

ROYAL MAIL DEFINED CONTRIBUTION PLAN



**The Royal Mail
Defined Contribution Plan**

The future is closer than you think.

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

PSR 12000324

ROYAL MAIL DEFINED CONTRIBUTION PLAN

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Trustees and their Advisers - year ended 31 March 2018

Trustees	Law Debenture Pension Trust Corporation - Chair (represented by Michael Chatterton) Capital Cranfield Pensions Trustees Limited - Independent Trustee (represented by Allan Course) Jon Millidge - Employer Nominated Ian Brookfield - CWU Member Nominated Anne Turrell - Employer Nominated Nicholas Stinton - CWU Member Nominated Andy Aston - CMA Member Nominated
Secretary	Ben Piggott BA IMC Royal Mail Defined Contribution Plan 2 nd Floor, 11 Ironmonger Lane London EC2V 8EY
Plan Administrator	Zurich Assurance Ltd PO Box 1073 Cheltenham Gloucestershire GL50 9NN
Auditor	KPMG LLP
Banker	Lloyds TSB Bank plc
Investment Consultant	Lane Clark & Peacock LLP ("LCP")
Insurer	Zurich Assurance Limited
Investment Managers (Accessed via an Insurance policy with Zurich Assurance Ltd)	Legal & General Investment Management HSBC (UK) Investment Limited BlackRock Investment Management (UK) Ltd Lazard Asset Management Ltd Fulcrum Asset Management LLP Kames Capital Plc Newton Investment Management Ltd Dodge & Cox Worldwide Investments Ltd
Governance Consultant	JLT Benefit Solutions Limited
Legal Adviser	Hogan Lovells International LLP
Communications Consultant	Quietroom Ltd

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Trustee details

Michael Chatterton MA FIA – Chair

Michael Chatterton joined as Chair of the Trustees in December 2012. He represents and is a director of Law Debenture Pension Trust Corporation, which is a professional independent trustee of pension schemes. Michael has over 25 year's professional services experience of working with pension funds. During that time he has acted as Trustee, Scheme Actuary, corporate adviser, client relationship manager and chief executive. Michael is a Fellow of the Institute of Actuaries.



Allan Course BSc AKC AIA

Allan Course provides professional independent trustee services to occupational pension schemes on behalf of Capital Cranfield Pension Trustees. Capital Cranfield was appointed as a Trustee in April 2009. Allan Course is an actuary and has worked in pensions for over 30 years. Prior to joining Capital Cranfield, he was a partner at Watson Wyatt, a worldwide firm of actuaries and consultants.



Jon Millidge BA FCMA FCIPD

Jon Millidge is Group HR Director of Royal Mail Group. He is one of the original Trustees from the commencement of the Plan in April 2008. He joined the Company directly from university in 1985, and has held a wide range of senior management positions across the businesses of the Group. He is a Fellow of the Chartered Institute of Management Accountants.



Ian Brookfield

Ian Brookfield joined the Trustees as the first CWU administered member nominated trustee with formal appointment on 25 June 2014. He has worked for Royal Mail for 6 years and is the Area Delivery Rep for the Wolverhampton and District sector. Ian is also a Wolverhampton City Councillor and was recently Mayor of Wolverhampton. He also sits on the West Midlands local Government pensions board.



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Anne Turrell FCIPD

Anne has worked for Royal Mail for the past 25 years and was appointed as an employer nominated Trustee on 25 June 2014. She has wide senior management experience and has held both large operational leadership roles and more recently key Human Resources roles. She has experience of working in the Regions and her current role is that of Director for HR Shared Services. As well as her main role, for the past 2 years Anne has also acted as the RM Liaison for our reserved occupation employees.



Nicholas Stinton BSc (Hons)

Nic has worked for Royal Mail as a Postman for the last 6 years and was appointed as the second CWU administered member nominated trustee in September 2015. He is based in the Ilkley delivery office in West Yorkshire. Prior to joining Royal Mail Nic had been employed by a number of High Street retailers purchasing sports and fashion ranges for their UK and European shops. Latterly he was the Buying and Merchandising Manager for a successful football team and was responsible for running their retail operations.



