (which acceptance shall be in its absolute discretion and on the basis that you indemnify the Secretary of State, the Selling Shareholder, the Company, the Receiving Agent and the Underwriters against all costs, damages, losses, expenses and liabilities arising out of or in connection with, the failure of your remittance to be honoured on first presentation) and you agree that no claim will be made against the Secretary of State, the Selling Shareholder, the Company, the Receiving Agent or the Underwriters or any of their respective officers, agents, or employees in respect of the non-receipt of Ordinary Shares by you, or primary loss arising from such non-receipt of Ordinary Shares;
- (iv) agree that, at any time prior to unconditional acceptance by the Receiving Agent of such late payment pursuant to sub-section 17.2(G)(iii) above, the Receiving Agent may (on behalf of the Selling Shareholder and without prejudice to any other rights) terminate the agreement (if any) to allocate such Ordinary Shares to you without liability to you and may reallocate the Ordinary Shares to some other person, in which case you will not be entitled to any refund or payment in respect of such Ordinary Shares (other than the refund to you of any proceeds or remittance accompanying your Application Form at your own risk, without interest) and, in the event of termination, any Ordinary Shares which have been issued to you will be sold as soon as is reasonably practicable (and for which purpose you hereby irrevocably authorise the Company, or any person appointed by it for this purpose, to execute on your behalf any instrument of transfer which may be necessary to effect such sale) and consent to the proceeds of such sale being paid to and retained by the Selling Shareholder and you will pay the Receiving Agent (on behalf of itself and the Company), on demand, such amount as may be necessary to compensate the Secretary of State, the Selling Shareholder, the Company, the Receiving Agent and the Underwriters for any losses, costs and expenses incurred or expected to be incurred as a result of the remittance not being honoured on first presentation or as a result of termination of the agreement. Any decision by the Receiving Agent to accept payment shall be without prejudice to the decision of the Selling Shareholder to accept the whole or any part of your application as described in section 17.3 of this Part;
- (v) agree, on request by the Secretary of State, the Selling Shareholder, the Company, the Receiving Agent or the Underwriters, to disclose promptly in writing to the Secretary of State, the Selling Shareholder, the Company, the Receiving Agent or the Underwriters such information as they may request in connection with your application and authorise the Secretary of State, the Selling Shareholder, the Company, the Receiving Agent and the Underwriters to disclose any information relating to your application which it may consider appropriate;
- (vi) agree that any Share Account Statement or share certificate to which you may become entitled and monies returnable to you may be retained pending clearance of your remittance, investigation of any suspected breach of these terms and conditions and any verification of identity which is, or which the Secretary of State, the Selling Shareholder or the Receiving Agent in its absolute discretion considers may be required for the purposes of the UK Money Laundering Regulations 2007 and that any interest accruing on such retained monies shall accrue to and for the benefit of the Secretary of State;
- (vii) agree that, if evidence of identity satisfactory to the Secretary of State, the Selling Shareholder and the Receiving Agent is not provided on or before 22 October 2013 or such later date as the Secretary of State and the Joint Global Co-ordinators (on behalf of themselves and the other Underwriters) may agree, the Selling Shareholder may terminate your contract of allocation and may reallocate or sell such shares and, in such case, your application monies, less any amount

retained by the Selling Shareholder (or its agents) as compensation for breach of contract, or an amount equal to the proceeds of reallocation or sale net of all expenses, will be returned without interest to the bank or other account on which the cheque or other remittance accompanying the application was drawn or, in the case of an Online Application, to your debit card, and you agree that, in such event, you will have no claim against the Secretary of State, the Selling Shareholder, the Company, the Receiving Agent or the Underwriters or any of their respective officers, agents or employees in respect of the balance of your application monies, if any, retained by the Selling Shareholder (or its agents), or for any loss arising from the price, the timing or the manner of reallocation or sale, or otherwise in connection therewith;

- (viii) undertake to ensure that, in the case of an application signed by someone else on your behalf, the original of the relevant power of attorney or other appropriate authority (or a complete copy certified by a solicitor or notary) is enclosed with your Application Form;
- (ix) agree that any future communications sent by the Company to you in your capacity as a shareholder of the Company will be in the English language;
- (x) agree that by submitting an Application Form, your personal information may be held and used by the Secretary of State, the Selling Shareholder, the Company, Solid Solutions, the Underwriters and the Receiving Agent for purposes relating to the Retail Offer, which may include providing your details to third parties for the purpose of performing credit reference checks, money laundering checks and making tax returns, and keeping a record of applicants under the Retail Offer for a reasonable period of time. You also agree that if you are allocated shares under the Direct Retail Offer, your personal information will be shared with the Company, the Receiving Agent and the Nominee and held and used by the Company, the Receiving Agent and the Nominee for purposes relating to the Retail Offer and for their ongoing purposes that require the keeping records of, and dealing with, the Company's shareholders in the ordinary course of business (which may involve providing your personal information to third parties, such as Euroclear UK);
- (xi) agree that the Secretary of State and the Selling Shareholder reserve the right to alter any arrangements in connection with the Direct Retail Offer (including the timetable and terms and conditions of application); and
- (xii) agree that the contract arising from acceptance of all or part of your application under the Direct Retail Offer will be, or will be deemed to be, entered into by you and the Selling Shareholder on these terms and conditions (subject to section 17.2(G)(xi) of this Part) and that any changes, additions or alterations made to the Application Form will have no effect.

If (a) your Application Form is not completed correctly, or the pre-printed name and/or address (if applicable) is amended, (b) your Application Form is completed with any information other than as specifically required on the Application Form, (c) your Application Form (other than an Online Application) is received at the return address specified on your Application Form after 11.59 p.m. on 8 October 2013, or your Online Application is received after 11.59 p.m. on 8 October 2013, (d) the cheque or bankers' draft accompanying your Application Form (other than an Online Application) is for the wrong amount, (e) you applied via an Online Application and the surname of the holder of the debit card used for payment is different to the surname provided on the Online Application, (f) your Application Form (other than an Online Application) is not accompanied by a power of attorney or other authority (or a copy certified by a solicitor or notary) where required or (g) you submit, or are suspected to have submitted, more than one application in the Retail Offer, your application may be rejected by the Receiving Agent on behalf of the Secretary of State. In these circumstances, the Selling Shareholder's decision as to whether to reject or treat your application as valid (which could occur before or after Admission) shall be final and binding on you. None of the Secretary of State, the Selling Shareholder, the Company, the Receiving Agent, the Underwriters nor any of their respective officers, agents or employees will accept any liability for any such decision and no claim will be made against any such persons in respect of your non-delivery of Ordinary Shares, or for any loss resulting from such non-delivery.

Notwithstanding the above, any application may be rejected in whole or in part by the Selling Shareholder in its absolute discretion.

The Selling Shareholder and those acting on its behalf (including the Receiving Agent) reserve the right to treat as valid any application which does not comply fully with these terms and conditions or is not completed in all respects or is not sent in accordance with the instructions on the Application Form. This decision could



occur before or after Admission. The Selling Shareholder and those acting on its behalf (including the Receiving Agent) reserve the right to waive in whole or in part any of the provisions of these terms and conditions, either generally or in respect of one or more applications. In these circumstances, the decision of the Selling Shareholder as to whether to treat the application as valid and how to construe, amend or complete it shall be final. You will not, however, be treated as having offered to invest a higher amount than is indicated in the Application Form.

### 17.3 Acceptance of your offer

The Selling Shareholder may accept your application if your application is received, validated (or treated as valid), processed and not rejected either:

- (A) by notifying, publishing or announcing the Offer Price, Offer Size and the basis of allocation for the Retail Offer (in which case the acceptance will be on that basis); or
- (B) by notifying acceptance to the Receiving Agent.

The acceptance may (at the absolute discretion of the Selling Shareholder) be of the whole or any part of your application and the amount you have offered to invest may be scaled down. The basis of allocation for applications will be determined by the Secretary of State. In the event that applications in the Direct Retail Offer are scaled back, the allocation policy will be as described in section 2 of this Part.

No fractional entitlements to Ordinary Shares will be allocated and therefore allocations will be satisfied by rounding down to the nearest whole number of Ordinary Shares.

### 17.4 Priority to valid applications from Eligible Employees

Eligible Employees who submit a valid Employee Priority Application Form will be given priority in allocation over members of the public who submit valid Application Forms. Subject to the overall limit on the Employee Priority Offer described below, all valid applications submitted by Eligible Employees will be satisfied in full up to a total number of Ordinary Shares worth £10,000 at the Offer Price (the “**Individual Priority Limit**”). Any valid application submitted by an Eligible Employee for an amount of Ordinary Shares greater than the Individual Priority Limit will be treated as (a) an application for £10,000 of Ordinary Shares in the Employee Priority Offer (being subject to the priority allocation in the Employee Priority Offer) and (b) a separate application in the Direct Retail Offer for the amount in excess of £10,000 (being subject to the same allocation policy that applies to members of the public who apply in the Direct Retail Offer).

There is an overall limit on the total number of Ordinary Shares available for allocation with priority to Eligible Employees in the Employee Priority Offer. This limit is 10 per cent. of the total number of Ordinary Shares which are allocated to investors who apply in the Retail Offer (the “**Employee Priority Offer Maximum Limit**”). Since the overall size of the Retail Offer will not be determined by the Secretary of State until after the Offer Period has ended, the number of Ordinary Shares which the Employee Priority Offer Maximum Limit represents will not be known until allocation by the Secretary of State of Ordinary Shares in the Offer.

If Eligible Employees submit valid applications for Ordinary Shares (up to the Individual Priority Limit) in aggregate in excess of the Employee Priority Offer Maximum Limit, the Individual Priority Limit will be reduced at the time of allocation in order that the aggregate number of Ordinary Shares allocated to Eligible Employees at or below the Individual Priority Limit will be equal to the Employee Priority Offer Maximum Limit. In certain circumstances, the Individual Priority Limit could be lower than the minimum application amount. If the Individual Priority Limit is reduced from £10,000, the application amount in excess of the revised Individual Priority Limit will be deemed to be an additional application for Ordinary Shares by a member of the public in the Direct Retail Offer and will be subject to the same allocation policy that applies to members of the public who apply in the Direct Retail Offer. Therefore, Eligible Employees will be allocated some Ordinary Shares with priority (i.e. those Ordinary Shares applied for up to the Individual Priority Limit) and may be allocated further Ordinary Shares without priority (i.e. those Ordinary Shares, if any, applied for in excess of the Individual Priority Limit).

### 17.5 Conditions

The contract arising from acceptance of an application (in whole or in part) in the Direct Retail Offer will be entered into by you (if you are a successful applicant) and the Selling Shareholder. Under this contract, you will be required to acquire the Ordinary Shares at the Offer Price. This contract will be conditional upon (i) the Underwriting Agreement becoming unconditional (save for Admission) and not having been terminated in

accordance with its terms prior to Admission and (ii) Admission occurring on or prior to 15 October 2013 or such later date as the Secretary of State and the Joint Global Co-ordinators (on behalf of the Underwriters) and the Sponsor may agree (not being later than 22 October 2013).

Subject to applicable law, you will not be entitled to exercise any remedy of rescission or for innocent misrepresentation (including pre-contractual representations) at any time after acceptance of your application. This does not affect any other rights you may have, including, for the avoidance of doubt, any statutory withdrawal rights.

The Secretary of State expressly reserves the right to determine, at any time prior to Admission, not to proceed with the Direct Retail Offer or any part of it. If the Direct Retail Offer or any part of it is terminated prior to Admission, applications received up to the date of termination will automatically lapse, applications received after that date will be of no effect and any application monies relating thereto will be returned to applicants in accordance with section 17.6 of this Part.

#### **17.6 Return of applicable monies**

If any application is invalid or not accepted or if any contract created by acceptance does not become unconditional or if any application is accepted for an amount lower than that offered, subject as hereinafter provided, the application monies or the balance of the amount paid on application (as the case may be) will be returned, without interest by cheque crossed "account payee" or, in the case of investors who submitted an Online Application, a refund back to the debit card used for payment. Any such cheque will be posted to you, or any such bank refund instruction will be made, by no later than 21 October 2013. Prior to that time, application monies will be retained by the Receiving Agent in an account designated for these purposes and any interest accrued on the application monies will be retained by, and for the benefit of, the Selling Shareholder. The cheque and/or bankers' draft accompanying your application may be presented on receipt and before acceptance of your application, but this will not constitute acceptance of your application, either in whole or in part. The proceeds of this presentation will be held pending acceptance and, if your application is accepted and the conditions in section 17.5 of this Part are satisfied, will be applied in discharging the total amount due for the Ordinary Shares you have been allocated. Share Account Statements or share certificates and surplus application monies (if any) may be retained pending clearance of your cheque and/or bankers' draft. The right is also reserved to reject any application in respect of which your cheque, bankers' draft or debit card payment, as the case may be, has not been cleared on first presentation or the first attempt to take the payment (as the case may be) and, in any event, by 5.00 p.m. on 21 October 2013. The Selling Shareholder may require you to pay interest or other resulting costs (or both) if the cheque, bankers' draft or debit card payment accompanying your application is not honoured on first presentation or the first attempt to take the payment (as the case may be).

Amounts of less than the Offer Price of one Ordinary Share will not be refunded but will be given by the Secretary of State to charity. Sums refunded will, in all cases, be paid in Pounds Sterling without interest.

#### **17.7 Allocation**

The aggregate number of Ordinary Shares to be allocated in the Direct Retail Offer will be at the discretion of the Secretary of State after having consulted with the Joint Global Co-ordinators after the Offer Period has ended. The Secretary of State has absolute discretion to decide in any individual case whether the conditions of eligibility for the Direct Retail Offer have been satisfied. To participate in the Direct Retail Offer, individuals located in the UK and Permitted Service Personnel must complete an Application Form (which includes an Online Application).

#### **17.8 Representations and warranties**

By completing and submitting an Application Form, you:

- (A) represent and warrant that, if you sign or submit an Application Form on behalf of somebody else, you have the authority to do so and that such other person will be bound accordingly and will be deemed also to have given the confirmations, representations, warranties and undertakings contained in these terms and conditions and undertake to enclose your power of attorney or other appropriate authority (or a complete copy thereof duly certified by a solicitor or notary);
- (B) confirm that, in making an application, neither you nor any person on whose behalf you are applying are relying on any information or representation in relation to the Secretary of State, the Selling Shareholder, the Company, any other member of the Group or the Offer, or any of them, other than as



is contained in the Prospectus, the Pricing Statement and any supplementary prospectus and agree that none of the Secretary of State, the Selling Shareholder, the Company, the Directors, the Receiving Agent or any person acting on behalf of them (including the Underwriters) or any person responsible solely or jointly for the Prospectus, the Pricing Statement and/or any supplementary prospectus, or any part of any of them, shall have any liability for any such information or representation (excluding for fraudulent misrepresentation);

- (C) agree that, having had the opportunity to obtain and read the Prospectus, the Pricing Statement and any supplementary prospectus you shall be deemed to have read all such documents in their entirety and to have noted all information concerning the Secretary of State, the Selling Shareholder, the Company or any other member of the Group and the Offer contained in the Prospectus, the Pricing Statement and/or any supplementary prospectus;
- (D) agree that no person is authorised in connection with the Offer to give any information or make any representation other than as contained in the Prospectus, the Pricing Statement and any supplementary prospectus and, if given or made, any information or representation must not be relied upon as having been authorised by the Secretary of State, the Selling Shareholder, the Company, the Directors, the Sponsor, any of the Underwriters or any other person;
- (E) confirm that you have reviewed the restrictions contained in section 17.10 of this Part and represent and warrant, to the extent relevant, that you (and any person on whose behalf you apply) comply or have complied with the provisions of section 17.10 of this Part;
- (F) other than in the case of Eligible Employees, warrant that, if you are making an application for the benefit of your child, grandchild or ward under the age of 18, you will sign and submit an Application Form in your own name and specify the beneficiary's initials in the designation box on the Application Form, and that you will be the registered holder of any Ordinary Shares allocated to such application;
- (G) represent and warrant that, if you are submitting an Employee Priority Application Form in the Employee Priority Offer, you are (at the date of submitting the Employee Priority Application Form) an Eligible Employee;
- (H) agree that you are liable for any capital duty, stamp duty, stamp duty reserve tax and all other stamp, issue, securities, transfer, registration, documentary or other duties or taxes (including any interest, fines or penalties relating thereto) payable outside the UK by you or any other person on the acquisition by you of any Ordinary Shares or the agreement by you to acquire any Ordinary Shares;
- (I) agree that all documents in connection with the Offer and any returned monies may be sent by post to you at your address set out in your Application Form and any such documents and return monies will be sent at your own risk;
- (J) represent and warrant that (i) you are (or, if you are applying on behalf of another person, that other person is) eligible to participate in the Direct Retail Offer as an individual to whom the offer of Ordinary Shares in the Direct Retail Offer was made in the UK (or that you are a Permitted Service Personnel) and (ii) subject as hereinafter provided, the Application Form is completed and delivered solely for and on behalf of the applicant and not directly or indirectly, in whole or in part, for or on behalf of any other person;
- (K) represent and warrant that you are not applying as, or as nominee or agent of, a person who is or may be a person mentioned in any of sections 67, 70, 93 or 96 of the Finance Act 1986 (concerning depositary receipts and clearance services);
- (L) confirm that, if the laws of any jurisdiction outside the UK are applicable to your agreement to purchase Ordinary Shares, you have complied with all such laws and none of the Secretary of State, the Selling Shareholder, the Company or the Underwriters will infringe any laws of any jurisdiction outside the UK as a result of your rights and obligations under your agreement to purchase Ordinary Shares and under the Articles of Association (and, in making this representation and warranty, you confirm that you are aware of the selling and transfer restrictions set out in section 15 of this Part);
- (M) represent and warrant that (i) you are a member of Permitted Service Personnel, are not located or resident in the United States, Australia, Canada or Japan and are not acting on behalf of a person located or resident in the United States, Australia, Canada, Japan or any jurisdiction other than the UK or (ii) if you are not a member of Permitted Service Personnel, the offer of Ordinary Shares in the Direct Retail Offer was made to you (and any person on whose behalf you are applying) in the UK and you are not (and are not acting on behalf of) a person located or resident in the United States,

Australia, Canada, Japan or any jurisdiction other than the UK and, in all cases, (iii) you are not applying for Ordinary Shares, nor are you applying for Ordinary Shares on behalf of a party, with a view to the reoffer, resale or delivery of the Ordinary Shares, directly or indirectly in or into the United States, Australia, Canada, Japan or any jurisdiction other than the UK or to a person located or resident in the United States, Australia, Canada, Japan or any jurisdiction other than the UK or to any person who you believe is purchasing the Ordinary Shares for the purpose of such resale, reoffer or delivery;

- (N) represent and warrant that your application to purchase Ordinary Shares is not a joint application for more than one investor;
- (O) represent and warrant that only one application is being made for your benefit in the Retail Offer (whether directly or through other means);
- (P) represent and warrant that your application to purchase Ordinary Shares is not and will not be funded using funds provided by another person under an arrangement whereby any Ordinary Shares allocated to you or all or substantially all of the value of such Ordinary Shares are to be transferred to that other person;
- (Q) represent, warrant and undertake that you are not, and you are not applying on behalf of a person engaged in, or whom you know or have reason to believe is, engaged in money laundering;
- (R) agree that any material downloaded from the Group's websites in relation to the Direct Retail Offer and [www.gov.uk/royalmailshares](http://www.gov.uk/royalmailshares) (i) is done at your own risk and that you will be solely responsible for any damage or loss of data that results from the download of any material and (ii) will be used solely for personal use and will not be distributed in or into the United States, Australia, Canada or Japan or to any other person wherever located or resident; and
- (S) agree that none of the Secretary of State, the Selling Shareholder, the Company or the Underwriters is liable for any loss of data in the course of receiving and/or processing the Application Forms or responsible for the loss or accidental destruction of any Application Form or personal data relating to the investors or any financial or other loss or damage which may result, directly or indirectly, therefrom, including any loss in relation to the non-allocation or non-delivery of any Ordinary Shares as a result of such loss or destruction.

### **17.9 Money laundering**

You agree that in order to ensure compliance with any applicable money laundering regulations (including, without limitation, the UK Money Laundering Regulations 2007), the Receiving Agent may, at its absolute discretion, require verification of identity from any person lodging an Application Form. Failure to provide the necessary evidence of identity may result in application(s) being rejected or delays in the despatch of documents.

In addition, verification of the identity of applicants may be required if the value (based on the Offer Price) of the Ordinary Shares applied for under the Direct Retail Offer, whether in one or more applications (if permissible), exceeds the Pounds Sterling equivalent of €15,000. If, in such circumstances, you do not use your own personal cheque and use a bank or building society cheque or bankers' draft you should ensure that the institution issuing the cheque or bankers' draft confirms the name, address and account number of the account holder on the reverse of the cheque or bankers' draft and adds its stamp. Other third party cheques may not be accepted.

For Online Applications the surname of the holder of the debit card used for payment must not be different to the surname provided on the Online Application. Applications where the application name and payment name differ may be subsequently rejected and the funds returned.

You agree that in any of the circumstances set out in the paragraphs above in this section 17.9 of this Part, the Receiving Agent may make a search using one or more credit reference agencies of electronic databases in order to verify your identity. Where deemed necessary by the Receiving Agent in its sole and absolute discretion, a copy of the search will be retained.

### **17.10 Overseas investors**

No person receiving a copy of the Prospectus and/or an Application Form in any territory outside the UK may treat the Application Form as constituting an invitation or offer to him nor should he in any event use such Application Form. No documents relating to the Offer have been submitted to the clearance procedures of

any authorities other than the Financial Conduct Authority of the UK. Any application made in the Direct Retail Offer by or on behalf of a person who received the Offer outside of the UK (other than Permitted Service Personnel) will be rejected. For the purposes of Permitted Service Personnel submitting an Application Form or Online Application, such Permitted Service Personnel are treated as being located in the UK for the purposes of such Application Form or an Online Application (including for the purposes of the declarations on such Application Form or an Online Application). The Company has requested that the UK Listing Authority provides a certificate of approval, a copy of the Prospectus and a translation of the Summary (where applicable) to the relevant competent authority in each of the EEA Passported Jurisdictions. In the event of any delay to the Direct Retail Offer being able to be made in any such EEA Passported Jurisdiction, the Secretary of State and the Selling Shareholder reserve the right, in their sole and absolute discretion, to extend the deadline for receipt of applications for Ordinary Shares in the Direct Retail Offer in any such EEA Passported Jurisdiction in order to ensure that the public offer in that EEA Passported Jurisdiction shall be open for six working days in that EEA Passported Jurisdiction.

#### **17.11 Miscellaneous**

Persons applying for Ordinary Shares under the Offer who are allocated Ordinary Shares may only rely on the information contained in the Prospectus and, to the fullest extent permitted by law, any liability for representations, warranties and conditions, express or implied and whether statutory or otherwise (including, without limitation, pre-contractual representations but excluding any fraudulent misrepresentations), are expressly excluded in relation to the Ordinary Shares and the Offer.

Save where otherwise stated or where the context otherwise requires, terms used in these terms and conditions are as defined in the Prospectus (as supplemented by any supplementary prospectus issued by the Company in relation to the Offer).

The rights and remedies of the Secretary of State, the Selling Shareholder, the Company, the Underwriters and the Receiving Agent under these terms and conditions are in addition to any rights and remedies which would otherwise be available to any of them and the exercise or partial exercise of any one will not prevent the exercise of others or full exercise.

The Secretary of State (with the agreement of the Joint Global Co-ordinators (on behalf of themselves and the other Underwriters)) reserves the right to delay the closing time of the Direct Retail Offer from 11.59 p.m. on 8 October 2013 by giving notice through a Regulatory Information Service. In this event, the revised closing time will be published in such manner as the Secretary of State in its absolute discretion determines subject, and having regard, to the requirements of the Financial Conduct Authority.

The Offer may be terminated without any obligation to you whatsoever at any time prior to Admission. If the Offer is terminated, the Offer will lapse and any monies received in respect of your application will be returned to you without interest.

In the event that the Company is required to publish any supplementary prospectus, applicants who have applied for Ordinary Shares in the Offer shall have a statutory right to withdraw their offer to purchase Ordinary Shares in the Offer in its entirety before the end of a period of two Business Days commencing on the first Business Day after the date on which the supplementary prospectus is published (or such later date as may be specified in the supplementary prospectus). If a supplementary prospectus is published, it will be made available in the same manner in which the Prospectus is being made available, including at the following places:

- on the website [www.gov.uk/royalmailshares](http://www.gov.uk/royalmailshares);
- at the registered office of the Company (100 Victoria Embankment, London EC4Y 0HQ); and
- at the offices of the Receiving Agent (Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA).

In addition, in the event that the Offer Price is set by the Secretary of State above the Price Range and/or the number of Ordinary Shares to be sold by the Selling Shareholder is set by the Secretary of State above or below the Offer Size Range (subject to the minimum free float requirements of the UK Listing Authority), then applicants who have applied for Ordinary Shares in the Offer would have a statutory right to withdraw their offer to purchase Ordinary Shares in the Offer in its entirety pursuant to section 87Q of FSMA before the end of a period of two Business Days commencing on the first Business Day after the date on which an announcement of this is published by the Secretary of State via a Regulatory Information Service announcement (or such later date as may be specified in that announcement). The arrangements for withdrawing offers to purchase Ordinary Shares would be made clear in the announcement.

If you do not notify the Company of your intention to withdraw in the required manner within the stipulated period set out in any supplementary prospectus or announcement (as described above), your application to buy Ordinary Shares in the Direct Retail Offer will remain valid and binding upon you.

Investors in the Direct Retail Offer wishing to withdraw their offer to purchase Ordinary Shares after the publication of any supplementary prospectus or announcement (as described above) must do so by:

- registering the withdrawal on the website [www.gov.uk/royalmailshares](http://www.gov.uk/royalmailshares);
- lodging a written notice of withdrawal by hand with the Receiving Agent (during normal business hours only) at Equiniti Limited at Corporate Actions, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA; or
- scanning a signed written notice of withdrawal and sending it by email to the Receiving Agent at [offer@equiniti.com](mailto:offer@equiniti.com).

In each of the cases above, such notification must provide (i) the investor's name, (ii) the investor's address and postcode, (iii) the method by which the investor submitted its application (i.e. whether by posting an Application Form or by submitting an Online Application), (iv) whether the application was under the Employee Priority Offer or not, and (v) the amount in Pounds Sterling of Ordinary Shares that such investor has applied for, and it must be received by the Receiving Agent no later than the end of the period stipulated in the supplementary prospectus or announcement (as described above) (which will be at least a period of two Business Days commencing on the first Business Day after the date on which the supplementary prospectus or announcement, as the case may be, is published).

Notice of withdrawal given by any other means or which is deposited with or received by the Receiving Agent after expiry of such period will not constitute a valid withdrawal. Applicants who have applied for Ordinary Shares in the Intermediaries Offer through an Intermediary should contact the relevant Intermediary for details on how to withdraw an application.

You agree that all applications, acceptances of applications and contracts resulting from them under the Direct Retail Offer shall be exclusively governed by and construed in accordance with English law and that you irrevocably submit to the exclusive jurisdiction of the English courts and agree that nothing shall limit the right of the Secretary of State, the Selling Shareholder, the Company, the Receiving Agent or the Underwriters to bring any action, suit or proceedings arising out of or in connection with any such application, acceptances or contracts in any other manner permitted by law or in any court of competent jurisdiction.

You authorise the Selling Shareholder and its agents, on your behalf, to make any appropriate returns to HMRC in relation to stamp duty chargeable on a transfer on sale of Ordinary Shares or SDRT chargeable on an agreement to transfer Ordinary Shares (if any) arising in the UK (currently at a rate of 0.5 per cent.) on any contract arising on acceptance of your application or on any transfer of Ordinary Shares as a result of such contract (as applicable).

You agree and acknowledge that none of the Underwriters acts for you nor will they treat you as their customer by virtue of an application being accepted under the Direct Retail Offer and you agree that the Underwriters are acting for the Secretary of State, the Selling Shareholder and the Company and no one else in connection with the Offer and will not be responsible for providing to you the protections afforded to its customers and that none of the Underwriters owes you any duties or responsibilities concerning the price of the Ordinary Shares or the suitability of the Ordinary Shares for you as an investment or otherwise in connection with the Offer.

You authorise the Selling Shareholder, the Receiving Agent and the Company and their respective agents to do all things necessary to effect registration into your name (or the name of the Nominee) (as applicable) of any Ordinary Shares acquired by you and authorise any representative of the Selling Shareholder, the Receiving Agent or the Company to execute and/or complete any document of title required therefor.

The dates and times referred to in these terms and conditions are based on the expectation that Admission will occur on 15 October 2013 and may be altered by the Secretary of State in its absolute discretion (with the agreement of the Joint Global Co-ordinators and the Sponsor (on behalf of themselves and the other Underwriters)) where the Secretary of State considers it necessary to do so.

All correspondence, documents and remittances sent or delivered to or by applicants under the Direct Retail Offer will be sent or delivered at the applicant's own risk.

All enquiries in relation to the Application Form should be addressed to the Retail Offer helpline on 0330 123 0147, UK network providers' standard geographic call charges apply (plus network extras). Lines are open from 8.30 a.m. to 6.00 p.m. (UK time) Mondays to Fridays (except UK public holidays) and from 9.00 a.m. to 12 noon (UK time) on Saturdays. Calls to the helpline from outside the UK will be charged at the applicable international rate. Different charges may apply to calls from mobile telephones. Calls may be recorded and/or monitored for security and training purposes. For legal reasons the Receiving Agent will only be able to provide information contained in the Prospectus and will be unable to provide advice on the merits of the Direct Retail Offer or to provide personal legal, financial, tax or investment advice.



## PART IV

### EMPLOYEE FREE SHARES OFFER

#### 1. OVERVIEW

In summary, the Employee Free Shares Offer involves approximately 10 per cent. of the issued ordinary share capital of the Company on Admission being placed into an employee trust on or immediately after Admission. All Eligible Employees who do not opt out of the Employee Free Shares Offer will be allocated those Ordinary Shares as free share awards on or around Admission to the maximum extent practicable under a share incentive plan intended to be approved by HMRC.

On 12 September 2013, the Group wrote to all potential Eligible Employees to inform them of the Employee Free Shares Offer being made to them. Under the Employee Free Shares Offer, the Secretary of State is offering Eligible Employees the opportunity, in aggregate, to be allocated for free, subject to Admission and the approval of the Royal Mail Share Incentive Plan by HMRC, approximately 10 per cent. of the issued ordinary share capital of the Company on Admission. The terms and conditions of the Employee Free Shares Offer are contained in that letter and accompanying documentation that contained the terms described below. For the avoidance of doubt, the Employee Free Shares Offer is not being made pursuant to the Prospectus and is not underwritten. If Admission does not take place or the Royal Mail Share Incentive Plan is not approved by HMRC (although HMRC has confirmed that the plan documentation it has reviewed is in a form capable of approval once Admission has occurred), the Employee Free Shares Offer will be of no effect and no Ordinary Shares will be allocated to Eligible Employees under that offer.

The Employee Free Shares Offer has been put in place as part of the arrangements which the Secretary of State is required by section 3 of the PSA to make for the establishment of an employee share scheme. Those arrangements must secure that if at any time the proportion of the company owned by the Crown is reduced to nil (within the meanings given by the PSA), the proportion of the company owned by or on behalf of the employee share scheme is at that time (or has before that time been) at least 10 per cent.

The Employee Free Shares are to be offered to Eligible Employees under the Royal Mail Share Incentive Plan, further details of which can be found in section 3 of this Part and in section 6 of Part VIII (*Additional Information*).

Eligible Employees' entitlement to Employee Free Shares in the Employee Free Shares Offer is in addition to any right to participate in the Employee Priority Offer. The Employee Priority Offer forms part of the Direct Retail Offer, the details of which are set out in section 12 of Part III (*Information About the Offer*).

#### 2. THE EMPLOYEE FREE SHARES OFFER

The Employee Free Shares Offer has been made to all potential Eligible Employees. The Employee Free Shares Offer is conditional upon Admission and upon HMRC approval of the Royal Mail Share Incentive Plan. The number of Employee Free Shares comprised in the Employee Free Shares Offer is 100,000,000 Ordinary Shares, which represents 10 per cent. of the issued share capital of the Company on Admission, plus an additional 160,000 Ordinary Shares, to give a total of 100,160,000 Ordinary Shares. The additional 160,000 Ordinary Shares that are being made available will enable Eligible Employees' entitlements to Employee Free Shares on or around Admission to be satisfied by rounding-up entitlements to the nearest whole number of Ordinary Shares rather than rounding-down entitlements.

Subject to Admission and HMRC approval of the Royal Mail Share Incentive Plan, the Secretary of State will procure that the Selling Shareholder transfers the Employee Free Shares to the trustee of the Royal Mail Share Incentive Plan on or immediately after Admission.

Subject to Admission and HMRC approval of the relevant plan, each Eligible Employee will automatically be awarded a number of Employee Free Shares on or around Admission, unless the Eligible Employee completes and submits to Equiniti Limited an opt-out form by 9.00 a.m. on 7 October 2013. The opt-out form has been provided to all Eligible Employees.

Each full-time Eligible Employee will be entitled to be allocated the same number of Employee Free Shares. Each part-time Eligible Employee will be allocated a number of Employee Free Shares proportionate to the number of hours for which they were remunerated between 10 July 2013 and 13 October 2013 (inclusive), the latest practicable date prior to the expected date of Admission.



It is intended that as far as is reasonably practicable and subject to limits in the Royal Mail Share Incentive Plan on the value of awards, all the Employee Free Shares comprised in the Employee Free Shares Offer will be awarded on or around Admission to those Eligible Employees who have not chosen to opt out of the Employee Free Shares Offer, although it is unlikely to be possible to allocate all the Employee Free Shares on or around Admission for the following reasons.

It may not be possible to allocate all Employee Free Shares because of opt-out forms which may be received close to the deadline date for their return, or employees who leave RMG employment just before Admission and so cease to be Eligible Employees after relevant eligibility data has been collected. This may mean that the Employee Free Shares provisionally allocated to those employees cannot then be reallocated to other Eligible Employees in time for the intended award on or around Admission.

In addition, relevant legislation limits the value of Ordinary Shares which may be awarded as Employee Free Shares to an Eligible Employee to £3,000 in any tax year. If the value for tax purposes of Employee Free Shares which would otherwise be awarded to a full-time Eligible Employee on or around Admission would exceed £3,000, then the number of Employee Free Shares to be awarded to all Eligible Employees will be scaled back prior to award. A full-time Eligible Employee's award will be scaled back so that the award is in respect of Employee Free Shares with a value as close to (but not exceeding) £3,000 as practicable. The number of Employee Free Shares which will be awarded to each part-time Eligible Employee will be calculated by reducing the *pro rata* allocation that employee would otherwise have been given by the same proportion by which the allocation of each full-time Eligible Employee has been reduced.

No fractional entitlements to Employee Free Shares will be awarded. Allocations for Eligible Employees will be rounded up, subject to the £3,000 limit described in the paragraph immediately above, to the nearest whole Employee Free Share, although part-time Eligible Employees may not be allocated a greater number of Employee Free Shares than will be allocated to a full-time Eligible Employee.

Because of these variables, it is therefore not possible currently to determine the number of Employee Free Shares which Eligible Employees will receive or the value of those Ordinary Shares.

Employee Free Shares not awarded on or around Admission (because the HMRC individual £3,000 cap requires awards to be scaled back) will be awarded to the maximum extent practicable as Employee Free Shares on or after 6 April 2014, i.e. in the next tax year, to Eligible Employees who have remained in continuous employment with RMG and/or the Company until the date of that further award. That pool of Employee Free Shares together with any other Ordinary Shares the Company decides should then also be included will be awarded to those Eligible Employees, provided they do not opt-out of receiving the further Employee Free Shares, on the same basis as the award made on or around Admission. Accordingly, all relevant full-time Eligible Employees entitled to receive Employee Free Shares on this further occasion, will receive the same number of Employee Free Shares as each other. The entitlement of each relevant part-time Eligible Employee will be proportionate to their paid hours between 10 July 2013 and 13 October 2013 (inclusive), the latest practicable date prior to the expected date of Admission.

### 3. ROYAL MAIL SHARE INCENTIVE PLAN

Employee Free Shares awarded to Eligible Employees on or around Admission pursuant to the Employee Free Shares Offer will be held in trust by the trustee of the Royal Mail Share Incentive Plan (the "**Plan**"). The Plan will be put in place in order to ensure, provided certain conditions are met, that Eligible Employees who are awarded Employee Free Shares are not subject to UK income tax and National Insurance contributions which would otherwise be payable on such an award and to encourage retention of staff employed by the company which provides the universal postal service. The Plan may also be used for further awards of Ordinary Shares by the Company.

It is intended that the Plan be approved by HMRC under Schedule 2 to the Income Tax (Earnings and Pensions) Act 2003. In accordance with relevant tax legislation, the Plan cannot be approved until Admission has occurred, but HMRC has confirmed that the Plan documentation it has reviewed is in a form capable of approval once Admission has occurred. The Plan will be constituted by a trust deed entered into by the Company and Equiniti Share Plan Trustees Limited (the "**Trustee**").

Eligible Employees who are awarded Employee Free Shares under the Employee Free Shares Offer will forfeit all of their Employee Free Shares if they cease employment with the Group within three years from the date on which the Employee Free Shares are awarded to them, except where their employment ceases for the following reasons: (a) death, (b) disability or injury, (c) redundancy, (d) retirement, or (e) the sale of the company or business for which the Eligible Employee works. Except where an Eligible Employee leaves

employment as described in the previous sentence, Employee Free Shares awarded under the Employee Free Shares Offer must be held in trust for the relevant Eligible Employee by the Trustee for a minimum holding period of three years after the award is made, during which time the Employee Free Shares may not be dealt with in any way. Upon expiry of the three-year holding period, an Eligible Employee can sell, transfer or otherwise dispose of their Employee Free Shares or hold such Employee Free Shares in their own name, subject to paying any applicable UK income tax and National Insurance contributions that may arise. No UK income tax or National Insurance contributions will arise if an Eligible Employee leaves their Employee Free Shares in trust for at least five years after the award is made.

Employee Free Shares which it is not possible to award to Eligible Employees ("**Excess Shares**") and Employee Free Shares which have been awarded to Eligible Employees on or around Admission or on or after 6 April 2014, but which are subsequently forfeited by Eligible Employees who leave employment with the Group, other than for the reasons stated in the paragraph above, during the relevant three-year holding period following the date of the relevant award ("**Forfeited Shares**"), will be held by the Trustee for future allocation under the Plan or otherwise for distribution to or for the benefit of employees of the Company and RMG from time to time or for charitable purposes (see below). The Trustee will not be entitled to exercise any voting rights in respect of any Excess Shares or Forfeited Shares, nor will it receive any dividends on Excess Shares or Forfeited Shares (other than dividends *in specie* or special dividends), for as long as such Ordinary Shares are not awarded to and held on behalf of employees of the Company and RMG.

Other awards of Ordinary Shares may also be made under the Plan in future which may have different terms from the Employee Free Shares, subject to complying with the limits and provisions of the Plan and applicable legislation at the time.

The terms of the Plan are summarised in section 6 of Part VIII (*Additional Information*).

If any Excess Shares and/or Forfeited Shares are held by the Trustee on the fourth anniversary of Admission, the Trustee shall be required, at the Board's direction, by no later than the fifth anniversary of Admission, to allocate such Ordinary Shares under the Plan by way of a further free share award, unless this would result in a free share award to each recipient below a minimum value of Ordinary Shares (which may not exceed £100 worth of Ordinary Shares without the prior written consent of the Secretary of State) determined by the Board. If the Board chooses not to make a free share award over those Ordinary Shares, the Board may direct that those Ordinary Shares be distributed to employees of the Company and RMG under similar all-employee share arrangements, or, if in the Board's reasonable opinion it is not practicable to make such a distribution to employees and the total value of the Ordinary Shares is less than £500,000, the Board may direct the Trustee to apply such Ordinary Shares for the benefit of the Rowland Hill Memorial and Benevolent Fund or any other charity established for the benefit of postal workers and/or their dependants.

## PART V

### TERMS AND CONDITIONS OF THE ROYAL MAIL NOMINEE SHARE SERVICE

The Royal Mail Nominee Share Service is a convenient way to hold shares in the Company without needing share certificates, and is administered by Equiniti Financial Services Limited. Your shares will be held by a nominee, Equiniti Corporate Nominees Limited, on trust for you. You will remain the beneficial owner of your shares and will still be able to benefit from shareholder rights, as described in the Prospectus.

This Part sets out all the terms and conditions (“Terms and Conditions”) on which the Royal Mail Nominee Share Service is provided by Equiniti Financial Services Limited. It replaces any previous terms and conditions which you may have received. These Terms and Conditions, together with your signed Application Form or Online Application, constitute an agreement which is legally binding on Equiniti Financial Services Limited and you.

For your own benefit and protection you should read these Terms and Conditions carefully. If you do not understand any point please ask for further information.

Please note that you may remove all or part of your Ordinary Shares from the Royal Mail Nominee Share Service at any time. The procedure to follow is set out in section 14.

These Terms and Conditions will only take effect following the allocation of Ordinary Shares pursuant to the Offer when the underlying Ordinary Shares are delivered to Equiniti Corporate Nominees Limited.

Investments made under these Terms and Conditions are in one company only and should therefore be considered as only one part of a balanced portfolio. The value of shares and any income from them can go down as well as up and you may not get back the amount of money you invest. Past performance is no guide to future performance, and if you are in any doubt about the suitability of the nominee service or investments held on your behalf under it, you should consult an authorised financial adviser. We will not assess the suitability or appropriateness of investments held for you or other services provided to you under these Terms and Conditions and you do not benefit from the FCA Rules on assessing suitability or appropriateness.

The Royal Mail Nominee Share Service is administered by Equiniti Financial Services Limited, or any successor administrator that may be appointed. Equiniti Financial Services Limited is authorised and regulated by the FCA and is entered on the FCA register with registration number 468631.