Andy Aston MSc FCMI MCIPD RAF (Ret'd)

Andy joined Royal Mail on the Senior Talent Entry Programme in 2010 and was appointed as a CMA Unite administered member nominated Trustee on 1 September 2016. During his Royal Mail career Andy has worked in operational roles and then as the Head of Workforce Planning for Logistics; he is currently the Head of People Change responsible for the people impacts of major programmes and projects across the Post & Parcels operation. Prior to joining Royal Mail Andy served for 23 years in the Royal Air Force undertaking a wide variety of tours of duty from operational flying to personnel focused and change management roles. Andy has also previously acted as Trustee for a Charity.



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Trustees' Report - year ended 31 March 2018

Introduction

This is the Annual Report of the Royal Mail Defined Contribution Plan (the Plan) for the year ended 31 March 2018. The Plan was established on 1 April 2008.

The Plan provides retirement and death-in-service benefits for eligible employees of Royal Mail Group Limited (the principal employer) (RMG). The assets of the Plan are held in trust and are managed independently from the finances of RMG by the Trustees. The Plan is a contracted-in defined contribution plan and is administered by Zurich in accordance with the Trust Deed and Rules, solely for the benefit of its members and other beneficiaries. The Plan is registered with HMRC as a tax exempt pension scheme and is the employer's auto enrolment compliant vehicle.

Key Events during 2017-18

- Migrated the Plan's administration system to a more modern platform;
- Assessed and implemented the changes as a result of RMG's pensions reform programme;
- Appointed a new communications consultant to improve member engagement;
- Assessed cyber security risks to the Plan;
- Monitored the Pilot scheme of a new retirement advice service;
- Reviewed the components of the Default investment strategy, including the potential of adding new asset classes;
- Agreed and implemented the Trustee training plan for 2018; and
- Agreed the budget for the 2018/19 Plan year.

Management of the Plan

Four of the Trustees have been nominated by RMG, including the independent Chair, and three were nominated by members. All Trustees are appointed by RMG. No matter who nominates them, each Trustee is responsible for protecting the benefits of all members. Each Trustee contributes his or her own blend of business knowledge and experience when making decisions relating to the Plan. The Trustees have introduced an annual strategy day to separately assess and evaluate the strategic and business plans and structure of the Board to ensure the continued appropriateness of the running of the Plan.

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Ian Brookfield resigned from the Board in April 2018 as he is no longer a member of the Plan and felt that his role would be better served by an active member of the Plan.

The Trustees are supported by the Secretary to the Trustees and other appropriate advisers who advise the Trustees on their responsibilities and ensure the Trustees' decisions are fully implemented.

Trustees' Meetings

Individual Trustees	Trustee meetings attended	Meetings could have attended
Mr M Chatterton Chair	5	5
Mr A Course	5	5
Mr J Millidge	2	5
Ms A Turrell	4	5
Mr I Brookfield	1	5
Mr N Stinton	5	5
Mr A Aston	5	5

The business matters addressed included:

- Annual Business Plan and review of the Strategic Plan;
- Investment Monitoring and review of the investment strategy;
- Trustee training;
- Risk Management including review of the Risk Register and Internal Controls;
- Renew the Trustees' liability insurance;
- Review of Communications strategy;
- Administration, Governance and Compliance Reports;
- Scheme Return for the Pensions Regulator;
- Assessment of Advisers and Service Providers; and
- Audit.

Discretions Committee

The Trustees have established a Discretions Committee has delegated authority to take appropriate decisions regarding discretionary benefits, such as death in service lump sum and ill-health benefits, on behalf of the Trustees in accordance with its

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Terms of Reference. The Committee conducts business by email correspondence and by meeting as and when required.

Communications Committee

The Trustees have established a Communications Committee which has delegated authority to take appropriate decisions regarding the Plan's communication materials and its overall communications strategy, on behalf of the Trustees in accordance with its Terms of Reference. The Committee conducts business by meeting at least quarterly.