Enquiries about the Royal Mail Nominee Share Service, or these Terms and Conditions, should be addressed to Equiniti Financial Services Limited by post to The Manager, Equiniti Corporate Nominees Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA United Kingdom.

#### TERMS AND CONDITIONS

##### 1. Definitions

In these Terms and Conditions, the following words have particular meanings:

- **you** or **your** means
  - you, the beneficial holder of shares in the Company, and
  - if there is more than one of you, all the joint holders jointly and individually, and/or
  - your personal representative(s).
- **we**, **our** or **us** means Equiniti FS. References to “we, our, us” also include any company to which we may transfer our rights and obligations in accordance with section 13.
- **Equiniti FS** means Equiniti Financial Services Limited, which is authorised and regulated by the Financial Conduct Authority of **25 The North Colonnade, Canary Wharf, London E14 5HS** (under reference 468631). The main business of Equiniti Financial Services Limited is investment and general insurance services, and its registered office is in the UK at **Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA**, registered in England and Wales no. 06208699. References to

Equiniti Financial Services Limited also include any company to whom it transfers its rights and obligations in accordance with section 13.

- **the Equiniti Group** means Equiniti FS, its subsidiaries and parent companies and any subsidiary of any of its parent companies.
- **NomineeCo** means Equiniti Corporate Nominees Limited or any other company (whether or not in the Equiniti Group) on which we may decide in the future.
- **nominee service** means the service provided by us to eligible shareholders of the Company under these Terms and Conditions.
- **the Company** means Royal Mail plc.
- **shares** means any class of fully paid up shares in the Company held from time to time by NomineeCo on behalf of you and/or other participants.
- **CREST** means the computerised system for the transfer of uncertificated securities operated by Euroclear UK and Ireland Limited (under the Uncertificated Securities Regulations 2001).
- **FCA and FCA Rules** mean, respectively, the Financial Conduct Authority and rules made by the FCA which apply to the services provided by us to you, as amended from time to time.
- **EEA** means countries in the European Economic Area.

## **2. The nominee service we will provide**

**2.1** Your shares will be registered and held in the name of NomineeCo, a company that will hold your shares as we direct and for whose acts and omissions we will be responsible.

**2.2** You will remain the 'beneficial owner' of the shares. In other words, although the shares will be registered in the name of NomineeCo, it will hold them on trust for you, so that they really belong to you. This means that they continue to belong to you even if NomineeCo becomes insolvent.

**2.3** Your shares will be held by NomineeCo in a pooled or omnibus account. We will keep a record of your shares but your individual holding may not be identifiable via separate share certificates or other paper or electronic proof of title. This means that in the event of a default (for example, if NomineeCo improperly fails to retain all of the assets entrusted to it), any shortfall in the investments registered in the name of NomineeCo may be shared, *pro rata*, by all the investors whose holdings are so registered.

**2.4** You will be classified for the purposes of the FCA Rules as a Retail Client. If however you would otherwise be classified under the FCA Rules as an Eligible Counterparty or a Professional Client, you may not necessarily have the rights of a Retail Client under the Financial Services Compensation Scheme. For more information on complaints/compensation, please see section 24 of these Terms and Conditions.

**2.5** The decision to join the nominee service is your responsibility. If you are a citizen or resident outside the UK you should consult a professional adviser if you are in any doubt about whether you are going to need any governmental or other consent or to observe any other formalities in order to hold shares via our nominee service.

## **3. Your dividends and other shareholder entitlements**

The terms here in section 3 will always apply except where a change in any laws or regulations, or agreements between us and the Company, prevent it.

**3.1** Provided we have received the necessary funds from the Company, we will, subject to any instruction from you to the contrary as set out in section 3.2, pay any amounts due to you in connection with your shares on the dividend payment date or other due date or as soon as reasonably practicable thereafter. Monies held in respect of such payments will be held in an account in the name of NomineeCo. You will not be paid interest on cash balances, and we will be entitled to keep any interest earned or any equivalent fee that the bank in question pays us. We will send you the money in Pounds Sterling (unless we make available a Company facility to receive the payment in a different currency) by electronic payment, or by other payment methods we may decide on from time to time, which could include a cheque if we do not have up-to-date bank details for you. If for any reason we receive money for you in a foreign currency, we may convert it into Pounds Sterling at the applicable exchange rate on the day we make the conversion. Unless you instruct us

otherwise, we will continue to observe any bank mandates or other instructions you have given us or Equiniti Limited concerning your shares.

**3.2** We may make available a service to enable you to:

- reinvest any sums receivable on your shares by way of a distribution of dividend by purchasing more shares in the Company; or
- receive new shares instead of a cash dividend if declared by the Board of the Company; or
- receive any sums receivable on your dividend by way of a distribution in any alternative payment method made available by the Company.

Provided your instruction as to how you wish to receive your dividend has been processed (subject to the Terms and Conditions of that service), and the necessary shares or funds have been received by us, we will reallocate them to you, subject to these Terms and Conditions.

**3.3** We will be holding this money as client money under the FCA Rules and therefore:

- we will deposit the cash in the UK with an authorised bank;
- the bank will hold the cash on our behalf in a trust account separate from any account used to hold money belonging to us or NomineeCo in our own right;
- we will not, however, be responsible for any acts or omissions of the bank; and
- if the bank becomes insolvent, we will have a claim on behalf of our clients against the bank. If, however, the bank cannot repay all of its creditors, any shortfall may have to be shared *pro rata* between them.

If we are holding cash, whether client money or not, we may withdraw the cash and apply it towards paying fees, charges and other sums due to us.

If there has been no movement on your balance for at least six years (notwithstanding any payments or receipts of charges, interest or similar items), then provided we have taken reasonable steps to trace you and to return the monies we may cease to treat that money as client money. We undertake to make good any valid claims against any released monies.

**3.4** If the law obliges us to deduct tax from any payment owing to you, we will only send you the net amount after the required deduction has been made. If you are in any doubt as to your taxation position you should consult your own professional adviser immediately.

**3.5** If you need us to send a replacement payment there may be a fee to pay.

Details of our standard fees when issuing replacement payments can be found at:

**[www.shareview.co.uk/clients/paymentreissue](http://www.shareview.co.uk/clients/paymentreissue)**

Any fee will be deducted from the replacement payment being sent to you.

**3.6** If there is a rights issue in the Company or similar corporate action, we will, if possible, make arrangements for you to take up your rights in the Company in return for the necessary payment and/or provide instructions to us as to whether those rights should be held or sold. We will write to you if the Company proposes to issue such rights and explain the procedure you should follow if you wish to participate, as well as any costs or fees you may be charged for doing so. If you would like us to take up those rights on your behalf, we must receive your cleared payment of that sum, whether in Pounds Sterling or another currency, in time for the due payment date or any other deadline we notify you about. Where it is not practicable for you to take up your rights, we will where practicable and possible make arrangements for the sale of such rights in the market (or off-market to the Company or a third party at our discretion) and the distribution of the proceeds of such a sale.

**3.7** If there is a capitalisation issue, or other distribution made up of additional shares in the Company, we will, if possible, make arrangements for you to accept. We will write to you if the Company proposes to make such a distribution and explain the procedure you should follow if you wish to participate.

**3.8** In the event of a demerger, capital reorganisation or restructuring of the Company, we will assess what to do and contact you at the time. We will not be obliged to take any action unless the Company gives us reasonable notice and pays any costs we may incur. These are two possible courses of action:



- if the resulting company offers a nominee service, we will normally send you their terms and conditions and, unless you tell us otherwise, include your shares in that alternative nominee service; or
- if no nominee service is offered, we will normally try to arrange for you to hold shares in the resulting company under the terms governing the demerger or restructuring.

**3.9** If there is a takeover or other offer for your shares, we will not accept it unless we have your specific instructions to do so, or if the shares are being acquired compulsorily. On your behalf we will accept any compulsory purchase notices concerning your shares. In these circumstances we will accept a cash offer if this is one of the available alternatives. We will not, however, be liable for any resulting tax or other financial liability.

**3.10** If, for any reason, any shares in the Company are allocated to NomineeCo, we will reallocate them to eligible members of our nominee service on a *pro rata* basis. If there are any remaining fractions, we will aggregate and sell them, then either keep the proceeds or give them to charity, unless the Corporate Action documentation provides otherwise.

**3.11** We will supply to you any other information required to be sent to you by us under applicable law or regulation.

**3.12** The Company may send you the summary financial statements they send to all their shareholders. If they fail to do so, we cannot be held responsible. But if you contact us, we will do our best to send you a copy of the full annual review and accounts – so long as we can get enough copies from the Company.

#### **4. Voting at Company general meetings**

**4.1** We will endeavour to arrange for you to attend and vote at general meetings of the Company, so far as this is reasonably practicable and possible.

**4.2** You may also authorise NomineeCo to vote for you at a Company general meeting in the way you wish. Any instructions you want to give us regarding your vote must reach us at least five (5) working days before the meeting in question – unless we notify you otherwise. We may, at our absolute discretion, agree to accept voting instructions electronically or by telephone. In the absence of specific instructions from you, the votes attached to your shares will not be used at all.

#### **5. Keeping you informed about your holding**

We will send you a statement of the number of shares we hold for you, and details of their current market value as soon as you join the nominee service, and a further statement at least once every 12 months thereafter.

If you need us to confirm your holding in writing at any other time, there may be a fee to pay. But you are welcome to check your holding at any time on our website at [www.shareview.co.uk](http://www.shareview.co.uk).

#### **6. Adding to your holding**

If you have bought or become entitled to more shares in the Company, you may transfer them to our nominee service – for us to hold under these same Terms and Conditions – at any time.

#### **7. Dealing in your shares**

**7.1** A share dealing service may be made available to you in respect of your shares. If you want to use it to sell your shares, we will act on the instructions of the share dealing service providers nominated on your behalf by the Company. For further details, please contact us. In this case, the share dealing will be governed by the terms and conditions between you and the share dealing service providers – you can send for a copy by getting in touch with them direct.

**7.2** If you want to use the services of a share dealing service provider other than that or those nominated by the Company, we will first need to transfer your shares back to you in the form of a paper certificate or to a third party of your choice.



There may be a fee for this transfer. So if you plan to use an alternative share dealing service provider, please let us know and we will send you the transfer form to complete, along with details of any fee and how to pay it.

**7.3** Share dealing charges will vary from time to time. Please contact the share dealing service providers individually for their up-to-date fees and charges.

## **8. Tax**

You will be responsible for paying any taxes or duties due in connection with your shares, including, but not limited to, any tax on the income received in respect of your shares or on any capital gains from disposing of your shares, and we will not be liable for them in any way. If you are in any doubt as to your taxation position you should consult your own professional adviser immediately. Your own tax treatment will depend on your individual circumstances.

## **9. Joint holders and trusts**

**9.1** NomineeCo may hold shares for up to four joint holders.

**9.2** Normally we will only accept instructions signed by all joint holders. We may, however, always at our sole discretion, agree to act on instructions signed by one or more joint holders – rather than by every one of you. We will not be liable for any loss a joint holder may suffer as a result.

**9.3** We and NomineeCo cannot and will not take formal notice of any trust affecting the shares, whether express, implied or constructive.

## **10. The security in your shares**

**10.1** Your shares will not be lent to, nor deposited as collateral with, a third party. No money will be borrowed by us against the security of your shares.

**10.2** You must not assign or transfer your interest in the shares to anyone else or borrow money against the security of your shares. Neither we nor NomineeCo will be bound to take notice of, nor arrange to carry out, any trust, mortgage, charge, pledge or claim in favour of anyone else. We may decline any notice we receive concerning the right, title, interest or claim of anyone else to an interest in your shares, except when that interest has arisen through bankruptcy, court order or death.

## **11. Communications between you and us**

**11.1** Any communication or agreement between you and us under these Terms and Conditions must be in the English language. We will always communicate with you in English.

**11.2** Please address all letters, instructions, notices and other documents for us to:

**The Manager, Equiniti Corporate Nominees Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA, United Kingdom**

You must send us any instructions or notices in writing – and we need an original paper document please, not a fax or email. In a few special circumstances and at our sole and absolute discretion we may be able to waive the requirement for your instructions to be in writing.

**11.3** We will send all payments, notices and other documents by post to the sole or first-named joint holder at the address on our register, or the holder and address given to us most recently for correspondence purposes.

If the sole or first-named holder has given us an email address:

- we will have a discretion to send any notices or other documents to you via that email address; and
- by sending to that email address a link to our website, we will have a discretion to use that website to provide you (together with other users of our nominee service), general information or documents relevant to these Terms and Conditions in the future. For example, we may use the website to advise you of updates or amendments to these Terms and Conditions, or new fees and charges, rather than having to send this type of information to you (and all other users of our nominee service) individually by post or email.

If you provide us with an email address but subsequently decide that you do not want us to communicate with you by email or using a website, please send us a letter in the post stating this and we will resume using the last postal address we have for you.

We may choose not to send out a document if you are not resident in the UK or the address you have given us for posting documents is not in the UK, for example if we have reason to believe its distribution in your country may be forbidden by law.

**11.4** Everything we send you is at your own risk, including any cheque or electronic payments. If we are unable for any reason to send you a payment electronically, we will send it by cheque instead.

**11.5** We cannot take any part in, nor take any responsibility for, arrangements between joint holders over sharing information or accounting among themselves.

**11.6** If there should be any dispute or court proceedings concerning your shares or your beneficial interest in them, you must let us know straightaway. If we become aware of a dispute between you and a third party, or between any joint holders, over ownership of the shares, we may decide that we must see an agreement signed by the disputing parties or a court order before we can act on any more instructions. If an agreement or court order of this kind is ever made affecting your shares, you agree to supply us with a copy as soon as possible afterwards.

**11.7** If communications from us to you are returned to us marked 'Gone Away', or if, for any other reason, it is our reasonable belief that you no longer live at the address that you have registered with us, we will stop sending communications to you and will attempt to re-establish contact.

In order to do this, we will write to your last known address seeking information about your current whereabouts. If you have a dividend mandate instruction in place, we will also write to your bank asking them to forward our contact details on to you.

If we are still unable to re-establish contact with you, we may instruct a professional tracing agent to locate and make contact with you. If the tracing agent is successful, and you contract with them to use their services, they may charge you.

## **12. Protecting your personal data**

**12.1** You agree that we may keep the personal details that you or others give us during your relationship with us on an Equiniti Group database. These details may include, but are not limited to:

- information that you or your agents give us on application forms, in letters, via electronic messages or over the phone;
- what we know from providing you with this nominee service and analysing the transactions you carry out through us;
- information that comes to us from credit reference and fraud detection agencies or services, and registration or stockbroking industry exchanges; and/or
- information we receive from our client companies or their agents.

We may store, use and process your personal information in order to:

- assess your application to participate in this service;
- provide you with services;
- keep our records about you up to date;
- check your identity;
- prevent and detect fraud and/or money laundering;
- recover debts; and/or
- carry out research and statistical analysis about our services and how we might improve them. Sometimes we may use an outside market research agency to do this for us, in which case we undertake to ensure that they appropriately protect any personal customer data we share with them.

Unless you tell us not to, we may share your information within the Equiniti Group and we or other Equiniti Group companies may write to you about:

- Equiniti Group products and services we believe may interest you; and/or
- selected products and services from third party businesses we know and trust.

If you prefer not to receive this kind of information, simply let us know by completing the instructions on our website at:

**[www.shareview.co.uk/clients/optout](http://www.shareview.co.uk/clients/optout)**

or calling:

**UK Helpline: 0871 384 2252\***

**International Helpline: +44 121 415 7185**

\*Calls cost 8p per minute plus network extras. Lines are open from 8.30 a.m. to 5.30 p.m. UK time, Monday to Friday, excluding UK public holidays.

**12.2** Under the Data Protection Act 1998 you are entitled to a copy of the information we hold about you on request, on payment of a fee. If you think any information we hold about you is inaccurate, do not hesitate to let us know so that we can correct it.

**12.3** The information we hold about you is confidential. We will only ever disclose it outside the Equiniti Group:

- at your request or with your consent;
- in line with section 12.1 above;
- if the law requires or permits disclosure, or there is a duty to the public to reveal it;
- if we are asked to do so by the FCA, the London Stock Exchange or any other relevant regulatory authority or exchange in the UK or overseas;
- to investigate or prevent fraud or other crimes;
- to the Company so that they can update their own records about you;
- to our agents and others in connection with running accounts and other services for you; and/or
- to any individual or company to whom we propose to transfer our obligations and rights in line with section 13 of these terms and conditions.

We may administer your account and provide you with some services via agencies in countries outside the EEA, such as India or the USA, where data protection laws and standards differ from those in the UK.

But, even if we are processing your personal details outside the EEA:

- there will always be a contract in place to ensure that such information is appropriately protected; and
- we will continue to be strictly bound by the UK's Data Protection Act 1998.

**12.4** In order to comply with UK money laundering regulations, we may need to confirm your identity. To help us do this, we may:

- make a search with a credit reference agency, which will keep a record of that search and will share that information with other businesses; and/or
- ask you to supply us with proof of identity.

This could lead to a delay in carrying out an instruction you have given us or to our not being able to carry out an instruction at all. In any of these circumstances, we will not be responsible for any resulting loss.

**12.5** We monitor and record some phone calls in case we need to check we have carried out your instructions correctly, to help maintain our quality standards and for security purposes.

### **13. Transferring our obligations**

In accepting these Terms and Conditions you agree that we may transfer our obligations under this agreement to any other company, if that other company writes to you and undertakes to carry out all our duties and obligations under this agreement. If it does so, you agree that we will be released from all those duties and obligations that such company has undertaken to carry out. We shall satisfy ourselves that any such company is competent to carry out those functions and duties transferred and is regulated to do so by the FCA, if such regulation is required. As part of transferring our rights and obligations to a third party, we may transfer all of the cash, investments and information we hold under these Terms and Conditions to that third party or its nominee. If you receive a written notice under this section 13, and you decide you wish to end this agreement, you may do so by sending us instructions as explained in section 14. No charge will be payable by you for this if your instructions reach us within one month of the date of the written notice.

### **14. If you want to cancel or leave the service**

**14.1** You may cancel this agreement at any time by letting us know in writing. This is in addition to your legal right to cancel this agreement within 14 days of the agreement between us being made. Your cancellation letter will take effect as soon as we receive it, although this will not prevent the completion of any transactions that are already under way. The normal charges will be made for these transactions.

**14.2** When this agreement has come to an end, we will, unless you instruct us otherwise, transfer any shares being held in our nominee service into your own name, and then send you a share certificate. All transactions are subject to the usual fees.

### **15. Notification of death**

The rights to your shares pass to your legal representatives on your death.

To register the death of a shareholder we will need to see the original UK Grant of Representation, or a sealed office copy (we are not able to accept certified copies). This could be one of the following: Grant of Probate; Letters of Administration; or Certificate of Confirmation (Scotland).

If the relevant shares are held on behalf of more than one person, and after the event the shares are held on behalf of the other person(s) then the nominee service will continue to apply.

### **16. Terminating our service**

This agreement may be brought to an end at any time by us giving you three (3) months' notice or automatically if the agreement between us and the Company under which we provide this nominee service comes to an end.

In either case, the completion of transactions already under way will not be affected.

### **17. Charges for your nominee service**

We charge nothing for holding your shares in our nominee service and taking care of much of the administration. We may charge fees for transferring your shares to and from NomineeCo, and some other services provided under this agreement.

Details of these fees are set out at the end of this Part.

We may review these charges from time to time.

We will let you know in writing before we change any of them (see also section 18 below). If at any time you would like an update on our fees, they are available from us on request.

In addition to the charges outlined above, we receive fees from the Company sponsoring the service. The Company sponsors this service so that you can benefit from holding your shares in an electronic account at low cost. The fees are negotiated regularly with the Company, with the actual charge made to the Company reflecting the size, complexity and value of the service and the overall relationship with the Company. We also receive fees from brokers with whom the Company has set up arrangements for you to sell your shares or buy additional shares. These fees are charged by us for trade settlement and register access administration. The broker should give you details of these fees at the time of your trade. More information about these fees is available on request.

## **18. Changing this agreement**

We may change these Terms and Conditions from time to time in order to:

- comply with changes in law or regulation;
- correct inaccuracies, errors or ambiguities;
- take account of any corporate reorganisation inside our group of companies or a transfer of our rights, benefits and/or obligations under these Terms and Conditions to a third party; and/or
- reflect changes in the scope and nature of the service we are able to provide, having regard to:
  - our agreement with the Company;
  - the CREST rules and regulations, and our CREST membership;
  - our computer or database systems;
  - our administrative procedures and routines; and/or
  - market practice and overall customer requirements.

If we intend to change the Terms and Conditions and the alteration is material, we will give you at least thirty (30) days' advance written notice of the alteration, unless such changes are required by law or regulation to be effected earlier, or it is otherwise impracticable to do so.

See also section 11.3 above as to when we may use email or a website to provide you with such notice.

Remember also, if you do not like an alteration that we propose to make to these Terms and Conditions, that you have a right to leave the nominee service at any time by following the procedure in section 14 above.