Trustee Training

The Trustees follow the Trustee Knowledge and Understanding Code of Practice which was introduced by the Pensions Act 2004. There is a formal policy for the training of newly appointed trustees and on-going trustee training requirements. All trustees are required to complete the Pensions Regulator's training course, the "Trustee Toolkit". During the year, the Trustees received Plan specific training on investment strategies and beliefs; internal controls and risk management; ethical, social and governance matters; effective member communications; cyber security; Plan documentation; pension legislation and industry updates. The Trustees also completed a self-assessment on their own effectiveness as Trustees to help identify ways to make the running of the Plan more effective.

Plan Administration

The Trustees have delegated member and accounting administration to Zurich under contractual arrangements. These arrangements specify service levels against which the Trustees monitor performance. The Trustees migrated their administration service in November 2017 to the Zurich Corporate Savings Platform with a view to providing a more efficient service and a better member experience.

Contributions

Contributions to the Plan, received from members and RMG, were in accordance with the Payment Schedule as shown in the Trustees' Summary of Contributions (pages 38 and 39) and totalled £91.9 million during the year.

Transfer Values

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Members leaving service with more than 3 months qualifying service can normally transfer the value of their benefits under the Plan to another plan.

Risk Management and Internal Controls

The Trustees have established a risk management framework which enables them to review on a regular basis the risks faced by the Plan. Internal controls systems are reviewed as part of every meeting by the Trustees. The highest risk items this year relate to cyber security and a review of the Plan's arrangements is under way. Investments are also high risk and therefore the Trustees spend considerable time and resources in monitoring the existing investment strategy and options and assessing these on a regular basis to ensure they remain appropriate for the members of the Plan.

Voluntary Contributions

There is provision for members to pay additional voluntary contributions in order to increase their benefits under the Plan. Members can start making voluntary contributions or increase their contributions at any time. Full details are available on request from the Plan Administrator, Zurich, at the address shown on page 3 or details can be found on the Plan website www.zurich.co.uk/save/royalmaildcplan

Expression of Wish Forms

Lump sums payable in the event of a member's death are paid under "discretionary trust" and generally they will not be liable to Inheritance Tax.

Members can indicate to the Trustees the persons to whom they wish any benefits to be paid in the event of their death. The Trustees will then be able to take members' wishes into account, although they are not obliged to do so. Members are also urged to review their Expression of Wish Form from time to time, especially if their circumstances change.

Expression of Wish Forms are available on request from the Plan Administrator, Zurich, at the address shown on page 3 or can be downloaded from the Plan website www.zurich.co.uk/save/royalmaildcplan

Internal Dispute Resolution Procedures

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Disputes are dealt with in a two stage process. Initially any matter of dispute should be referred to the Secretary. If the complainant is not satisfied with the decision made by the Secretary, the member may ask the Trustees to reconsider the decision.

The procedures described above are in addition to members' rights to consult the Pensions Advisory Service (TPAS), and to contact the Pensions Ombudsman if not satisfied with the answer given to the complaint. Further information about the procedures and contact details are provided in the Plan Guide, which is available on request from the Plan Administrator, Zurich, at the address shown on page 3 or can be downloaded from the Plan website www.zurich.co.uk/save/royalmaildcplan

Further Information

Individual benefit statements are provided to active and deferred members annually. They were redesigned to help members see their key information more clearly. In addition to the information shown on these statements members can request details of their Member Account by contacting the Plan Administrator, Zurich, or by logging on to the Member Access website www.zurich.co.uk/save/royalmaildcplan

If members have any queries or complaints concerning the Plan in general or their own position, or wish to obtain further information, they should contact the Plan Administrator, Zurich.

Codes of Practice

The regulator issued Code of Practice 13 in November 2013. This code underpins the previously published quality features to help deliver good member outcomes and represents the standards expected of trustees to attain, and help demonstrate that the Trustees are complying with the legal requirements.

The Trustees have reviewed and assessed the Plan's administration on the new Zurich Platform. The systems, processes and controls across key governance functions are consistent with those set out in the regulator's Code of Practice 13 and regulatory guidance for DC schemes.