## **19. The extent of our liability**

**19.1** We will not be responsible for any losses or expenses you incur under this agreement, unless caused by our breaching FCA Rules, or our fraud, wilful default or negligence.

Even in the event of our wilful default or negligence, we will not be liable for any loss attributable to a failure by you to let us know about address or name changes, other changes in personal details, or bankruptcy, or any problem or defect in your ownership or title to the shares (unless caused by us).

**19.2** Neither we nor NomineeCo act as agent for the Company or accept any responsibility for anything the Company does or does not do.

**19.3** Neither we nor NomineeCo will be responsible for:

- acting in accordance with a court order (of whatever jurisdiction) or failing to act in accordance with a court order about which we have not been notified;
- forged or fraudulent instructions. So long as we have shown all due care, we will be entitled to assume:
  - that signatures that purport to be yours are genuine; and
  - if we have agreed to accept a particular instruction over the phone or by email, that the caller's or emailer's identity is genuine – unless it ought to be obvious to anyone that it is not;
- any kind of loss or damage you suffer in the event of "force majeure" – meaning any failure, interruption or delay in the performance of our obligations because of:
  - industrial disputes;
  - the malfunction or failure of any telecommunications or computer service, or CREST;
  - the failure of third parties to carry out their obligations;
  - the activities of government or international authorities, including changes in law or regulations; and/or
  - any other event or circumstance not within our reasonable control provided, where relevant, that we have complied with the FCA Rules on business continuity. If this type of situation arises, however, we will remedy the situation as soon as reasonably possible; or
- any indirect, special or consequential loss (including direct or indirect loss of profit), other than where this results from fraud or a breach of the Conduct of Business Sourcebook or Client Assets Sourcebook in the FCA Rules on our part.

**19.4** We and NomineeCo reserve the right to delay acting on any particular instruction you give us, in order that we can get additional information from you, and/or comply with any law or regulations, and/or investigate the validity or any other aspect of the instruction. Neither we nor NomineeCo will be responsible for any financial loss resulting from such a delay.

**19.5** Neither we nor NomineeCo will be responsible in any way to anyone for any shortfall that might arise because we are accountable for tax on any of the shares, or any part of the shares, or on any income or capital distribution or other payment they produce, or from any sale proceeds. In order to comply with any tax liabilities of this kind that might arise, we will be entitled to recover the money by making deductions from the income arising from your shares, or by selling any or all of the shares and making deductions from the proceeds.

**19.6** We and NomineeCo will be entitled to make any agreement with, or give any undertakings to, any tax authority as regards the taxation status of the transactions made under this agreement, and do everything necessary to abide by any such agreement or undertakings.

**19.7** We and NomineeCo may do, or stop doing, anything that, in our reasonable opinion, is necessary in order to comply with any laws, rules, regulations or the requirements of any regulatory or other body that are binding on us.

**19.8** We reserve the right to correct your shareholding, at our expense, without reference to you, if we discover we have made an error, and will notify you (where relevant) of any correction made. In the event that we make an error on your shareholding and realise a financial gain in putting your shareholding back in the correct position, we will be entitled to retain this.

## **20. Indemnifying us**

**20.1** You agree to indemnify us and NomineeCo and our respective agents, officers and employees for any liabilities we incur arising from anything done by us in the proper performance of our duties in accordance with this agreement in relation to your shares, except for liabilities that are the result of our or NomineeCo's wilful default, negligence or fraud or a breach of the FCA Rules.

**20.2** Your obligations under this indemnity will survive even in the event of:

- complete or partial termination of this agreement, or
- our or NomineeCo's resignation or replacement.

**20.3** If you are liable under the terms of this agreement to pay us a sum of money and the law requires tax to be deducted or withheld from that sum, you must pay us enough to cover both your liability and the tax sum involved in full. We and you agree to make any payments and adjustments necessary to achieve this.

## **21. Conflicts of interest**

**21.1** The Equiniti Group has established and implemented a Conflicts Policy (which may be revised and updated from time to time) in line with the FCA Rules, which sets out how we must seek to identify and manage all material conflicts of interest. Such conflicts of interest can occur in our day-to-day business activities: for example, where one of our clients could make a gain at the direct expense of another client, or we might be faced with an opportunity to make a gain but this would be to the direct disadvantage of one or more of our clients.

**21.2** Depending on the exact nature of the conflict of interest involved, we may take certain actions in accordance with the Conflicts Policy to mitigate the potential impact of the conflict. Such actions may include putting in place controls between the opposing sides of the conflict, which may control or prevent the exchange of information, and/or involve the appropriate management of staff activities and segregation of duties. Where such controls would be insufficient to eliminate the potential material risk of damage to clients from specific conflicts, then we will disclose the general nature and/or source of those conflicts of interest to you prior to us undertaking the relevant business.

**21.3** You will find full details of our Conflicts Policy on our website at [www.shareview.co.uk](http://www.shareview.co.uk), or you are welcome to contact us and ask us for a printed copy.

**21.4** At the time of the issue of the Prospectus no material conflicts of interest were identified which could not be managed in accordance with section 21.1 above.



## **22. Governing law**

These Terms and Conditions are governed by English law. Any disputes relating to the agreement between us will be subject to the jurisdiction of the courts of England and Wales.

## **23. No third party rights**

This agreement is only between you and us. It will not give any benefits to, nor be enforceable by, a third party.

## **24. Complaints and compensation**

If you have a complaint of any kind, please be sure to let us know. We will do our utmost to resolve the issue. You can put your complaint in writing to us at:

**Complaint Resolution Team, Equiniti Financial Services Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA, United Kingdom**

or email us at:

**[concerns@equiniti.com](mailto:concerns@equiniti.com)**

or call us on:

**UK Helpline: 0871 384 2656\***

**International Helpline: +44 121 415 7086**

\*Calls cost 8p per minute plus network extras. Lines are open from 8.30 a.m. to 5.30 p.m. UK time, Monday to Friday, excluding UK public holidays.

If we cannot resolve the issue between us, you may – so long as you are eligible – ask the independent Financial Ombudsman Service to review your complaint.

A leaflet with more details about our complaints procedure is available – you are welcome to ask us to supply you with a copy at any time.

We are a member of the Financial Services Compensation Scheme, set up under the Financial Services and Markets Act 2000.

If we cannot meet our obligations, you may be entitled to compensation from the Scheme. This will depend on the type of agreement you have with us and the circumstances of the claim. For example, the Scheme covers corporate sponsored nominees, individual savings accounts and share dealing.

Most types of claims for FCA regulated business are covered for 100 per cent. of the first £50,000.

The maximum compensation is £50,000.

For more details about the Financial Services Compensation Scheme, you can call their helpline:

**0800 678 1100 or +44 207 741 4100**

or go to their website at **[www.fscs.org.uk](http://www.fscs.org.uk)**

or write to them at:

**Financial Services Compensation Scheme**

**10th Floor, Beaufort House, 15 St Botolph Street, London EC3A 7QU United Kingdom.**

### **ALTERNATIVE FORMATS**

If you would like these Terms and Conditions in an alternative format, for example, large print, Braille or an audio tape, please contact us on:

**UK Helpline: 0871 384 2656\***

**International Helpline: +44 121 415 7086**

A text phone service is also available on:

**UK: 0871 384 2255\***

\*Calls cost 8p per minute plus network extras. Lines are open from 8.30 a.m. to 5.30 p.m. UK time, Monday to Friday, excluding UK public holidays.

#### LIST OF CHARGES

- Transfer into Nominee FREE
- Transfer out of Nominee £10
- Duplicate statement £10 + VAT
- Confirmation of holding (in addition to free opening and annual statements)
  - (a) on the internet FREE
  - (b) by telephone FREE
  - (c) in writing £10 + VAT

## PART VI

### TAXATION

#### 1. UK TAXATION

The following statements do not constitute tax advice and are intended only as a general guide to current UK law as applied in England and Wales and HMRC published practice, which may not be binding on HMRC, as at the date of this document (which are both subject to change at any time, possibly with retrospective effect). They relate only to certain limited aspects of the UK taxation treatment of Shareholders in connection with the Offer (including the Employee Priority Offer) and are intended to apply only, except to the extent stated below, to persons who are resident and, if individuals, domiciled in the UK for UK tax purposes, who are absolute beneficial owners of the Ordinary Shares (otherwise than through an Individual Savings Account or a Self Invested Personal Pension) and who hold the Ordinary Shares as investments (and not as securities to be realised in the course of a trade).

They may not apply to certain Shareholders, such as dealers in securities, insurance companies and collective investment schemes, Shareholders who are exempt from taxation and Shareholders who have (or are deemed to have) acquired their Ordinary Shares by virtue of an office or employment. Such persons may be subject to special rules. The Employee Free Shares Offer is not part of the Offer, and Eligible Employees who are awarded Employee Free Shares fall into this category.

**Any person who is in any doubt as to their tax position, or who is subject to taxation in any jurisdiction other than the UK, should consult their own professional adviser without delay.**

##### 1.1 Taxation of dividends

###### (A) General

There is no UK withholding tax on dividends, including cases where dividends are paid to a Shareholder who is not resident (for tax purposes) in the UK.

###### (B) Individual Shareholders

When the Company pays a dividend to a Shareholder who is an individual resident (for tax purposes) in the UK, the Shareholder will be entitled to a tax credit equal to one-ninth of the dividend received. The dividend received plus the related tax credit (the “**gross dividend**”) will be part of the Shareholder’s total income for UK income tax purposes and will be regarded as the top slice of that income. However, in calculating the Shareholder’s liability to income tax in respect of the gross dividend, the tax credit (which equates to 10 per cent. of the gross dividend) is set off against the tax chargeable on the gross dividend.

###### *Basic Rate Taxpayers*

In the case of a Shareholder who is liable to income tax at the basic rate, the Shareholder will be subject to tax on the gross dividend at the rate of 10 per cent. The tax credit will, in consequence, satisfy in full the Shareholder’s liability to income tax on the gross dividend.

###### *Higher Rate Taxpayers*

In the case of a Shareholder who is liable to income tax at the higher rate, the Shareholder will be subject to tax on the gross dividend at the higher rate of 32.5 per cent., to the extent that the gross dividend falls above the threshold for the higher rate of income tax but below the threshold for the additional rate of income tax when it is treated (as mentioned above) as the top slice of the Shareholder’s income. This means that the tax credit will satisfy only part of the Shareholder’s liability to income tax on the gross dividend, so that the Shareholder will have to account for income tax equal to 22.5 per cent. of the gross dividend (which equates to 25 per cent. of the dividend actually received). For example, a dividend of £90 from the Company would represent a gross dividend of £100 (after the addition of the tax credit of one-ninth of £90, i.e. £10) and the Shareholder would be required to account for income tax of £22.50 on the dividend, being £32.50 (i.e. 32.5 per cent. of £100) less £10 (the amount of the tax credit).

### *Additional Rate Taxpayers*

In the case of a Shareholder who is liable to income tax at the additional rate, the Shareholder will be subject to tax on the gross dividend at the dividend additional rate of 37.5 per cent., to the extent that the gross dividend falls above the threshold for the additional rate of income tax when it is treated (as mentioned above) as the top slice of the Shareholder's income. This means that the tax credit will satisfy only part of the Shareholder's liability to income tax on the gross dividend, so that the Shareholder will have to account for income tax equal to 27.5 per cent. of the gross dividend (which equates to approximately 30.6 per cent. of the dividend actually received). For example, a dividend of £90 from the Company would represent a gross dividend of £100 (after the addition of the tax credit of one-ninth of £90, i.e. £10) and the Shareholder would be required to account for income tax of £27.50 on the dividend, being £37.50 (i.e. 37.5 per cent. of £100) less £10 (the amount of the tax credit).

### **(C) Corporate Shareholders**

Shareholders within the charge to UK corporation tax which are "small companies" (for the purposes of UK taxation of dividends) will not generally expect to be subject to tax on dividends from the Company.

Other Shareholders within the charge to UK corporation tax will not be subject to tax on dividends from the Company so long as the dividends fall within an exempt class and certain conditions are met. In general, (i) dividends paid on shares that are not redeemable and do not carry any present or future preferential rights to dividends or to a company's assets on its winding-up and (ii) dividends paid to a person holding less than, among other things, 10 per cent. of the issued share capital of the payer (or any class of that share capital) are examples of dividends that fall within an exempt class.

### **(D) Tax Credit**

Other than as set out below, a Shareholder (whether an individual or a company) who is not liable to tax on dividends from the Company will not be entitled to claim payment of the tax credit in respect of those dividends.

The right of a Shareholder who is not resident (for tax purposes) in the UK to a tax credit in respect of a dividend received from the Company and to claim payment of any part of that tax credit will depend on the existence and terms of any double taxation convention between the UK and the country in which the holder is resident, although generally no such payment will be available.

## **1.2 Taxation of chargeable gains**

### **(A) Individual Shareholders**

A disposal of Ordinary Shares may give rise to a chargeable gain (or allowable loss) for the purposes of UK capital gains tax, depending on the circumstances and subject to any available exemption or relief.

### **(B) Corporate Shareholders**

Where a Shareholder is within the charge to corporation tax, including cases where it is not resident (for tax purposes) in the UK, a disposal of Ordinary Shares may give rise to a chargeable gain (or allowable loss) for the purposes of UK corporation tax, depending on the circumstances and subject to any available exemption or relief. Indexation allowance may reduce the amount of chargeable gain that is subject to corporation tax, but may not create or increase any allowable loss.

### **(C) Non-resident Holders**

A Shareholder that is not resident in the UK (and is not temporarily non-resident) for UK tax purposes and whose Ordinary Shares are not held in connection with carrying on a trade, profession or vocation in the UK generally will not be subject to UK tax on chargeable gains on the disposal of Ordinary Shares.

## **1.3 Stamp Duty and Stamp Duty Reserve Tax ("SDRT")**

**The comments in this section relating to stamp duty and SDRT apply whether or not a Shareholder is resident or domiciled in the UK.**

### **(A) Sale of Ordinary Shares pursuant to the Offer**

The Selling Shareholder has agreed to pay any stamp duty chargeable on a transfer on sale of Ordinary Shares or SDRT chargeable on an agreement to transfer Ordinary Shares arising in the UK (currently at a

rate of 0.5 per cent.) on the initial sale of Ordinary Shares to Investors pursuant to the Offer and Over-allotment Arrangements. The Selling Shareholder will not assume any liability in relation to any element of any stamp duty or SDRT arising in the UK on a transfer of Ordinary Shares to a clearance service or to a depositary receipt issuer or any agent or nominee thereof (currently imposed at a rate of 1.5 per cent.).

#### **(B) Subsequent dealings in Ordinary Shares**

Dealings in Ordinary Shares will generally be subject to stamp duty or SDRT in the normal way.

An instrument effecting the transfer on sale of Ordinary Shares will generally be liable to stamp duty at the rate of 0.5 per cent. (rounded up, if necessary, to the nearest multiple of £5) of the amount or value of the consideration payable. However, where the amount or value of the consideration is £1,000 or less, and provided that the transfer does not form part of a larger transaction or series of transactions where the combined consideration exceeds £1,000, such instrument should be exempt from charge upon certification of such facts.

An unconditional agreement to transfer Ordinary Shares will generally be liable to SDRT at the rate of 0.5 per cent. of the amount or value of the consideration payable, but such liability will be cancelled, or a right to a repayment (generally, with interest) in respect of the payment of such SDRT liability will arise, if the agreement is completed by a duly stamped or exempt transfer within six years of the agreement having become unconditional. Stamp duty and SDRT are normally the liability of the purchaser.

Subject to certain exemptions, a charge to stamp duty or SDRT will arise on the transfer of Ordinary Shares to a person providing a clearance service, its nominee or agent, or to an issuer of depositary receipts, its nominee or agent, where that transfer is not an integral part of an issue of share capital. The rate of stamp duty or SDRT, as the case may be, in such circumstances will generally be 1.5 per cent. of the amount or value of the consideration for the transfer or, in some circumstances, the value of the Ordinary Shares concerned, in the case of stamp duty rounded up, if necessary, to the nearest multiple of £5.

No stamp duty or SDRT will arise on a transfer of Ordinary Shares into the CREST system provided that the transfer is not for money or money's worth. Paperless transfers of Ordinary Shares within CREST are liable to SDRT (at a rate of 0.5 per cent. of the amount or value of the consideration payable) rather than stamp duty, and SDRT arising on the agreement to transfer Ordinary Shares under relevant transactions settled within the system or reported through it for regulatory purposes will generally be collected by CREST.

It should be noted that certain categories of person, including specified market intermediaries, are entitled to an exemption from stamp duty and SDRT in respect of purchases of securities in specified circumstances.

## **2. US FEDERAL INCOME TAX CONSIDERATIONS**

**This disclosure is limited to the US federal tax issues addressed herein. Additional issues may exist that are not addressed in this disclosure and that could affect the US federal tax treatment of the Ordinary Shares. This tax disclosure was written in connection with the promotion or marketing (within the meaning of Treasury Department Circular 230) of the Ordinary Shares by the Company, and it cannot be used by any person for the purpose of avoiding penalties under the US Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"). Prospective investors should seek their own advice based on their particular circumstances from independent tax advisers.**

The following is a description of certain US federal income tax consequences to a US Holder described below of owning and disposing of Ordinary Shares, but it does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a particular person's decision to acquire Ordinary Shares. The discussion applies only to a US Holder that holds Ordinary Shares as capital assets for US federal income tax purposes. In addition, it does not describe all of the tax consequences that may be relevant in light of a US Holder's particular circumstances, including alternative minimum tax, the provisions of the Internal Revenue Code known as the Medicare contribution tax on net investment income or tax consequences applicable to US Holders subject to special rules, such as:

- certain financial institutions;
- dealers or traders in securities;
- persons holding Ordinary Shares as part of a straddle, wash sale, conversion transaction or integrated transaction, or persons entering into a constructive sale with respect to the Ordinary Shares;
- persons whose functional currency for US federal income tax purposes is not the US Dollar;

- entities classified as partnerships for US federal income tax purposes;
- tax-exempt entities, including “individual retirement accounts” and “Roth IRAs”;
- persons that own or are deemed to own 10 per cent. or more of the Company’s voting stock; or
- persons holding Ordinary Shares in connection with a trade or business conducted outside the United States.

If an entity that is classified as a partnership for US federal income tax purposes owns Ordinary Shares, the US federal income tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. Partnerships owning Ordinary Shares and partners therein should consult their tax advisers as to the particular US federal income tax consequences of owning and disposing of the Ordinary Shares.

This discussion is based on the Internal Revenue Code, administrative pronouncements, judicial decisions and final, temporary and proposed Treasury regulations, all as of the date hereof, any of which is subject to change, possibly with retroactive effect.

US Holders should consult their tax advisers concerning the US federal, state, local and foreign tax consequences of purchasing, owning and disposing of Ordinary Shares in their particular circumstances.

A “**US Holder**” is a beneficial owner of Ordinary Shares that is, for US federal income tax purposes:

- a citizen or individual resident of the United States;
- a corporation, or other entity taxable as a corporation, created or organised in or under the laws of the United States, any state therein or the District of Columbia; or
- an estate or trust, the income of which is subject to US federal income taxation regardless of its source.

This discussion assumes that the Company is not, and will not become, a “passive foreign investment company” for US federal income tax purposes (a “**PFIC**”), as described in section 2.3 of this Part.

## 2.1 Taxation of distributions

Distributions paid on the Ordinary Shares, other than certain *pro rata* distributions of Ordinary Shares, will generally be treated as dividends to the extent paid out of the Company’s current or accumulated earnings and profits, as determined under US federal income tax principles. Because the Company does not maintain calculations of earnings and profits under US federal income tax principles, it is expected that distributions generally will be reported to US Holders as dividends.

Dividends will be included in a US Holder’s income on the date of receipt and generally will be treated as foreign-source income for purposes of the foreign tax credit rules. Dividends will not be eligible for the dividends-received deduction generally allowed to US corporations under the Internal Revenue Code. If a dividend is paid in Pounds Sterling, the amount that a US Holder will be required to include in income will equal the US Dollar value of the Pounds Sterling, calculated by reference to the exchange rate in effect on the date of receipt, regardless of whether the payment is in fact converted into US Dollars. If the dividend is converted into US Dollars on the date of receipt, a US Holder generally should not be required to recognise foreign currency gain or loss in respect of the dividend income. A US Holder may have foreign currency gain or loss (which will be US-source gain or loss for foreign tax credit purposes) if the dividend is converted into US Dollars after the date of its receipt.

Subject to applicable limitations, dividends paid to certain non-corporate US Holders may be taxable at favourable rates. US Holders should consult their tax advisers regarding the availability of the reduced tax rate on dividends in their particular circumstances.

## 2.2 Sale or other taxable disposition of Ordinary Shares

For US federal income tax purposes, gain or loss realised on the sale or other taxable disposition of Ordinary Shares will be capital gain or loss, and will be long-term capital gain or loss if the US Holder held the Ordinary Shares for more than one year. The amount of the gain or loss will equal the difference between the US Holder’s tax basis in the Ordinary Shares disposed of and the amount realised on the disposition, in each case as determined in US Dollars. Any gain or loss will generally be US-source for purposes of the foreign tax credit rules. The deductibility of capital losses is subject to limitations.