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Plan Membership

Changes to the membership of the Plan during the year are set out below:

Membership as at 1 April 2017

Active members	45,186
Deferreds	8,166

Membership as at 1 April 2017	53,352
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Prior year adjustments	1
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New entrants during the year	7,278
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Deduct:	Refunds	844
	Opt Outs	117
	Retirements	615
	Transfers out	194
	Deaths	85
		<hr/>
		(1,855)

Membership as at 31 March 2018	58,776
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Active members	47,521
Deferred	11,255

Membership as at 31 March 2018	58,776
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An additional 3,083 members were covered for life assurance only benefits under the Plan as at 31 March 2018 (2017: 1,949).

During the year ended 31 March 2018, 17 members of the Plan retired and purchased annuities with external insurance companies (2017: 19).

HM Revenue & Customs approval

The Plan is a 'registered pension scheme' in accordance with the Finance Act 2004. This means that the contributions paid by both the Company and the members qualify for full tax relief, and enables income earned from investments by the Trustees to receive preferential tax treatment.

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Other Information

The Trustees are required to provide certain information about the Plan to the Pension Tracing Service. This has been forwarded to:

The Pension Tracing Service
The Pension Service
Tyneview Park
Whitley Road
Newcastle Upon Tyne
NE98 1BA

The Pensions Ombudsman may investigate and determine any complaint or dispute of fact or law in relation to an Occupational Pension Scheme. Any such complaints should have gone through the internal disputes resolution procedure before being referred to the Ombudsman. Enquiries should be addressed to:

The Pensions Ombudsman
11 Belgrave Road
London
SE1V 1RB

The Pensions Advisory Service Limited is available at any time to assist members and beneficiaries with any questions or concerns regarding their pensions arrangements. The Pensions Advisory Service Limited may be contacted at:

The Pensions Advisory Service Limited
11 Belgrave Road
London
SW1V 1RB

The Pensions Regulator (TPR) was established with effect from 6 April 2005 to regulate occupational pension schemes, TPR replaced OPRA with effect from that date.

TPR's role is to act to protect the interests of pension plan members and to enforce the law as it applies to occupational pensions.

The regulations set out clearly the areas that TPR covers and the powers that are vested in it. For example, TPR can prohibit or disqualify trustees for acting unlawfully, and can impose fines on wrongdoers. TPR can be contacted at:

The Pensions Regulator

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Napier House
Trafalgar Place
Brighton
BN1 4DW

The Trust Deed and Rules, the Plan details and a copy of the payment schedule are available for inspection free of charge by contacting the Secretary to the Trustees at the address shown on page 3.

Any information relating to the members' own pension position should be requested from the Plan Administrator, Zurich at the address detailed on page 3 of this report or details can be found on the Plan website www.zurich.co.uk/save/royalmaildcplan

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Investment Report

Background

The Trustees are responsible for the investment of the Plan's assets and have prepared a Statement of Investment Principles (SIP) in accordance with Section 35 of the Pensions Act 1995. The SIP outlines the investment objectives and strategy for the assets of the Plan and is available on the Plan website.

The Trustees have delegated the day-to-day investment management to professional external investment managers. The Trustees set the investment strategy for the Plan after taking advice from the Plan's investment consultant. The Trustees have arranged administration and investment services through an insurance policy with Zurich. Under this arrangement contributions are invested in a range of pooled pension funds managed by a number of underlying managers.

Charges for administering the Plan and for providing investment and communication services depend on the fund(s) selected by the member. All charges are calculated on a daily basis as a percentage of the underlying assets. Further details of the charges are detailed in the Guide to Fund Charges which can be obtained from the Plan Administrator, Zurich, at the address shown on page 3 or can be downloaded from the Plan website. www.zurich.co.uk/save/royalmaildcplan

The Trustees' objective is to make available to members of the Plan an appropriate range of investment options designed to generate income and capital growth, which together with new contributions from members and their employer, will provide a Member Account at retirement with which members can make their retirement choices.