## 2.3 Passive Foreign Investment Company Rules

The Company does not expect to be a PFIC for its current taxable year or in the foreseeable future. However, because a company's PFIC status depends on the composition of the company's income and assets and the market value of its assets from time to time, there can be no assurance that the Company will not be a PFIC for any taxable year.

In general, if the Company were a PFIC for any taxable year during which a US Holder held Ordinary Shares, gain recognised by the US Holder on a sale or other disposition (including certain pledges) of the Ordinary Shares, and income from certain "excess distributions" would be allocated ratably over the US Holder's holding period for the Ordinary Shares. The amounts allocated to the taxable year of the sale or other disposition or the excess distribution and to any year before the Company became a PFIC would be taxed as ordinary income. The amount allocated to each other taxable year would be subject to tax at the highest tax rate in effect for individuals or corporations, as applicable, for that taxable year, and an interest charge would be imposed on the resulting tax liability for each such year. Certain elections may be available that would result in alternative treatments (such as mark-to-market treatment). If the Company were a PFIC for the taxable year in which it paid a dividend or the prior taxable year, the favourable rates discussed above with respect to dividends paid to certain non-corporate US Holders would not apply. Prospective purchasers should consult their tax advisers regarding the potential application of the PFIC rules.

## 2.4 Information reporting and backup withholding

Payments of dividends on and proceeds from the sale of Ordinary Shares that are made within the United States or through certain US-related financial intermediaries generally are subject to information reporting and may be subject to backup withholding unless (i) the US Holder is a corporation or other "exempt recipient" or (ii) in the case of backup withholding, the US Holder provides a correct taxpayer identification number and certifies that it is not subject to backup withholding. The amount of any backup withholding from a payment to a US Holder will be allowed as a credit against the holder's US federal income tax liability and may entitle the US Holder to a refund, provided that the required information is timely furnished to the Internal Revenue Service. US Holders should consult their tax advisers as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption.

US Holders who are individuals (and under proposed regulations, certain entities controlled by individuals) may be required to report information relating to the holding of certain foreign financial assets, including securities issued by non-US entities, if the aggregate value of all of these assets generally exceeds \$50,000 at the end of the taxable year or \$75,000 at any time during the taxable year, unless such assets are held in an account at a financial institution (in which case the account may be reportable if maintained by a foreign financial institution). US Holders should consult their tax advisers regarding the application of this legislation.

## 3. EEA PASSPORTED JURISDICTIONS

The following statements do not constitute tax advice and are intended only as a general guide to current law as applied in the EEA Passport Jurisdictions (which is subject to change at any time, possibly with retrospective effect). **Any person who is in any doubt as to their tax position, or who is subject to taxation in any jurisdiction other than the EEA Passport Jurisdictions, should consult their own professional adviser without delay.**

No withholding tax should arise or be payable in the EEA Passport Jurisdictions on dividends paid on Ordinary Shares where those Ordinary Shares are held by Shareholders through an account in the CREST system in the United Kingdom or in certificated form and where dividend payments are made into an account in the United Kingdom. Shareholders holding their Ordinary Shares (in the case of dematerialised Ordinary Shares) or receiving dividend payments in any account outside the United Kingdom, or through a nominee or custodian outside the United Kingdom, should seek their own independent tax advice.

## PART VII

### INFORMATION ABOUT THE ORDINARY SHARES

#### 1. BASIC INFORMATION ABOUT THE ORDINARY SHARES

##### 1.1 Description of the type and class of securities being offered

The Ordinary Shares being offered pursuant to the Offer are denominated in Pounds Sterling (having a nominal value of 1p each) and were created under the Companies Act. On Admission, the International Security Identification Number (ISIN) of the Ordinary Shares will be GB00BDVZY77 and the SEDOL number will be BDVZY77. It is expected that the Ordinary Shares will be traded on the London Stock Exchange under the ticker symbol "RMG".

On Admission, the Company's share capital will consist exclusively of the Ordinary Shares. Each of the Ordinary Shares offered pursuant to the Offer will be credited as fully paid and free from all liens, equities, charges, encumbrances and other interests. The Ordinary Shares rank *pari passu* in all respects with each other, including in full for all dividends and distributions on Ordinary Shares declared, made or paid after their issue.

##### 1.2 Listing

Application will be made to the UK Listing Authority for all of the Ordinary Shares to be admitted to the premium listing segment of the Official List and to the London Stock Exchange for such Ordinary Shares to be admitted to trading on the London Stock Exchange's main market for listed securities. No application has been made for admission of the Ordinary Shares to trading on any other stock exchange (nor is it the current intention of the Company to make any such application in future).

It is expected that conditional dealings in the Ordinary Shares (on a "when issued" basis) will commence on the London Stock Exchange at 8.00 a.m. (UK time) on 11 October 2013. It is expected that Admission will become effective and that unconditional dealings in the Ordinary Shares will commence on the London Stock Exchange by no later than 8.00 a.m. (UK time) on 15 October 2013. Dealings on the London Stock Exchange before Admission will only be settled if Admission takes place. All dealings before the commencement of unconditional dealings will be of no effect if Admission does not take place and such dealings will be at the sole risk of the parties concerned.

##### 1.3 Form of the Ordinary Shares

The Ordinary Shares will be in registered form and will be capable of being held in certificated and, subject to the provisions of the CREST Regulations, uncertificated form. The Registrar of the Company is Equiniti Limited of Aspect House, Spencer Road, Lancing, West Sussex BN9 6DA, United Kingdom.

Title to the certificated Ordinary Shares (if any) will be evidenced by entry in the register of members of the Company and title to uncertificated Ordinary Shares will be evidenced by entry in the operator register maintained by Euroclear UK (which will form part of the register of members of the Company).

No share certificates will be issued in respect of the Ordinary Shares in uncertificated form. If any such Ordinary Shares are converted to be held in certificated form, share certificates will be issued in respect of those Ordinary Shares in accordance with applicable legislation. No temporary documents of title have been or will be issued in respect of the Ordinary Shares.

It is currently anticipated that the Ordinary Shares will be eligible to join CREST, the computerised paperless system for settlement of sales and purchases of shares in the London securities market, with effect immediately upon Admission and the commencement of unconditional dealings on the London Stock Exchange.

#### 2. SHARE CAPITAL OF THE COMPANY

##### 2.1 Issued share capital of the Company

The issued share capital of the Company as at the date of this document is, and on Admission will be, as follows:

	Nominal value	Number of shares issued	Aggregate nominal value
Ordinary Shares	1p	1,000,000,000	£10,000,000

## 2.2 History of the share capital

The Company was incorporated with share capital of £150, divided into 100 ordinary shares of 150 pence each, which were issued to the Selling Shareholder (being the subscriber to the Company's Pre-Admission Articles). Since then, the following changes have occurred in the Company's issued share capital:

- (A) on 12 September 2013, the aggregate nominal value of the Company's share capital was increased from £150 to £1,500,000,000 by the allotment and issue of 999,999,900 ordinary shares of 150 pence each; and
- (B) on 18 September 2013, the aggregate nominal value of the Company's Ordinary shares was reduced from £1,500,000,000 to £10,000,000 by the cancellation of 149 pence from the nominal value of each issued ordinary share of the Company (the "**Reduction of Capital**").

## 2.3 Corporate Reorganisation

In connection with Admission, the Group undertook a corporate reorganisation that included the Company becoming the holding company of the Group (the "**Corporate Reorganisation**"). The Corporate Reorganisation occurred between 12 September 2013 and 19 September 2013. It consisted of the following principal steps:

- (A) the redemption and cancellation of the fully paid special rights redeemable preference share in RMG that was at that point issued to the Secretary of State;
- (B) pursuant to a transfer scheme made in accordance with section 8 of the Postal Services Act 2011 on 12 September 2013, the transfer of all ordinary shares in RMG by the Selling Shareholder to the Company, and, in consideration for such transfer, the allotment and issue by the Company of 999,999,900 ordinary shares of 150 pence each to the Selling Shareholder;
- (C) the Reduction of Capital;
- (D) the re-registration of the Company from a private limited company to a public limited company; and
- (E) the adoption of the Articles of Association.

The Corporate Reorganisation did not affect the Group's operations, which will continue to be carried out through its operating subsidiaries. An organisational structure diagram showing the Group's corporate structure at the date of this document after giving effect to the Corporate Reorganisation is provided at section 6 of Part XI (*Additional Information*) of the Registration Document.

## 2.4 Authorisations relating to the share capital of the Company

By resolutions of the Selling Shareholder passed on 25 September 2013, it was resolved that, subject to and conditional upon Admission:

- (A) the Board be generally and unconditionally authorised, in substitution for (with effect from Admission) all subsisting authorities, to exercise all of the powers of the Company to allot shares in the Company and to grant rights to subscribe for or to convert any security into shares in the Company:
  - (i) up to an aggregate nominal amount of £3,333,333 (such amount to be reduced by the nominal amount of any shares in the Company allotted or rights to subscribe for or to convert any security into shares in the Company granted under sub-paragraph (ii) below in excess of such sum); and
  - (ii) comprising equity securities (as defined in section 560(1) of the Companies Act) up to an aggregate nominal amount of £6,666,666 (such amount to be reduced by any allotments of any shares in the Company or grants of rights to subscribe for or to convert any security into shares in the Company made under sub-paragraph (i) above) in connection with an offer by way of a rights issue:
    - (a) to holders of Ordinary Shares in proportion (as close as may be practicable) to their existing holdings; and
    - (b) to holders of other equity securities as required by the rights of those securities or as the Board otherwise considers necessary,

and so that the Board may impose any limits or restrictions and make any arrangements which it considers necessary or appropriate to deal with treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter,

such authorities to apply until the end of the next annual general meeting of the Company (or, if earlier, until the close of business on 31 December 2014) but, in each case, during this period the Company may make offers and enter into agreements which would, or might, require shares to be allotted or rights to subscribe for or convert securities into shares to be granted after the authority ends and the Board may allot shares or grant rights to subscribe for or convert securities into shares in the Company under any such offer or agreement as if the authority had not ended;

- (B) the Board be given the power, in substitution for all subsisting powers, to allot equity securities (as defined in section 560(1) of the Companies Act) for cash under the authority given by the resolution described in section 2.4(A) of this Part and/or to sell Ordinary Shares held by the Company as treasury shares for cash as if section 561 of the Companies Act did not apply to any such allotment or sale, such power to be limited:

- (i) to the allotment of equity securities and sale of treasury shares for cash in connection with an offer of, or invitation to apply for, equity securities (but in the case of the authority granted under paragraph (ii) of the resolution described at section 2.4(A) of this Part, by way of a rights issue only):

- (a) to holders of Ordinary Shares in proportion (as nearly as may be practicable) to their existing holdings; and
- (b) to holders of other equity securities, as required by the rights of those securities, or as the Board otherwise considers necessary as permitted by the rights of those securities,

and so that the Board may impose any limits or restrictions and make any arrangements which it considers necessary or appropriate to deal with treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter; and

- (ii) in the case of the authority granted under paragraph (i) of the resolution described at section 3.4(A) of this Part and/or in the case of any sale of treasury shares for cash, to the allotment (otherwise than under paragraph (i) above) of equity securities or sale of treasury shares up to a nominal amount of £500,000,

such power to apply until the end of the next annual general meeting of the Company (or, if earlier, until the close of business on 31 December 2014) but, in each case, during this period the Company may make offers and enter into agreements which would, or might, require equity securities to be allotted (and treasury shares to be sold) after the power ends and the Board may allot equity securities (and sell treasury shares) under any such offer or agreement as if the power had not ended; and

- (C) the Company be authorised for the purposes of section 701 of the Companies Act to make one or more market purchases (as defined in section 693(4) of the Companies Act) of its Ordinary Shares, such power to be limited:

- (i) to a maximum number of 100,000,000 Ordinary Shares; and
- (ii) by the condition that the minimum price which may be paid for an Ordinary Share is 1p and the maximum price which may be paid for an Ordinary Share is the highest of:
- (a) an amount equal to five per cent. above the average market value of an Ordinary Share for the five Business Days immediately preceding the day on which that Ordinary Share is contracted to be purchased; and
- (b) the higher of the price of the last independent trade and the highest current independent bid on the trading venue where the purchase is carried out,

in each case, exclusive of expenses;

such power to apply until the end of the next annual general meeting of the Company (or, if earlier, 31 December 2014) but in each case so that the Company may enter into a contract to purchase Ordinary Shares which will or may be completed or executed wholly or partly after the power ends and

the Company may purchase Ordinary Shares pursuant to any such contract as if the power had not ended.

### **3. RIGHTS ATTACHING TO THE ORDINARY SHARES**

#### **3.1 Rights attaching to the Ordinary Shares**

Subject to the provisions of the Companies Act, any equity securities issued by the Company for cash must first be offered to Shareholders in proportion to their holdings of Ordinary Shares. The Companies Act and the Listing Rules allow for the disapplication of pre-emption rights which may be waived by a special resolution of the Shareholders, either generally or specifically, for a maximum period not exceeding five years. Please refer to section 2.4 of this Part for a description of the waivers that will apply on Admission.

Except in relation to dividends which have been declared and rights on a liquidation of the Company, the Shareholders have no rights to share in the profits of the Company.

The Ordinary Shares are not redeemable. However, the Company may purchase or contract to purchase any of the Ordinary Shares on- or off-market, subject to the Companies Act and the requirements of the Listing Rules. The Company may purchase Ordinary Shares only out of distributable reserves or the proceeds of a new issue of shares made for the purpose of funding the repurchase. Please refer to section 2.4 of this Part for a description of the authorisations relating to the purchase of Ordinary Shares that will apply from Admission.

Further details of the rights attached to the Ordinary Shares in relation to attendance and voting at general meetings, entitlements on a winding-up of the Company and transferability of shares are set out in the Articles, which are summarised in section 5 of Part XI (*Additional Information*) of the Registration Document and available for inspection at the locations and times specified in section 14 of Part VIII (*Additional Information*).

Further details of the voting and dividend rights attaching to Ordinary Shares that are the subject of awards under the Royal Mail Share Incentive Plan are set out in section 6 of Part VIII (*Additional Information*).

#### **3.2 Description of restrictions on free transferability**

Save as described below and in section 3.6 of this Part, the Ordinary Shares will be freely transferable.

The Company may, under the Companies Act, send out statutory notices to those it knows or has reasonable cause to believe have an interest in its shares, asking for details of those who have an interest and the extent of their interest in a particular holding of shares. When a person receives a statutory notice and fails to provide any information required by the notice within the time specified in it, the Company can apply to the court for an order directing, among other things, that any transfer of shares which are the subject of the statutory notice is void.

#### **3.3 Voting rights**

Members will be entitled to vote at a general meeting or class meeting, whether on a show of hands or a poll, as provided in any applicable statutes in force from time to time concerning companies insofar as it applies to the Company (in this section, the “**Companies Acts**”). The Companies Act provides that:

- (A) 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
- (B) 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 he, she or it could exercise in person.

This is subject to any special terms as to voting which are given to any shares or on which shares are held.



In the case of joint holders of a share the vote of the senior 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 Acts.

The Secretary of State has informed the Company that, in order to limit HM Government control over the Company, the Secretary of State and the Selling Shareholder intend, following Admission and the exercise or lapse of the Over-allotment Option, to execute a deed poll in which the Secretary of State and the Selling Shareholder undertake to limit their exercise of voting rights in the Company to a level below the retained stake of the Selling Shareholder and in any event no higher than 30 per cent. of the issued share capital of the Company from time to time. The deed poll will not be executed if the Selling Shareholder holds less than 30 per cent. or more than 50 per cent. of the issued Ordinary Shares following exercise or lapse of the Over-allotment Option. The provisions of the deed poll will terminate if the interests of the Secretary of State and the Selling Shareholder in the issued Ordinary Shares are reduced below 30 per cent. The Secretary of State will make an announcement via the Regulatory Information Service of the London Stock Exchange when the deed poll is executed.

### **3.4 Dividends and other distributions**

The Company may by ordinary resolution from time to time declare dividends not exceeding the amount recommended by the Board. Subject to the Companies Acts, 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.

The Board may withhold payment of all or any part of any dividends or other moneys payable in respect of the Company's shares from a person with a 0.25 per cent. or greater holding, in number or nominal value, of the shares of the Company or of any class of such shares (in each case, calculated exclusive of any shares held as treasury shares) (in this section, a "**0.25 per cent. interest**") if such a person 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 Acts.

Except insofar as the rights attaching to, or the terms of issue of, any share otherwise provide, all dividends shall be apportioned and paid *pro rata* according to the amounts paid up on the share during any portion of the period in respect of which the dividend is paid. Except as set out above, dividends may be declared or paid in any currency.

The Board may, if authorised by an ordinary resolution of the Company, offer ordinary shareholders (excluding any member holding shares as treasury shares) in respect of any dividend the right to elect to receive Ordinary Shares by way of scrip dividend instead of cash.

Any dividend unclaimed after a period of 12 years from the date when it was declared or became due for payment shall be forfeited and revert to the Company.

The Company may stop sending cheques, warrants or similar financial instruments in payment of dividends by post in respect of any shares or may cease to employ any other means of payment, including payment by means of a relevant system, for dividends if either (i) at least two consecutive payments have remained uncashed or are returned undelivered or that means of payment has failed or (ii) one payment remains uncashed or is returned undelivered or that means of payment has failed and reasonable inquiries have failed to establish any new postal address or account of the holder. The Company may resume sending dividend cheques, warrants or similar financial instruments or employing that means of payment if the holder requests such resumption in writing.

### **3.5 Variation of rights**

Subject to the Companies Acts, rights attached to any class of shares may be varied with the written consent of the holders of not less than three-fourths in nominal value of the issued shares of that class (calculated excluding any shares held as treasury shares), or with the sanction of a special resolution passed at a



separate general meeting of the holders of those shares. At every such separate general meeting (except an adjourned meeting) the quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of the class (calculated excluding any shares held as treasury shares) or by the purchase or redemption by the Company of any of its own shares.

The rights conferred upon the holders of any shares shall not, unless otherwise expressly provided in the rights attaching to those shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* with them.

### **3.6 Transfer of shares**

The shares are in registered form. Any shares in the Company may be held in uncertificated form and, subject to the Articles, title to uncertificated shares may be transferred by means of a relevant system. Provisions of the Articles do not apply to any uncertificated shares to the extent that such provisions are inconsistent with the holding of shares in uncertificated form, with the transfer of shares by means of a relevant system, with any provision of the legislation and rules relating to uncertificated shares or with the Company doing anything by means of a relevant system.

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:

- (A) 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;
- (B) is in respect of only one class of share; and
- (C) 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.

The Board may decline to register a transfer of any of the Company's certificated shares by a person with a 0.25 per cent. interest if such a person 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 Acts, unless the transfer is shown to the Board to be pursuant to an arm's length sale (as defined in the Articles).

## **4. TAXATION**

Certain information on taxation in the UK and the United States with regard to the Offer and the Ordinary Shares is set out in Part VI (*Taxation*), together with certain information on withholding tax in the EEA Passported Jurisdictions. The information contained in Part VI (*Taxation*) is intended only as a general guide to the current tax position in the UK, the United States and the withholding tax position in the EEA Passported Jurisdictions for the Shareholders described therein. Prospective investors should consult their own tax advisers regarding the tax treatment of the ownership and disposal of Ordinary Shares in light of their own circumstances. Prospective investors who are in any doubt as to their tax position or who are subject to tax in any other jurisdiction should consult an appropriate professional adviser immediately.

## PART VIII

### ADDITIONAL INFORMATION

#### 1. RESPONSIBILITY STATEMENT

The Directors, whose names appear under the heading “Directors” on page 16 of this document, and the Company accept responsibility for the information contained in this document. To the best of the knowledge of the Directors and the Company, each having taken all reasonable care to ensure that such is the case, the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

#### 2. MANDATORY BIDS AND COMPULSORY ACQUISITION RULES RELATING TO ORDINARY SHARES

Other than as provided by the Takeover Code and Chapter 28 of the Companies Act, there are no rules or provisions relating to mandatory bids and/or squeeze-out and sell-out rules that apply to the Ordinary Shares.

##### 2.1 Mandatory bid

The Takeover Code applies to the Company. Under Rule 9 of the Takeover Code, if an acquisition of interests in shares were to increase the aggregate holding of the acquirer and its concert parties to interests in shares carrying 30 per cent. or more of the voting rights in the Company, the acquirer and, depending on circumstances, its concert parties would be required (except with the consent of the Panel on Takeovers and Mergers) to make a cash offer for the outstanding shares in the Company at a price not less than the highest price paid for interests in shares by the acquirer or its concert parties during the previous 12 months. This requirement would also be triggered by any acquisition of interests in shares by a person holding (together with its concert parties) shares carrying between 30 per cent. and 50 per cent. of the voting rights in the Company if the effect of such acquisition were to increase that person's percentage of the total voting rights in the Company.

##### 2.2 Rule 9 disclosures

###### (A) *Stabilisation arrangements in connection with the Offer*

Under the stabilisation arrangements described in the section entitled “Important Notices” on page 12 of this document, the Stabilising Manager may borrow Ordinary Shares (representing in aggregate up to 15 per cent. of the Ordinary Shares available in the Offer) from the Selling Shareholder under the terms of the Stock Lending Agreement for the purposes of satisfying over-allotments of Ordinary Shares. The Stabilising Manager will, within 30 calendar days of the date of the commencement of conditional dealings of the Ordinary Shares on the London Stock Exchange, redeliver to the Selling Shareholder any equivalent securities in respect of any borrowing it makes under the terms of the Stock Lending Agreement by transferring the same number of Ordinary Shares to the Selling Shareholder as the Stabilising Manager has borrowed from the Selling Shareholder. The Stabilising Manager may also utilise the Over-allotment Option to acquire Ordinary Shares representing in aggregate up to 15 per cent. of the Ordinary Shares available in the Offer (prior to the utilisation of the Over-allotment Arrangements) from the Selling Shareholder, whereupon the Selling Shareholder will be obliged to transfer such Ordinary Shares to the Stabilising Manager.

As a result of the combined effect of lending Ordinary Shares pursuant to the Stock Lending Agreement and granting the Over-allotment Option, the Selling Shareholder's shareholding in the Company can only remain the same or decrease from what its shareholding would be if it were not party to any stabilisation arrangements. In particular, the Selling Shareholder's shareholding in the Company will decrease by the number of Ordinary Shares (if any) which the Stabilising Manager (i) borrows from the Selling Shareholder under the terms of the Stock Lending Agreement and/or (ii) acquires from the Selling Shareholder pursuant to utilisation of the Over-allotment Option. At the end of the Stabilisation Period, the Selling Shareholder's shareholding in the Company will increase again when the Stabilising Manager transfers back to the Selling Shareholder the number of Ordinary Shares lent to the Stabilising Manager under the Stock Lending Agreement.

The Panel has confirmed, on an *ex parte* basis, to the Company that no mandatory offer for the Company need be made as a result of an increase in the Selling Shareholder's shareholding in the Company as a result of the arrangements and transactions described above. In particular, the Takeover Panel has confirmed that, pursuant to Note 4 to the definition of "Interests in securities" in, and Notes 17 and 18 to Rule 9.1 of, the Takeover Code, the Selling Shareholder will not be treated as having disposed of an interest in any Ordinary Shares when it lends Ordinary Shares to the Stabilising Manager under the Stock Lending Agreement and will not therefore be treated as having increased its interest in Ordinary Shares upon the repayment of such loan.

An announcement will be made by the Company or by the Stabilising Manager on its behalf following utilisation of the Over-allotment Option, not later than one week after the end of the stabilisation period, and a further announcement will be made to record the movements that have taken place in the Selling Shareholder's shareholding in the Company consequent upon the arrangements referred to above.

**(B) Acquisitions of further shares following Admission**

Prospective investors should be aware that, depending on the Offer Size, following Admission, the Selling Shareholder may hold more than 50 per cent. of the Company's voting share capital and may, accordingly, be able to increase its aggregate shareholding without incurring any obligation under Rule 9 to make a general offer.

**(C) Whitewash procedure**

When a company redeems or purchases its own voting shares, under Rule 37 of the Takeover Code any resulting increase in the percentage of shares carrying voting rights in which a person or group of persons acting in concert is interested will be treated as an acquisition for the purpose of Rule 9 of the Takeover Code. Rule 37 of the Takeover Code provides that, subject to prior consultation, the Panel will normally waive any resulting obligation to make a general offer if there is a vote of independent shareholders and a procedure along the lines of that set out in Appendix 1 to the Takeover Code is followed. Appendix 1 to the Takeover Code sets out the procedure which should be followed in obtaining that consent of independent shareholders. Under Note 1 on Rule 37.1 of the Takeover Code, a person who comes to exceed the limits in Rule 9.1 in consequence of a company's purchase of its own shares will not normally incur an obligation to make a mandatory offer unless that person is a director, or the relationship of the person with any one or more of the directors is such that the person is, or is presumed to be, acting in concert with any of the directors. Under the terms of the Relationship Agreement, the Selling Shareholder will have the right to nominate one non-executive director for appointment to the board of directors of the Company for so long as the Selling Shareholder together with its associates is entitled to exercise or control the exercise of 10 per cent. or more of the voting rights exercisable at a general meeting of the Company (the "**Selling Shareholder Director**"). However, no Selling Shareholder Director will have been appointed at Admission.

Under Note 2 on Rule 37 of the Takeover Code, the exception in Note 1 on Rule 37 described above will not apply, and an obligation to make a mandatory offer may therefore be imposed, if a person (or any relevant member of a group of persons acting in concert) has acquired an interest in shares at a time when it or they had reason to believe that such a purchase of its own shares by the company would take place. However, Note 2 will not normally be relevant unless the relevant person has knowledge that a purchase for which requisite shareholder authority exists is being, or is likely to be, implemented (whether in whole or in part).

The Panel must be consulted in advance in any case where Rule 9 of the Takeover Code might be relevant. This will include any case where a person or group of persons acting in concert is interested in shares carrying 30 per cent. or more but does not hold shares carrying more than 50 per cent. of the voting rights of a company, or may become interested in 30 per cent. or more on full implementation of the proposed purchase by the Company of its own shares. In addition, the Panel should always be consulted if the aggregate interests in shares of the directors and any other persons acting in concert, or presumed to be acting in concert, with any of the directors amount to 30 per cent. or more, or may be increased to 30 per cent. or more on full implementation of the proposed purchase by the Company of its own shares.

Subject to certain limits, the Company has authority to purchase Ordinary Shares under the terms of the shareholder resolution summarised in section 2.4 of Part VII (*Information about the Ordinary Shares*). The maximum number of Ordinary Shares that the Company may purchase under this authority is 100,000,000. The authority is due to expire at the conclusion of the first annual general meeting of the Company following Admission or 31 December 2014, whichever is later.

If, prior to such expiry:

- the Company were to exercise that authority in full;
- the aggregate percentage shareholding of the Selling Shareholder in the Company immediately following Admission is approximately 43.8 per cent. (on the basis that the Offer Size is set at the mid-point of the Offer Size Range); and
- none of the Ordinary Shares which the Selling Shareholder holds is purchased by the Company under that authority and no Ordinary Shares had been newly issued by the Company between the date of Admission and the date that the authority is fully exercised,

then the Selling Shareholder's shareholding in the Company would increase to approximately 48.7 per cent.

The Selling Shareholder's shareholding will be lower, and will therefore increase by a lesser amount to the extent that the Stabilising Manager had exercised the Over-allotment Option by acquiring further Ordinary Shares from the Selling Shareholder.

Notwithstanding the provisions of Rule 37 of the Takeover Code, the Panel has waived any obligation which would otherwise require the Selling Shareholder and any person deemed to be acting in concert with the Selling Shareholder to make a mandatory offer under Rule 9 of the Takeover Code on the grounds that its or their interest in the Ordinary Shares has increased as a result only of the purchase by the Company of its own shares pursuant to the authority conferred by the written resolution summarised above. The Company currently expects to seek renewal of that authority from Shareholders at the first annual general meeting of the Company following Admission and to seek Shareholder consent to an equivalent waiver in respect of any renewed authority to purchase Ordinary Shares that is sought. The granting of the waiver will then also be subject to renewed approval from the Panel, without which Rule 9 of the Takeover Code will apply with respect to increases in interests in Ordinary Shares in the Company caused by the purchase by the Company of its own shares.

### **2.3 Squeeze-out**

Under the Companies Act, if a "takeover offer" (as defined in section 974 of the Companies Act) is made for the Ordinary Shares and the offeror were to acquire, or unconditionally contract to acquire, not less than 90 per cent. in value of the Ordinary Shares to which the offer relates and not less than 90 per cent. of the voting rights carried by the Ordinary Shares to which the offer relates, it could, within three months of the last day on which its takeover offer can be accepted, compulsorily acquire the remaining 10 per cent. The offeror would do so by sending a notice to outstanding members telling them that it will compulsorily acquire their Ordinary Shares and then, six weeks later, it would execute a transfer of the outstanding Ordinary Shares in its favour and pay the consideration for the outstanding Ordinary Shares to the Company, which would hold the consideration on trust for outstanding members. The consideration offered to the members whose shares are compulsorily acquired under this procedure must, in general, be the same as the consideration that was available under the original offer unless a member can show that the offer value is unfair.

### **2.4 Sell-out**

The Companies Act also gives minority members a right to be bought out in certain circumstances by an offeror who has made a takeover offer. If a takeover offer related to all the Ordinary Shares and, at any time before the end of the period within which the offer could be accepted, the offeror held or had agreed to acquire not less than 90 per cent. in value of the Ordinary Shares and not less than 90 per cent. of the voting rights carried by the Ordinary Shares, any holder of Ordinary Shares to which the offer related who had not accepted the offer could, by a written communication to the offeror require it to acquire those Ordinary Shares. The offeror is required to give any member notice of his/her right to be bought out within one month of that right arising. The offeror may impose a time limit on the rights of minority members to be bought out, but that period cannot end less than three months after the end of the acceptance period or, if later, three months from the date on which notice is served on members notifying them of their sell-out rights. If a member exercises his/her rights, the offeror is entitled and bound to acquire those Ordinary Shares on the terms of the offer or on such other terms as may be agreed.

### 3. TAKEOVER BIDS

There have been no public takeover bids by third parties for all or any part of the Company's equity share capital nor any mandatory takeover bids since the incorporation of the Company or during the period up to and including the date immediately prior to the date of this document.

### 4. INTERESTS OF MAJOR SHAREHOLDERS AND THE SELLING SHAREHOLDER

#### 4.1 Major Shareholders

Insofar as was known to the Company as at the date of this document, the Selling Shareholder will, on Admission, be directly or indirectly interested (within the meaning of the Companies Act) in three per cent. or more of the issued share capital of the Company (being the threshold for notification of interests that will apply to Shareholders as of Admission pursuant to Chapter 5 of the Disclosure and Transparency Rules of the UK Listing Authority). On the basis that the Offer Size is set at the mid-point of the Offer Size Range, the Selling Shareholder's expected interests both immediately prior to and immediately following Admission are disclosed in the table set out below.

	Interests in Ordinary Shares immediately prior to Admission		Ordinary Shares to be sold pursuant to the Offer <sup>(2)</sup>		Ordinary Shares to be transferred to the trustee of the Royal Mail Share Incentive Plan <sup>(3)</sup>		Interests in Ordinary Shares immediately following Admission and the transfer of Ordinary Shares to the trustee of the Royal Mail Share Incentive Plan <sup>(2)</sup>	
	No.	% of total issued	No.	% of total issued	No.	% of total issued	No.	% of total issued
Selling Shareholder <sup>(1)</sup>	1,000,000,000	100	461,369,565	46.1	100,160,000	10.0	438,470,435	43.8

**Notes:**

- (1) The business address of the Selling Shareholder is 148 Old Street, London EC1V 9HQ, United Kingdom.
- (2) In addition, the Selling Shareholder may sell up to a further 69,205,435 Ordinary Shares pursuant to the Over-allotment Arrangements (assuming that the Offer Size is set at the mid-point of the Offer Size Range).
- (3) Subject to Admission and HMRC approval of the Royal Mail Share Incentive Plan, the Secretary of State will procure that the Selling Shareholder transfers the Employee Free Shares to the trustee of the Royal Mail Share Incentive Plan on or immediately after Admission. Each Eligible Employee will automatically be awarded a number of Employee Free Shares on or around Admission, unless the Eligible Employee completes and submits to Equiniti Limited an opt-out form by 9.00 a.m. on 7 October 2013. The Employee Free Shares Offer is not part of the Offer.

#### 4.2 Other disclosures relating to Shareholders

- (A) As of Admission, the Ordinary Shares will be the only class of share capital of the Company. All Shareholders will have equal voting rights.
- (B) The Secretary of State has informed the Company that, in order to limit HM Government control over the Company, the Secretary of State and the Selling Shareholder intend, following Admission and the exercise or lapse of the Over-allotment Option, to execute a deed poll in which the Secretary of State and the Selling Shareholder undertake to limit their exercise of voting rights in the Company to a level below the retained stake of the Selling Shareholder and in any event no higher than 30 per cent. of the issued share capital of the Company from time to time. The deed poll will not be executed if the Selling Shareholder holds less than 30 per cent. or more than 50 per cent. of the issued Ordinary Shares following exercise or lapse of the Over-allotment Option. The provisions of the deed poll will terminate if the interests of the Secretary of State and the Selling Shareholder in the issued Ordinary Shares are reduced below 30 per cent. The Secretary of State will make an announcement via the Regulatory Information Service of the London Stock Exchange when the deed poll is executed.
- (C) The Selling Shareholder is the only person known to the Company who, directly or indirectly, could exercise or does exercise control over the Company.
- (D) Other than the interests of the Selling Shareholder, the Company does not consider there to be any other interests that are material to the Offer.



## 5. DIRECTORS AND SENIOR MANAGERS

### 5.1 Interests of Directors and Senior Managers in the share capital of the Company

The Directors and Senior Managers do not hold, directly or indirectly, any interests in the Ordinary Shares as at the date of this document and will not do so in the period prior to Admission.

As part of the Employee Free Shares Offer, the Executive Directors and the Senior Managers (excluding Rico Back) will each receive as Eligible Employees the same number of Ordinary Shares (as each works full-time for RMG), as described in section 2 of Part IV (*Employee Free Shares Offer*). It is not currently possible to calculate the number (or value) of Employee Free Shares which each Executive Director and Senior Manager (excluding Rico Back) will receive, but the number of Ordinary Shares awarded to each of them, which will be the same number as is awarded to each other full-time Eligible Employee, will be announced via a Regulatory Information Service announcement shortly after that award is made. The Non-Executive Directors, while eligible to receive Employee Free Shares as part of the Employee Free Shares Offer, have each decided it would be inappropriate, as independent non-executive directors, to receive Employee Free Shares and so have opted-out of receiving Employee Free Shares.

The Directors have indicated to the Company that they intend to make applications in the Offer for an amount equal to, at least, approximately £500,000, in aggregate. The number of Ordinary Shares held by each Director as a result of the Offer will be published in the Pricing Statement. The Directors will not receive any priority application beyond that applicable to all Eligible Employees.

## 6. ROYAL MAIL SHARE INCENTIVE PLAN

The Company will establish the Royal Mail Share Incentive Plan (the “**Plan**”) which will be constituted by a trust deed made between the Company and Equiniti Share Plan Trustees Limited as trustee (the “**Trustee**”). The Plan will be established as part of the arrangements which the Secretary of State is required by section 3 of the PSA to make for the establishment of an employee share scheme with respect to at least 10 per cent. of the Company (the “**PSA Employee Arrangements**”).

The Plan will be an “all-employee” share incentive plan, which is intended to be approved, subject to Admission, by HMRC under Schedule 2 to the Income Tax (Earnings and Pensions Act) 2003. In accordance with relevant tax legislation, the Plan cannot be approved by HMRC until Admission has occurred, but HMRC has confirmed that the Plan documentation it has reviewed is in a form capable of approval following Admission. The operation of the Plan will be supervised by the Board.

Awards to satisfy the PSA Employee Arrangements are intended to be made under the Plan on or around Admission but other awards of Ordinary Shares may also be made subsequently. The Plan has been designed flexibly to be capable of future use by the Company and not only for the PSA Employee Arrangements. This section 6 summarises the key terms of the Plan as a whole and not only those that relate to the PSA Employee Arrangements.

### 6.1 Use of Employee Free Shares on Admission

Subject to Admission and HMRC approval of the Plan, the Plan will initially be used to deliver the award of Employee Free Shares to Eligible Employees under the Employee Free Shares Offer on or around Admission as part of the PSA Employee Arrangements as described in section 2 of Part IV (*Employee Free Shares Offer*) above. Employee Free Shares will be awarded to each Eligible Employee, who does not choose to opt out of the Employee Free Shares Offer, to the maximum extent practicable. Awards of Employee Free Shares may be scaled back if the value which would otherwise be given to each full-time Eligible Employee on or around Admission is more than the £3,000 limit prescribed by relevant legislation.

The holding period (described below) will be three years from the date of the award of Employee Free Shares and Eligible Employees will forfeit their Employee Free Shares if they cease employment with the Group during that holding period except for the Permitted Reasons (as defined below).

As part of the PSA Employee Arrangements, the Secretary of State will procure that the Selling Shareholder transfers to the Trustee on or immediately after Admission 100,160,000 Ordinary Shares, which represents 10 per cent. of the total issued share capital of the Company on Admission plus an additional 160,000 Ordinary Shares.



## 6.2 Use of Employee Free Shares after Admission

Employee Free Shares not awarded on or around Admission (because the HMRC individual £3,000 cap requires awards to be scaled back) will be awarded to the maximum extent practicable as Employee Free Shares on or after 6 April 2014, i.e. in the next tax year, to Eligible Employees who have remained in continuous employment with RMG and/or the Company until the date of that further award. That pool of Employee Free Shares together with any other Ordinary Shares the Company decides should then also be included will be awarded to those Eligible Employees, provided they do not opt-out of receiving the further Employee Free Shares, on the same basis as the award made on or around Admission. Accordingly, all relevant full-time Eligible Employees entitled to receive Employee Free Shares on this further occasion will receive the same number of Employee Free Shares as each other. The entitlement of each relevant part-time Eligible Employee will be proportionate to their paid hours between 10 July 2013 and 13 October 2013, the latest practicable date prior to the expected date of Admission.

Employee Free Shares which it is not possible to award as Employee Free Shares to Eligible Employees (“**Excess Shares**”) and any Employee Free Shares that have been awarded to Eligible Employees on or around Admission or on or after 6 April 2014 but which are subsequently forfeited by Eligible Employees who leave employment with the Group during the relevant three-year holding period following the date of the relevant award (“**Forfeited Shares**”) will be held by the Trustee for future allocation under the Plan or otherwise for distribution to or for the benefit of employees of the Company and RMG from time to time or for charitable purposes (see below). The Trustee will not be entitled to exercise any voting rights nor will it receive any dividends in respect of any Excess Shares or Forfeited Shares for as long as such Ordinary Shares are not awarded to or held on behalf of employees of the Company and RMG.

If any Excess Shares and/or Forfeited Shares are held by the Trustee on the fourth anniversary of Admission, the Trustee shall be required, at the Board’s direction, by no later than the fifth anniversary of Admission, to allocate such Ordinary Shares under the Plan by way of a further free share award, unless this would result in a free share award to each recipient below a minimum value of Ordinary Shares (which may not exceed £100 worth of Ordinary Shares without the prior written consent of the Secretary of State) determined by the Board. If the Board chooses not to make a free share award over those Ordinary Shares, the Board may direct that those Ordinary Shares be distributed to employees of the Company and RMG under similar all-employee share arrangements or, if in the Board’s reasonable opinion it is not practicable to make such a distribution to employees and the total value of the Excess Shares and/or the Forfeited Shares is less than £500,000, the Board may direct the Trustee to apply such Ordinary Shares for the benefit of the Rowland Hill Memorial and Benevolent Fund or any other charity established for the benefit of postal workers and/or their dependants.

The impact of a takeover and a rights issue on Employee Free Shares are set out below in sections 6.12 and 6.13, respectively.

## 6.3 Eligibility

All employees (including directors) of the Company and any designated participating subsidiary of the Company who are UK-resident taxpayers and have such qualifying period of continuous service (not exceeding 18 months) as the Board may determine are entitled to participate in the Plan. Other employees may be permitted to participate at the Board’s discretion.

Employee Free Shares may only be used for Eligible Employees (and so could not, for example, be used for employees of subsidiaries of the Company other than RMG) or applied for charitable purposes as set out in section 6.2 above.

## 6.4 Awards

Subject to the above, after Admission the Board may, in its discretion, operate the Plan by offering to employees eligible under the Plan some or all of the following:

- (A) an award of Ordinary Shares for free (“**Free Shares**”);
- (B) the opportunity of using their pre-tax salary to buy Ordinary Shares (“**Partnership Shares**”); and/or
- (C) an award of additional free Ordinary Shares (“**Matching Shares**”) for each Partnership Share bought.

No awards may be granted under the Plan more than 10 years after the date of Admission, without the approval of the Company’s shareholders being obtained.

Ordinary Shares awarded to or purchased on behalf of employees eligible under the Plan ("**participants**") will be acquired by the Trustee and held subject to the terms of the Plan on behalf of such participants. A participant will be the beneficial owner of any Ordinary Shares held on his or her behalf by the Trustee.

## **6.5 Free Shares**

Employee Free Shares awarded on or around the time of Admission will be awarded so that each full-time Eligible Employee will be allocated the same number of Employee Free Shares and each part-time Eligible Employee will be allocated a number of Employee Free Shares proportionate to the number of hours for which they were remunerated between 10 July and 13 October 2013, the latest practicable date prior to the expected date of Admission. A further award of Employee Free Shares may also be made on or after 6 April 2014 on a similar basis to Eligible Employees still in Company or RMG employment as set out in section 6.2 above.