Members can choose from the following investment funds:

- Growth
- Active Diversified
- Diversified Assets
- Global Equity
- Active Global Equity
- Active Emerging Market Equity
- Diversified Bonds
- Inflation Linked Bonds
- Annuity Bonds
- Cash
- Ethical

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- Shariah

In addition to the range of funds listed above, the Trustees also provide three "Lifecycle" options to members. The Lifecycle options are described in the SIP. The 10 year Lifecycle option which switches investments from Growth into Diversified Bonds and Cash is the "default" investment option for the Plan for members who do not wish to select their own investment option(s).

The Trustees conducted an investment review in 2017 with the Plan's investment advisor, LCP, given the Plan has seen a material growth of assets and members. The Pensions Freedoms legislation means that members can access their assets after the age of 55 years old. Therefore, the Trustees have decided that members below 55 years can take on a higher level of risk and a new lifecycle strategy will be implemented in October 2018.

The Trustees annually assess the investment managers' policies on social, environmental and governance issues and the actions they take, and are satisfied with them. The Trustees have delegated to the investment managers responsibility for taking social, environmental and governance policy into account in the selection, retention and realisation of investments and for exercising the rights attaching to investments. In particular, the Trustees are supportive of the Financial Reporting Council's UK Stewardship Code and are mindful that the Plan's investments are managed in accordance with it.

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Commentary on Investment Markets for the year ended 31 March 2018

Economic overview

The OECD estimates that upswings in investment and trade growth resulted in in global GDP increasing by 3.7% in 2017 - this is the largest improvement in global growth since 2010. On the back of this momentum, and coupled with fiscal stimulus in the US and Germany, both the IMF and OECD raised their global growth expectations for both 2018 and 2019.

In the UK, after a rocky start following a negative reaction to Teresa May's snap general election, Brexit negotiations were seen to be progressing into early 2018 and this aided a rise in sterling. In November, the Bank of England raised rates to 0.5% - the first rate rise in a decade.

Generally US economic data, and financial markets posted strong returns over the annual period to March 2018. However two interest rate hikes by the Federal Reserve in December 2017 and subsequently unexpectedly high reported inflation figures helped to unnerved markets during the first quarter of 2018 along with the possibility of a trade war breaking out between the US and China.

Equities

Global equities produced positive returns over the year with emerging markets producing the biggest returns. Equities in the US, Europe and Japan also delivered positive returns. The Plan's passive global equity fund used within the Growth Fund, the accumulation vehicle of the default strategy, returned 5.5% over the year; this was broadly in line with the benchmark index return. The Plan's actively managed self-select global equity fund returned 2.1% over the year underperforming its benchmark index return by 3.3%

UK equities delivered muted returns over the year. During 2017, UK equities shrugged off Brexit implications and performed strongly against a backdrop of rising commodity prices and strengthening economic growth. The gains in 2017 were offset by falls in January and February 2018 as UK equities with overseas earnings were negatively impacted by sterling's strength.

Emerging markets were the stronger performer amongst equity markets over the year to 31 March 2018. The Plan's actively managed emerging markets fund delivered a strong return of 10.3% over the year though it was slightly behind its benchmark index result.

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The Plan's self-select options, the Ethical Fund and the Sharia Fund returned 0.5% and 2.1% respectively, similar to their respective benchmark returns.

Bonds

Gilt yields remained close to historical lows over the year with investors investing in safe-haven assets in what continued to be a low growth yet volatile market. UK gilt yields were volatile over the year, rising in the first half and falling in the second. The Bank of England interest rate rise was already anticipated by many investors and had minimal impact on market levels. Gilt yields subsequently fell after the interest rate rise with inflation concerns moderating.

The Plan's passive index linked gilt fund returned -0.2% over the year, in line with its benchmark return while the Plan's Pre-Retirement Fund returned 1.1%, again in line with its benchmark result.

Corporate bonds delivered muted returns over the year, returning 1.9%. Credit spreads increased over the first three months of 2018, as volatility in risk markets increased, although the rise in credit spreads was offset by falling bond yields.