The Board may on other occasions determine at its discretion whether or not Free Shares are awarded. The basis of allocation of Free Shares will be at the Board's discretion but must be awarded on the basis of an objective formula based on employees' earnings, length of service, number of hours worked or a fixed number or value, or at the Board's discretion, an objective performance criteria measuring the objective success of the individual, team, division or business. However, the maximum value of Free Shares which a participant may receive in a tax year may not exceed £3,000 (or such other limit as may be permitted by the tax legislation governing the Plan from time to time). Free Shares may be subject to forfeiture in certain circumstances (see section 6.10 below).

## **6.6 Partnership Shares**

No Partnership Share awards are being made on Admission or may be made as part of the Employee Free Shares Offer. Future awards of Partnership Shares may be made under the terms of the Plan.

If Partnership Share awards were to be made, participants would use deductions from their pre-tax salary to buy Partnership Shares. The maximum amount that an eligible employee may use to acquire Partnership Shares is the lower of £1,500 and 10 per cent. of the individual's pre-tax salary in any tax year (or such other limits as may be permitted by the tax legislation governing the Plan from time to time). The minimum amount of any deduction cannot be greater than £10. Subject to the terms of the Plan rules, participants may stop and start (or, with the agreement of the Company, vary) salary deductions at any time.

The salary allocated to acquire Partnership Shares can be accumulated for a period of up to 12 months (the "**Accumulation Period**") or Partnership Shares may be purchased out of deductions from the participant's pre-tax salary as and when those deductions are made. In either case, Partnership Shares must be bought within 30 days of, as appropriate, the end of the Accumulation Period or the deduction from pay.

Once acquired, Partnership Shares are not capable of forfeiture and may be withdrawn from the Plan by the employee at any time (subject to the payment of any applicable UK income tax and National Insurance contributions).

## **6.7 Matching Shares**

Although this Plan feature will not be applicable to Employee Free Shares awarded as part of the Employee Free Shares Offer, the Board may award Matching Shares for free to all participants who have purchased Partnership Shares. The Board may award up to a maximum of two Matching Shares for every Partnership Share purchased (or such other limit as may be permitted by the tax legislation governing the Plan from time to time). Matching Shares may be subject to forfeiture in certain circumstances (see section 6.10 below).

## **6.8 Dividend Shares**

Although this Plan feature will not be applicable to Employee Free Shares awarded as part of the Employee Free Shares Offer, the Board may allow or require participants to reinvest any cash dividends that may be paid on other Ordinary Shares held in the Plan in the acquisition of further Ordinary Shares ("**Dividend Shares**"). Dividend Shares must be held for three years, unless the employee ceases to be employed by the Company or an associated company. Once acquired, Dividend Shares are not capable of forfeiture and may be withdrawn from the Plan by the participant at any time. Any dividends not reinvested in Dividend Shares will be distributed to participants.

## **6.9 Holding period**

Free Shares and Matching Shares must be held in trust by the Trustee for a holding period specified by the Board (which must be between three and five years from the date of the award) during which the participant cannot normally withdraw the Free Shares or Matching Shares from the Plan unless he or she ceases to be employed by the Company or an associated company for any reason other than injury, disability, redundancy, the sale of the business or company for which an employee works, retirement or on death ("**Permitted Reasons**").

The holding period for the Employee Free Shares awarded under the Employee Free Shares Offer will be three years.

## **6.10 Forfeiture**

The Board may, at its discretion, provide that Free Shares and Matching Shares will be forfeited if the participant ceases to be employed by the Company or an associated company within a period of up to three years from the date of the award of such shares other than for a Permitted Reason.

The Board has decided these terms will apply to Employee Free Shares awarded under the Employee Free Shares Offer.

Partnership Shares and Dividend Shares may not be forfeited, but the Board may, at its discretion, provide that, if a participant withdraws their Partnership Shares from trust within a period of up to three years after they were acquired (other than on a corporate event or where the employee ceases to be employed by the Company or an associated company for a Permitted Reason), the corresponding Matching Shares will be forfeited.

## **6.11 Voting, dividend and other rights**

Any Ordinary Shares held in trust will rank equally with Ordinary Shares then in issue. While Ordinary Shares are held in trust by the Trustee on behalf of participants under the Plan, the participant will be the beneficial owner of the Ordinary Shares and will be entitled to receive dividends (subject to any reinvestment in Dividend Shares) and through the Trustee to vote and to participate in substantially the same way as other Shareholders.

To the extent that the Trustee at any time holds Ordinary Shares in the trust which are not beneficially owned by a participant, it has waived the right to receive dividends on those Ordinary Shares, other than dividends *in specie* or special dividends. The Trustee shall not vote on Ordinary Shares not beneficially owned by a participant at the relevant time, nor shall it vote where it has not received a direction to do so from a participant.

A participant may leave his or her Ordinary Shares in trust until he or she ceases to be employed by the Company or any associated company at which point (subject to any forfeiture provisions) he or she will be required to withdraw his or her Ordinary Shares from trust.

## **6.12 Takeover**

If there is a takeover of the Company, participants will be able to direct the Trustee how to act in relation to their Ordinary Shares held in the Plan. If the consideration payable for Ordinary Shares under the takeover is in the form of shares which qualify under Schedule 2 to the Income (Earnings and Pensions) Act 2003, any Ordinary Shares held by employees under their awards may be replaced by equivalent shares in the acquiring company and may remain in the Plan. In all other circumstances, Ordinary Shares (and the consideration payable for them) will be withdrawn from the Trust.

To the extent that there are Ordinary Shares in trust which represent Excess Shares or Forfeited Shares and which are not beneficially owned by a participant at the relevant time, the Trustee shall (to the extent there is a choice of consideration) elect to receive non-cash consideration. Shares along with any other form of consideration received for Excess Shares and/or Forfeited Shares, will be treated as Excess Shares and/or Forfeited Shares for the purposes of the Plan.

## **6.13 Variation of share capital**

Ordinary Shares acquired on a variation of share capital of the Company, such as on a bonus issue or rights issue, will usually be treated in the same way as the Ordinary Shares acquired or awarded under the Plan in

respect of which the rights were conferred and as if they were acquired or awarded at the same time. In the event of a rights issue, participants will be able to direct the Trustee how to act in respect of their Ordinary Shares held in the Plan, but, if no direction is received, the Trustee will “tail swallow”, i.e. sell rights nil paid in the rights issue, to enable the Trustee to subscribe for the balance of any unsold rights in respect of a participant’s Ordinary Shares.

To the extent that there are Ordinary Shares in trust which represent Excess Shares or Forfeited Shares and which are not beneficially owned by a participant at the relevant time, the Trustee shall either take up its rights using external finance (in which case any Ordinary Shares acquired under the rights issue will not be treated as Excess and/or Forfeited Shares) and/or tail swallow (in which case such Ordinary Shares will be treated as Excess Shares and/or Forfeited Shares for the purposes of the Plan).

#### **6.14 Acquisition of Ordinary Shares**

Subject to the Plan limit in section 6.15 below, the Trustee may subscribe for newly issued Ordinary Shares, purchase existing Ordinary Shares in the market or acquire Ordinary Shares from treasury in order to satisfy awards made under the Plan.

#### **6.15 Plan limit**

In any 10-year period, the number of Ordinary Shares which may be issued under the Plan and under any other employees’ share scheme adopted by the Company may not exceed 10 per cent. of the issued ordinary share capital of the Company from time to time. Ordinary Shares held in treasury will be treated as newly issued for the purpose of this limit until such time as guidelines published by institutional investor representative bodies recommend otherwise. Ordinary Shares purchased in the market to satisfy awards will not count towards this limit.

None of the Employee Free Shares comprised in the Employee Free Shares Offer (and representing 10 per cent. of the issued ordinary share capital of the Company at the time of Admission plus an additional 160,000 Ordinary Shares) that will be transferred to the Trustee on or immediately after Admission or any Ordinary Shares issued or issuable to satisfy awards under the LTIP made before Admission, will count towards this limit.

#### **6.16 Amendments to the Plan**

The Board (with the consent of the Trustee) may amend the Plan at any time, provided that the prior approval of the Company’s shareholders in general meeting will be required for amendments to the advantage of participants relating to eligibility, plan limits and the basis for determining a participant’s entitlement to, and the terms of, the Ordinary Shares provided under the Plan. However, any minor amendment to benefit the administration of the Plan, to take account of legislative changes, or to obtain or maintain favourable tax treatment, exchange control or regulatory treatment for participants or the Company or any member of the Group may be made by the Board without shareholder approval. Once formal HMRC approval has been obtained, any change to the key features of the Plan requires the prior approval of HMRC.

No amendment may be made to any term of the Plan which relates to Employee Free Shares without the consent of the Secretary of State.

#### **6.17 General**

Participation in the Plan does not form part of the terms of a participant’s contract of employment and participants have no rights in respect of Plan benefits. Benefits received under the Plan are not pensionable, although, subject to applicable pension plan rules, participants may use the proceeds of sale from their Employee Free Shares to pay additional voluntary contributions or make other arrangements towards their pension arrangements. With the exception of Partnership Shares, awards made under the Plan are not transferable other than to a participant’s personal representatives in the event of his death.

#### **6.18 Appointment and removal of the trustee**

The Company has the power to appoint or remove any trustee of the Plan but any appointment or removal prior to the distribution of Excess Shares and Forfeited Shares (or cash representing those Ordinary Shares) as described in section 3 of Part IV (*Employee Free Shares Offer*) will require the consent of the Secretary of State.

## 6.19 Termination of the Plan

The Plan may be terminated by the Board at any time or by ordinary resolution of Shareholders in general meeting. Termination will not affect outstanding rights of participants under the Plan.

The Board may not terminate the Plan before the Excess Shares and Forfeited Shares (or cash representing those Ordinary Shares) have been distributed as described in section 3 of Part IV (*Employee Free Shares Offer*) without the Secretary of State's consent.

## 7. INTERMEDIARIES

The Intermediaries authorised at the date of this document to use this document in connection with the Intermediaries Offer are:

<i>Name</i>	<i>Address</i>
<b>A J Bell Securities Limited (trading as Sippdeal)</b>	Trafford House, Chester Road, Manchester M32 0RS
<b>Abbey Stockbrokers Ltd (trading as Santander Sharedealing)</b>	Kingfisher House, Radford Way, Billericay, Essex CM12 0GZ
<b>ADM Investor Services International Limited</b>	4th floor, Millennium Bridge House, 2 Lambeth Hill, London EC4V 3TT
<b>Albert E Sharp LLP</b>	Seven Elm Court, Arden Street, Stratford-Upon-Avon CV37 6PA
<b>All IPO PLC</b>	Suite 27, Essex Technology Centre, The Gables, Fyfield Road, Ongar, Essex CM5 0GA
<b>Arnold, Stansby &amp; Co Limited</b>	Alexandra Buildings, Queen Street, Manchester M2 5JJ
<b>Barclays Bank PLC (trading as Barclays Wealth)</b>	1 Churchill Place, London E14 5HP
<b>Barclays Stockbrokers Limited</b>	1 Churchill Place, London E14 5HP
<b>Barratt &amp; Cooke Limited</b>	5 Opie Street, Norwich, Norfolk NR1 3DW
<b>Beaufort Asset Clearing Services Limited (trading as Beaufort Sharedealing)</b>	131 Finsbury Pavement, London EC2A 1NT
<b>Bestinvest (Brokers) Limited</b>	6 Chesterfield Gardens, Mayfair, London W1J 5BQ
<b>Blankstone Sington Ltd</b>	Walker House, Exchange Flags, Liverpool L2 3YL
<b>Brewin Dolphin Limited</b>	12 Smithfield Street, London EC1A 9BD
<b>Brown Shipley &amp; Co Ltd</b>	Founders Court, Lothbury, London EC2R 7HE
<b>Cave &amp; Sons Ltd</b>	Lockgates House, Rushmills, Northampton NN4 7YB
<b>Charles Stanley &amp; Co Ltd</b>	25 Luke Street, London EC2A 4AR
<b>Cornhill Capital Limited</b>	4th floor, 18 St Swithins Lane, London EC4N 8AD
<b>Dowgate Capital Stockbrokers Limited</b>	Talisman House, Jubilee Walk, Three Bridges, Crawley RH10 1LQ
<b>Edwards Securities Limited</b>	156 South Street, Dorking, Surrey RH4 2HF
<b>EFG Private Bank (trading as EFG Harris Allday)</b>	Leconfield House, Curzon Street, London W1J 5JB
<b>First Equity Limited</b>	Salisbury House, London Wall, London EC2M 5QQ
<b>Fiske Plc</b>	Salisbury House, London Wall, London EC2M 5QS
<b>Gerrard Investment Management Limited</b>	1 Churchill Place, London E14 5HP
<b>GHC Capital Markets Limited</b>	22-30 Horsefair Street, Leicester LE1 5BD
<b>Halifax Share Dealing Limited (trading as Halifax Share Dealing, Bank of Scotland Share Dealing, IWEB Share Dealing and Lloyds TSB Share Dealing)</b>	Trinity Road, Halifax HX1 2RG
<b>Hargreave Hale Limited</b>	9-11 Neptune Court, Hallam Way, Blackpool FY4 5LZ



<i>Name</i>	<i>Address</i>
<b>Hargreaves Lansdown Asset Management</b>	1 College Square South, Anchor Road, Bristol BS1 5HL
<b>Havelock Hunter Stockbrokers Ltd</b>	1 Mount Ephraim Road, Tunbridge Wells, Kent TN1 1ET
<b>Hedley and Company Stockbrokers Limited</b>	Springwell House, 2 Shear Bank Road, Blackburn BB1 8AD
<b>iDealing.com Ltd</b>	114 Middlesex Street, London E1 7HY
<b>Interactive Investor Trading Limited (trading as Interactive Investor and Shareprice)</b>	21 Mansell Street, London E1 8AA
<b>Investec Wealth &amp; Investment Ltd</b>	2 Gresham Street, London EC2V 7QN
<b>James Brearley &amp; Sons Limited</b>	Walpole House, 2 Burton Road, Blackpool FY4 4NW
<b>James Sharp &amp; Co</b>	The Exchange, 5 Bank Street, Bury, Lancashire BL9 0DN
<b>Jarvis Investment Management Limited (trading as Sharedeal Active and X-O.co.uk)</b>	78 Mount Ephraim, Tunbridge Wells, Kent TN4 8BS
<b>Killik &amp; Co LLP</b>	46 Grosvenor Street, London W1K 3HN
<b>M D Barnard &amp; Co Limited</b>	17-21 New Century Road, Laindon, Basildon, Essex SS15 6AG
<b>Midas Investment Management Limited</b>	Arthur House, Chorlton Street, Manchester M1 3FH
<b>NatWest Stockbrokers Ltd</b>	Premier Place, 2 1/2 Devonshire Square, London EC2M 4BA
<b>Old Park Lane Capital PLC</b>	49 Berkeley Square, London W1J 5AZ
<b>Paul E Schweder Miller &amp; Co</b>	46-50 Tabernacle Street, London EC2A 4SJ
<b>Pilling &amp; Co LP</b>	Henry Pilling House, 29 Booth Street, Manchester M2 4AF
<b>Quilter Cheviot Ltd</b>	1 St Helen's, 1 Undershaft, London EC3A 8BB
<b>Rathbone Investment Management Ltd</b>	1 Curzon Street, London W1J 5FB
<b>Redmayne-Bentley LLP</b>	9 Bond Court, Leeds LS1 2JZ
<b>Reyker Securities Plc</b>	17 Moorgate, London EC2R 6AR
<b>Rowan Dartington &amp; Co Ltd</b>	Colston Tower, Colston Street, Bristol BS1 4RD
<b>Sanlam Private Investments (UK) Ltd</b>	16 South Park, Sevenoaks, Kent TN13 1AN
<b>Shore Capital Stockbrokers Limited</b>	Bond Street House, 14 Clifford Street, London W1S 4JU
<b>Smith &amp; Williamson Investment Services Limited</b>	25 Moorgate, London EC2R 6AY
<b>Speirs &amp; Jeffrey Ltd</b>	George House, 50 George Square, Glasgow G2 1EH
<b>SVS Securities Plc</b>	21 Wilson Street, London EC2M 2SN
<b>Talos Securities Ltd (trading as Selftrade)</b>	Boatman's House, 2 Selsdon Way, London E14 9LA
<b>TD Direct Investing (Europe) Limited</b>	Exchange Court, Duncombe Street, Leeds LS1 4AX
<b>The Share Centre Limited</b>	Oxford House, Oxford Road, Aylesbury HP21 8SZ
<b>Thomas Grant and Company Ltd</b>	40A Friar Lane, Leicester LE1 5RA
<b>Vartan &amp; Son Stockbrokers</b>	The Singing Men's Chambers, 19 Minster Precincts, Peterborough PE1 1XX
<b>W.H. Ireland Limited</b>	11 St James's Square, Manchester M2 6WH
<b>Walker Crips Stockbrokers Limited</b>	Finsbury Tower, 103-105 Bunhill Row, London EC1Y 8LZ
<b>Xcap Securities Plc</b>	24 Cornhill, London EC3V 3ND



Any new information with respect to financial intermediaries unknown at the time of approval of this document, including in respect of: (i) any intermediary financial institution that is appointed by the Secretary of State in connection with the Intermediaries Offer after the date of this document following its agreement to adhere to and be bound by the terms of the Intermediaries Terms and Conditions; and (ii) any Intermediary that ceases to participate in the Intermediaries Offer, will be made available on the Offer Website.

Intermediaries are prohibited from charging any fees, charges or commissions to a retail investor for making an application for Ordinary Shares on behalf of such retail investor in the Intermediaries Offer. However, Intermediaries may charge retail investors a fee for holding the allocated Ordinary Shares for them (including any fees relating to the opening of an Individual Savings Account or a Self-Invested Personal Pension for that purpose), provided that the Intermediary has disclosed the fees and terms and conditions of providing those services to each retail investor prior to the underlying application being made. Any application made by investors through any Intermediary is subject to the terms and conditions agreed with each Intermediary.

## **8. WORKING CAPITAL STATEMENT**

The Company is of the opinion that, taking into account the banking facilities available to the Group, the Group has sufficient working capital for its present requirements, that is, for at least the next 12 months from the date of publication of this document.

## **9. ANNOUNCEMENT OF RESULTS OF THE OFFER**

The Company will make an appropriate announcement to a Regulatory Information Service giving the details of the results of the Offer.

## **10. CONSENTS**

A written consent under the Prospectus Rules is different from a consent filed with the SEC under section 7 of the US Securities Act. As the offered Ordinary Shares have not been and will not be registered under the US Securities Act, Ernst & Young LLP has not filed a consent under section 7 of the US Securities Act.

## **11. EXPENSES OF ADMISSION AND THE OFFER**

The aggregate expenses of, or incidental to, Admission and the Offer incurred and to be borne by the Company are estimated to be approximately £23.4 million (inclusive of amounts in respect of VAT), which the Company intends to pay out of existing cash resources (to the extent they have not already been paid). In addition to this, the Company has agreed to reimburse the Secretary of State in respect of up to £5 million of the third party transaction and advisory fees and expenses incurred by the Secretary of State in connection with the Offer.

The Selling Shareholder will bear the amount of any stamp duty chargeable on a transfer on sale of Ordinary Shares or SDRT chargeable on an agreement to transfer Ordinary Shares arising in the UK (currently at a rate of 0.5 per cent.) on the initial sale of its Ordinary Shares and all commissions payable to the Underwriters and the Intermediaries in connection with the Offer. The Selling Shareholder will not assume any liability in relation to any element of any stamp duty or SDRT arising in the UK on a transfer of Ordinary Shares to a clearance service or depositary receipt issuer or any agent or nominee thereof (currently imposed at a rate of 1.5 per cent.).

No expenses will be directly charged to Investors by the Selling Shareholder or the Company in connection with the Offer.

## **12. NO INCORPORATION OF WEBSITE INFORMATION**

The contents of the Group's websites and the Offer Website do not form part of this document.

## **13. SOURCES OF INFORMATION**

### **13.1 Financial information**

Unless otherwise stated, financial information in relation to the Group referred to in this document has been extracted without material adjustment from the Historical Financial Information set out in Schedule III (*Historical Financial Information*) to the Registration Document or has been extracted from those of the Group's accounting records that have been used to prepare that financial information. Investors should

ensure that they read the whole of this document and not only rely on the key information or information summarised within it.

Ernst & Young LLP's report on the Historical Financial Information is set out on pages F-1 to F-2 in Schedule III (*Historical Financial Information*) to the Registration Document. Unless otherwise indicated, none of the financial information relating to the Group or any operating information relating to the Group has been audited (even where such operating information includes certain financial metrics).

### **13.2 Industry and market data**

Where third party information has been used in this document, the source of such information has been identified. The Company confirms that such information has been accurately reproduced and, so far as it is aware and has been able to ascertain from information published by such third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading.

## **14. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents may be inspected at the registered office of the Company at 100 Victoria Embankment, London EC4Y 0HQ, United Kingdom and at the offices of Slaughter and May, One Bunhill Row, London EC1Y 8YY, United Kingdom during normal business hours on any weekday (Saturdays, Sundays and UK public holidays excepted) up to and including the date of Admission:

- (A) the Articles;
- (B) the Historical Financial Information as set out in Schedule III (*Historical Financial Information*) to the Registration Document and Ernst & Young LLP's report thereon;
- (C) the unaudited pro forma financial information and the report thereon by Ernst & Young LLP, as set out in Part VIII (*Unaudited Pro Forma Financial Information*) of the Registration Document;
- (D) the written consent letter of Ernst & Young LLP referred to in section 21 of Part XI (*Additional Information of the Registration Document*); and
- (E) a copy of this document, the Registration Document and the Summary.

Copies of this document are also available for inspection on the National Storage Mechanism at [www.hemscott.com/nsm.do](http://www.hemscott.com/nsm.do).

For the purposes of item 3.2.4 of the Prospectus Rules, this document, the Registration Document and the Summary will be published in printed form and available free of charge, during normal business hours on any weekday (Saturdays, Sundays and UK public holidays excepted) for a period of 28 days from the date of publication of this document at the Company's registered office and at the offices of the Underwriters and the Intermediaries. In addition, this document, the Registration Document and the Summary will be published in electronic form and be available on the Company's website at [www.royalmailgroup.com](http://www.royalmailgroup.com), subject to certain access restrictions applicable to persons located outside the UK.

## SCHEDULE

### DEFINITIONS

The definitions set out below apply throughout this document, unless the context requires otherwise.

<b>"Admission"</b>	means the admission of the Ordinary Shares to the premium listing segment of the Official List and the admission of such shares to trading on the London Stock Exchange's main market for listed securities (in accordance with the Standards);
<b>"Application Form"</b>	means the form of application for Ordinary Shares in connection with the Direct Retail Offer including an Online Application;
<b>"Articles of Association" or "Articles"</b>	means the articles of association of the Company in force as of Admission;
<b>"Barclays"</b>	means Barclays Bank PLC;
<b>"Board"</b>	means the board of directors of the Company from time to time;
<b>"BofA Merrill Lynch"</b>	means Merrill Lynch International, London, United Kingdom (acting under the marketing name BofA Merrill Lynch);
<b>"Business Day"</b>	means any day other than a Saturday or Sunday on which banks are generally open for the transaction of business in London, other than solely for the purposes of trading and settlement in Euro;
<b>"certificated" or "in certificated form"</b>	means recorded on the relevant register as being held in certificated form and title to which may be transferred by means of a stock transfer form;
<b>"Chairman"</b>	means Donald Brydon CBE, whose details are set out in Part IV ( <i>Directors, Senior Managers, Corporate Governance and Remuneration</i> ) of the Registration Document;
<b>"Co-Lead Managers"</b>	means Investec Bank plc, Nomura International plc and RBC Europe Limited;
<b>"Companies Act"</b>	means the Companies Act 2006 of England and Wales, as amended, supplemented or replaced from time to time;
<b>"Company"</b>	means Royal Mail plc, a company incorporated in England and Wales with registered number 08680755 whose registered office is 100 Victoria Embankment, London EC4Y 0HQ, United Kingdom;
<b>"Corporate Reorganisation"</b>	means the corporate reorganisation of the Group in connection with Admission that occurred between 12 September 2013 and 19 September 2013, further details of which are set out in section 2.3 of Part VII ( <i>Information About the Ordinary Shares</i> );
<b>"CREST"</b>	means the system for the paperless settlement of trades in securities and the holding of uncertificated securities in accordance with the CREST Regulations operated by Euroclear UK;
<b>"CREST Regulations"</b>	means The Uncertificated Securities Regulations 2001 (SI 2001 No. 3755), as amended from time to time;
<b>"Directors"</b>	means the directors of the Company;
<b>"Direct Retail Offer"</b>	means the offer by the Selling Shareholder of Ordinary Shares to retail investors in the UK and to Permitted Service Personnel as described in, and pursuant to, the terms and conditions of the Direct Retail Offer set out in, Part III ( <i>Information About the Offer</i> );

<b>"Disclosure and Transparency Rules"</b>	means the disclosure rules and transparency rules made by the FCA under Part VI of FSMA (as set out in the FCA Handbook), as amended;
<b>"EEA Passport Jurisdiction"</b>	means Belgium, Cyprus, Germany, Gibraltar and Italy (being jurisdictions into which the UK Listing Authority will, before a public offer is made in such jurisdiction, have provided to the competent authority in each such jurisdiction a certificate of approval attesting that the Prospectus has been drawn up in accordance with the provisions of the Prospectus Directive and Commission Regulation (EC) No. 809/2004);
<b>"EEA State"</b>	means a state which is a contracting party to the agreement on the European Economic Area signed at Oporto on 2 May 1992, as it has effect for the time being;
<b>"Eligible Employee"</b>	means an employee or director of the Company and/or RMG (either full-time or part-time) as at 10 July 2013 who remains employed continuously by the Company and/or RMG, in the case of: (i) the Employee Free Shares Offer, up to the date of the award of Employee Free Shares on or around Admission; and (ii) the Employee Priority Offer, up to 12 September 2013 and has a UK address and is located in the UK, and in either case has any earnings which are or would be (if there were any earnings) subject to UK tax;
<b>"Employee Free Shares"</b>	means the Ordinary Shares which have been offered to Eligible Employees for free under the Employee Free Shares Offer to be awarded on or around Admission on and subject to the terms of the Royal Mail Share Incentive Plan;
<b>"Employee Free Shares Offer"</b>	means the offer of Employee Free Shares to Eligible Employees;
<b>"Employee Priority Application Form"</b>	means an Application Form submitted by Eligible Employees in the Employee Priority Offer;
<b>"Employee Priority Offer"</b>	means that part of the Direct Retail Offer that is allocated to Eligible Employees on a priority basis;
<b>"EU" or "European Union"</b>	means the European Union first established by the treaty made at Maastricht on 7 February 1992;
<b>"Euro" or "€"</b>	means the single currency of Member States that adopt or have adopted the euro as their lawful currency under the legislation of the EU or European Monetary Union;
<b>"Euroclear UK"</b>	means Euroclear UK & Ireland Limited (formerly named CRESTCo Limited), the operator of CREST;
<b>"Executive Directors"</b>	means Moya Greene, Matthew Lester and Mark Higson, whose details are set out in Part IV ( <i>Directors, Senior Managers, Corporate Governance and Remuneration</i> ) of the Registration Document;
<b>"FCA" or "Financial Conduct Authority"</b>	means the Financial Conduct Authority of the UK;
<b>"FCA Handbook"</b>	means the FCA's Handbook of Rules and Guidance;
<b>"Free Shares"</b>	has the meaning given in section 6.4 of Part VIII ( <i>Additional Information</i> );
<b>"FSMA"</b>	means the Financial Services and Markets Act 2000, as amended;
<b>"GLS Facility"</b>	means the £500 million credit facility dated 7 February 2005 (as amended from time to time) between RMG (as borrower) and the Secretary of State (as lender), further details of which are set out in

	section 16.5(B) of Part XI ( <i>Additional Information</i> ) of the Registration Document;
<b>"Group"</b>	means the Company and its subsidiaries;
<b>"Historical Financial Information"</b>	means the consolidated financial information for RMG and its subsidiaries for the 13 weeks ended 30 June 2013, FYE 2013, FYE 2012 and FYE 2011 (as reported on by Ernst & Young LLP) and the 13 weeks ended 24 June 2012, as set out in Schedule III ( <i>Historical Financial Information</i> ) to the Registration Document;
<b>"HMRC"</b>	means HM Revenue & Customs;
<b>"IAS"</b>	means International Accounting Standard;
<b>"IASB"</b>	means the International Accounting Standards Board;
<b>"IFRS"</b>	means International Financial Reporting Standards issued by the IASB and adopted for use in the EU;
<b>"Institutional Offer"</b>	means the offer by the Selling Shareholder of Ordinary Shares to certain institutional investors, including QIBs in the United States, described in Part III ( <i>Information About the Offer</i> );
<b>"Intermediaries"</b>	means the entities listed in section 7 of Part VIII ( <i>Additional Information</i> ), together with any other intermediary financial institution (if any) that is appointed by the Secretary of State and the Selling Shareholder in connection with the Intermediaries Offer after the date of this document and agrees to adhere to and be bound by the Intermediaries Terms and Conditions;
<b>"Intermediaries Offer"</b>	means the offer by the Selling Shareholder of Ordinary Shares to Intermediaries described in Part III ( <i>Information About the Offer</i> );
<b>"Intermediaries Terms and Conditions"</b>	means the terms and conditions agreed between the Secretary of State, the Selling Shareholder and the Intermediaries in relation to the Intermediaries Offer;
<b>"Internal Revenue Code"</b>	means the US Internal Revenue Code of 1986, as amended;
<b>"Investor"</b>	means any person who acquires Ordinary Shares pursuant to the Offer;
<b>"IRS"</b>	means the Internal Revenue Service of the United States Department of Treasury;
<b>"Joint Bookrunners"</b>	means Barclays Bank PLC, Goldman Sachs International, BofA Merrill Lynch and UBS Limited;
<b>"Joint Global Co-ordinators"</b>	means Goldman Sachs International and UBS Limited;
<b>"Listing Rules"</b>	means the listing rules made by the UK Listing Authority under Part VI of FSMA (as set out in the FCA Handbook), as amended;
<b>"London Stock Exchange"</b>	means the London Stock Exchange plc or its successor(s);
<b>"LTIP"</b>	means the Long Term Incentive Plan, the principal terms of which are summarised in section 10.2 of Part XI ( <i>Additional Information</i> ) of the Registration Document;
<b>"Mails Facilities"</b>	means the £1,044 million credit facilities agreement dated 20 December 2002 (as amended and restated from time to time) between RMG (as borrower) and the Secretary of State (as lender), further details of which are set out in section 16.5(A) of Part XI ( <i>Additional Information</i> ) of the Registration Document;

<b>“Major Shareholder”</b>	means any Shareholder who is directly or indirectly interested (within the meaning of the Companies Act) in three per cent. or more of the issued share capital of the Company;
<b>“Matching Shares”</b>	has the meaning given in section 6.4 of Part VIII ( <i>Additional Information</i> );
<b>“Member States”</b>	means member states of the European Union;
<b>“Model Code”</b>	means the code set out at Annex 1 to Rule 9 of the Listing Rules;
<b>“New Facilities”</b>	means the £1,400,000,000 term loan facility and the revolving credit facility dated 12 September 2013 between RMG (as borrower and guarantor), certain financial institutions and The Royal Bank of Scotland PLC (as agent), further details of which are set out in section 16.5(D) of Part XI ( <i>Additional Information</i> ) of the Registration Document;
<b>“Nominee”</b>	means Equiniti Limited;
<b>“Nomura”</b>	means Nomura International plc;
<b>“Non-Executive Directors”</b>	means Donald Brydon CBE, Orna Ni-Chionna, John Allan CBE, Jan Babiak, Nick Horler, Cath Keers, Paul Murray and Les Owen, whose details are set out in Part IV ( <i>Directors, Senior Managers, Corporate Governance and Remuneration</i> ) of the Registration Document;
<b>“Ofcom”</b>	means the Office of Communications established under the Communications Act 2003 acting in its capacity as the regulator of postal services in the UK pursuant to the PSA;
<b>“Offer”</b>	means the offer of the Ordinary Shares pursuant to the Institutional Offer and the Retail Offer to investors in the UK and elsewhere as described in Part III ( <i>Information About the Offer</i> ). For the avoidance of doubt, the Employee Free Shares Offer is not part of the Offer;
<b>“Offer Period”</b>	means the period beginning on the date of this document and ending on 8 October 2013;
<b>“Offer Price”</b>	means the price at which the Ordinary Shares are to be offered and sold under the Offer;
<b>“Offer Size”</b>	means the number of Ordinary Shares to be sold pursuant to the Offer;
<b>“Offer Size Range”</b>	means the range within which the Offer Size is currently expected to be set, being between 401,000,000 Ordinary Shares and 521,739,130 Ordinary Shares (excluding any Ordinary Shares which may be over-allotted pursuant to the Over-allotment Arrangements);
<b>“Offer Website”</b>	means the Offer website at <a href="http://www.gov.uk/royalmailshares">www.gov.uk/royalmailshares</a> ;
<b>“Official List”</b>	means the official list of the UK Listing Authority;
<b>“Online Application”</b>	means an application for Ordinary Shares in the Direct Retail Offer (including an Employee Priority Application Form) completed and submitted online on the Offer Website;
<b>“Ordinary Shares”</b>	means the ordinary shares with a nominal value of 1p each in the capital of the Company;
<b>“Over-allotment Arrangements”</b>	means the arrangements described in Part III ( <i>Information About the Offer</i> ) pursuant to which Ordinary Shares representing up to an additional 15 per cent. of the Ordinary Shares comprised in the Offer may be made available to Investors;



<b>“Over-allotment Option”</b>	means the option granted by the Selling Shareholder to the Stabilising Manager to buy Ordinary Shares at the Offer Price, in accordance with the Over-allotment Arrangements;
<b>“Overseas Shareholders”</b>	means holders of Ordinary Shares with registered addresses outside the UK or who are citizens of, incorporated in, registered in or otherwise resident in, countries outside the UK;
<b>“Parcelforce Worldwide”</b>	means the business of the Group conducted by UKPIL under the “Parcelforce Worldwide” brand;
<b>“Partnership Shares”</b>	has the meaning given in section 6.4 of Part VIII ( <i>Additional Information</i> );
<b>“pence” or “p”</b>	means the lawful currency of the UK;
<b>“Permitted Service Personnel”</b>	means members of the regular forces as defined in section 374 of the Armed Forces Act 2006 who are located outside the UK who have been specifically notified by or on behalf of the Secretary of State that they are eligible to apply for Ordinary Shares in the Direct Retail Offer as if they were located in the UK (which excludes members of the regular forces located in the United States, Canada, Australia and Japan);
<b>“Pounds” or “£” or “Pounds Sterling”</b>	means the lawful currency of the UK;
<b>“Pre-Admission Articles”</b>	means the articles of association of the Company in force with effect from the Company’s incorporation which, on Admission, will be replaced by the Articles;
<b>“Prescribed Application Amounts”</b>	has the meaning given in section 9 of Part III ( <i>Information About the Offer</i> );
<b>“Price Range”</b>	means the range within which the Offer Price is currently expected to be set, being between £2.60 to £3.30 per Ordinary Share;
<b>“Pricing Statement”</b>	means the statement expected to be published by the Company on or around 11 October 2013, in which the Offer Price and the Offer Size will be announced;
<b>“Prospectus”</b>	means the prospectus issued by the Company in relation to the Offer, comprising this document, the Registration Document and the Summary prepared, published and approved by the UK Listing Authority in accordance with the Prospectus Rules;
<b>“Prospectus Directive”</b>	means the EU Prospectus Directive (2003/71/EC) (and amendments thereto);
<b>“Prospectus Rules”</b>	means the prospectus rules made by the UK Listing Authority under Part VI of FSMA (as set out in the FCA Handbook), as amended;
<b>“PSA”</b>	means the Postal Services Act 2011 of the UK;
<b>“Qualified Institutional Buyer” or “QIB”</b>	has the meaning ascribed to it by Rule 144A;
<b>“Receiving Agent”</b>	means Equiniti Limited;
<b>“Reduction of Capital”</b>	has the meaning given in section 2.2 of Part VII ( <i>Information About the Ordinary Shares</i> );
<b>“Registrar”</b>	means Equiniti Limited;
<b>“Registration Document”</b>	means the Registration Document produced under the Prospectus Rules, which, together with this document and the Summary, constitutes the Prospectus;
<b>“Regulation S”</b>	means Regulation S under the US Securities Act;

<b>“Regulatory Information Service”</b>	means one of the regulatory information services authorised by the UK Listing Authority to receive, process and disseminate regulatory information from listed companies;
<b>“Relationship Agreement”</b>	means the relationship agreement between the Company, the Selling Shareholder and the Secretary of State dated 27 September 2013, further details of which are set out in section 16.1(A) of Part XI ( <i>Additional Information</i> ) of the Registration Document;
<b>“Retail Offer”</b>	means the retail offer by the Selling Shareholder in the UK pursuant to the Direct Retail Offer and the Intermediaries Offer and, in relation to the Direct Retail Offer only, to Permitted Service Personnel;
<b>“RMG”</b>	means Royal Mail Group Limited, a subsidiary of the Company;
<b>“Royal Mail”</b>	means the business of the Group conducted by UKPIL under the “Royal Mail” brand and which includes the collection, sorting and delivery of letters and parcels as part of the Universal Service Obligation;
<b>“Royal Mail Nominee Share Service”</b>	means the arrangements for the holding of Ordinary Shares by the Nominee, the terms and conditions of which are set out in Part V ( <i>Terms and Conditions of the Royal Mail Nominee Share Service</i> );
<b>“Royal Mail Share Incentive Plan”</b>	means the Royal Mail Share Incentive Plan to be constituted by a trust deed to be made between the Company and Equiniti Share Plan Trustees Limited (as trustee) and established as part of the arrangements which the Secretary of State is required to make by section 3 of the PSA, further details of which are set out in section 3 of Part IV ( <i>Employee Free Shares Offer</i> ) and section 6 of Part VIII ( <i>Additional Information</i> );
<b>“Rule 144A”</b>	means Rule 144A under the US Securities Act;
<b>“SDRT”</b>	means stamp duty reserve tax;
<b>“SEC”</b>	means the United States Securities and Exchange Commission;
<b>“Secretary of State”</b>	means the Secretary of State for Business, Innovation and Skills;
<b>“Selling Shareholder”</b>	means Postal Services Holding Company plc (formerly named Royal Mail Holdings plc), which is wholly-owned by the Secretary of State;
<b>“Senior Managers”</b>	means the individuals listed in section 2 ( <i>Directors, Senior Managers, Corporate Governance and Remuneration</i> ) of the Registration Document;
<b>“Share Account Statement”</b>	means a statement of a person’s holding of Ordinary Shares in the Royal Mail Nominee Share Service;
<b>“Shareholder(s)”</b>	means holder(s) of Ordinary Shares from time to time;
<b>“Solid Solutions”</b>	means Solid Solutions Associates (UK) Limited;
<b>“Sponsor”</b>	means Barclays Bank PLC;
<b>“Stabilising Manager”</b>	means UBS Limited;
<b>“Standards”</b>	means the current edition of the Admission and Disclosure Standards produced by the London Stock Exchange;
<b>“State Aid”</b>	has the meaning attributed to it in section 1.1 of part B of Part X ( <i>Regulation, State Aid and Procurement</i> ) of the Registration Document;

<b>“stock account”</b>	means an account within a member account in CREST to which a holding of a particular share or other security in CREST is credited;
<b>“Stock Lending Agreement”</b>	means the stock lending agreement to be dated the date of the Pricing Statement between the Selling Shareholder and the Stabilising Manager;
<b>“Subordinated Facility”</b>	means the £300 million subordinated term loan facility deed dated 19 March 2007 between RMG (as borrower) and the Secretary of State (as lender), further details of which are set out in section 16.5(C) of Part XI ( <i>Additional Information</i> ) of the Registration Document;
<b>“Summary”</b>	means the summary produced under the Prospectus Rules, which, together with this document and the Registration Document, constitutes the Prospectus;
<b>“Takeover Code”</b>	means the City Code on Takeovers and Mergers;
<b>“Takeover Panel”</b>	means the Panel on Takeovers and Mergers;
<b>“UK”</b>	means the United Kingdom of Great Britain and Northern Ireland;
<b>“UK Listing Authority”</b>	means the Financial Conduct Authority acting in its capacity as the competent authority for the purposes of Part VI of FSMA;
<b>“UKPIL”</b>	means the UK Parcels, International and Letters division of the Group which includes Royal Mail and Parcelforce Worldwide, further details of which are set out in section 4 of Part II ( <i>The Business</i> ) of the Registration Document;
<b>“uncertificated” or “in uncertificated form”</b>	means recorded on the relevant register of the share or security concerned as being held in uncertificated form in CREST and title to which, by virtue of the CREST Regulations, may be transferred by means of CREST;
<b>“Underwriters”</b>	means the Joint Global Co-ordinators, the Joint Bookrunners and the Co-Lead Managers, whether acting in their capacity as underwriters or otherwise;
<b>“Underwriting Agreement”</b>	means the agreement between the Secretary of State, the Selling Shareholder, the Company and the Underwriters dated 27 September 2013 details of which are set out in section 16.1(B) of Part XI ( <i>Additional Information</i> ) of the Registration Document;
<b>“United States” or “US”</b>	means the United States of America, its territories and possessions, any state of the United States and the District of Columbia;
<b>“Universal Service Obligation” or “USO”</b>	means the obligation imposed on RMG to provide the universal postal service in the UK pursuant to, and in accordance with, certain minimum standards set out in conditions imposed by Ofcom under section 36 of the PSA, further details of which are set out in section 2.2 of Part X ( <i>Regulation, State Aid and Procurement</i> ) of the Registration Document;
<b>“US Dollars” or “USD” or “US\$”</b>	means the lawful currency of the United States;
<b>“US Exchange Act”</b>	means the US Securities Exchange Act of 1934, as amended;
<b>“US Securities Act”</b>	means the US Securities Act of 1933, as amended; and
<b>“VAT”</b>	means value added tax.

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