The Plan's Diversified Bond fund, a component of the default from 10 years to retirement, returned 0.7% against a target return of 2.2% in what was a difficult market period for bond managers.

Alternative assets

The Plan's diversified growth portfolios, the Active Diversified Fund and the Diversified Assets fund both produced positive performance over the last twelve months returning 2.0% and 4.8% respectively (net of fees). Both funds' positive returns were driven by equity returns and allocations to alternative assets with bond holdings less of a contributor. The Active Diversified Fund performance was disappointing compared to the fund benchmark of 7.3% however, and the Trustee is currently reviewing the allocation to this fund.

The content of the above investment market commentary was provided by Lane Clarke & Peacock LLP ("LCP").

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Investment Performance

The table below details the performance of the Plan's fund options after fees to 31 March 2018:

Fund Name	1 year		3 year	
	Fund %	Target %	Fund %	Target %
Growth*	4.6	6.0	4.8	6.4
Active Diversified*	2.0	7.3	-0.4	6.7
Diversified Assets*	4.8	3.6	3.9	3.7
Global Equity	5.5	5.6	7.4	7.4
Active Global Equity	-2.1	1.2	9.9	10.0
Active Emerging Market Equity	10.3	11.2	15.5	10.9
Diversified Bonds*	0.7	2.2	-	-
Inflation Linked Bonds	-0.2	-0.2	7.1	7.1
Annuity Bonds	1.1	1.1	4.7	4.7
Cash	0.3	0.2	0.4	0.3
Ethical	0.5	0.5	9.6	9.7
Shariah	2.1	2.4	10.9	11.1

*these funds are measured against a cash-plus or inflation-plus benchmark.

Source: Zurich and LCP.

The Trustees regularly monitor the performance of the Plan's funds and discuss the investments with their investment advisor at each quarterly Trustee meeting. Whilst the Trustees make a range of funds and strategies available to members, they recognise that 95% of members are invested in the default investment strategy. Therefore, the Trustees focus a proportionate amount of time on the performance of the Growth Fund and Diversified Bonds Fund.

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The changes made to the Growth Fund following the investment review in 2015 were so that the strategy is expected to achieve better risk adjusted returns after fees, without compromising the expected long term return. The Trustees accept that to achieve the Growth Fund's long term objective of returns above inflation, within the constraints of the Charge Cap, they have to accept some short term volatility due to the assets they are required to invest in.

The Trustees have noted that returns were lower than the previous year but are pleased that the Growth Fund has achieved returns above inflation over the long term. The Active Diversified Fund has continued to underperform and will not form part of the new strategy which will be implemented in October 2018. The Trustees are closely monitoring all of the actively managed funds, which have underperformed their benchmarks this year, accepting that some styles of active management will underperform in certain market situations.

The Trustees will continue to monitor the funds and strategies to ensure that they achieve their long term objectives and targets.

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Royal Mail Defined Contribution Plan Chairman's Statement

This statement is produced pursuant to Regulation 17 of the Occupational Pension Schemes (Charges and Governance) Regulations 2015. It explains how the Royal Mail Defined Contribution Plan is meeting the new governance standards that apply to occupational pension schemes that provide money purchase benefits.

Default arrangements

Members of the Plan who do not make an explicit choice regarding the investment of their funds will be invested in the default strategy arrangement.

The Trustees have been closely monitoring the Default investment strategy and its component parts. Alongside their investment advisor, the Trustees questioned the expected returns of both the diversified funds relative to their stated targets. It was concluded that the managers' stated targets appear optimistic in the view of the Trustees. The subsequent review concluded that members below 55 years old who cannot access their benefits can tolerate more risk in their strategy. Therefore a new strategy is being implemented moving to a three stage lifecycle rather than two. Members will invest in a high risk strategy, moving to a diversified growth strategy, moving to a bond strategy as they approach their selected retirement age.

The Trustees are continuing with the Pilot of a new retirement advice service which gives members regulated advice with a clear recommendation and implementation of that advice. Take up of the service has been limited and the Trustees are reviewing the communications before retirement to try to make sure members are aware of the service.

Details of the default investment arrangements can be found in the Investment Policy Implementation Document ("IPID"), which forms part of the Plan's Statement of Investment Principles ("SIP"). The SIP is reviewed at least every three years or as soon as any significant developments in investment policy or member demographics take place and was last updated in December 2015.

Processing Financial Transactions

The Trustees have a specific duty to secure that core financial transactions (including the investment of contributions, transfer of member assets into and out of the Plan, transfers between different investments within the Plan and payments to

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and in respect of members) are processed promptly and accurately.

These transactions are undertaken on the Trustees' behalf by the Scheme administrator, Zurich Assurance Ltd. The Trustees have reviewed the processes and controls and SLA's implemented by Zurich, and has concluded them to be suitably designed to achieve these objectives. The Trustees have also agreed service levels and reporting of performance against those service levels.

The Trustees will also receive periodic assessments of methods and efficiency of the Plan's administrators and will challenge them in terms of efficiency using available facilities including technological functionality. This includes daily monitoring of bank accounts and a dedicated contribution processing team.

No issues have been reported in the year under review. In light of the above, the Trustees consider that the requirements for processing core financial transactions specified in the Administration Regulations (The Occupational Pension Schemes (Scheme Administration) Regulations 1996) have been met.

Transaction Costs - Default Arrangement and Additional Funds

The law requires the Trustees to disclose the charges and transactions costs borne by DC scheme members and to assess the extent to which those charges and costs represent good value for money for members.

The funds within the default arrangement incur annual charges. Within the default strategy, the maximum fee occurs around four years before retirement and peaks at 0.73%. The Growth Fund fees, which most members are invested in, have a fee of 0.67%. This is below the charge cap of 0.75%.

The Trustees also make available a range of funds which may be chosen by members as an alternative to the default arrangement. The details of the current fund charges are available within the Plan's IPID.

The Trustees have a good understanding of the membership demographics of the Plan and as such have a view as to what good member outcomes should look like for the Plan's members in aggregate. With this in mind, the Trustees have assessed the fees disclosed above and they are satisfied that they have negotiated a good deal for members and that the stated explicit charges for the Plan's funds represent good value for money in

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the context of the outcomes targeted by such funds and the current market rates for similar investments levied on members of schemes with a similar membership profile.

Value Assessment

In line with the Occupational Pension Schemes Regulations (2015), the Trustees carried out an assessment of the Plan and whether, and to what extent, it offers value for money for members. An external independent consultant was brought in to carry out this assessment for the Trustees.

The Trustees decided to go beyond the statutory requirements and look in further detail at the following areas of assessment for value for members:

- Governance
- Design
- Investment
- Administration
- Communication
- Costs

The full results of the assessment can be obtained from the Plan Secretary (details are on page 3). The Trustees are pleased to state that the findings showed that the Plan offers value for money for members. The Trustees are committed to ensuring that members receive value for money from the Plan.

Trustees' Knowledge and Understanding

Sections 247 and 248 of the Pensions Act 2004 set out the requirement for trustees to have appropriate knowledge and understanding of the law relating to pensions and trusts, the funding of occupational pension schemes, investment of Plan assets and other matters to enable them to exercise their functions as trustees properly. This requirement is underpinned by guidance in the Pension Regulator's Codes of Practice 07 and 13.

The Trustees have put in place arrangements for ensuring that they take personal responsibility for keeping themselves up-to-date with relevant developments and carry out a self-assessment of training needs. The Secretary to the Trustees reviews the self-assessments annually and arranges for training to be made available to the Board of Trustees as appropriate at the quarterly Trustee meetings. In addition, the Trustees receive advice from professional advisors, and the relevant skills and

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experience of those advisors is a key criterion when evaluating advisor performance or selecting new advisors.

All of the existing Trustees have completed the Pension Regulator's Trustee Toolkit and new Trustees are required to complete this within six months of taking up office.

Taking account of actions taken individually and as a Trustee body, and the professional advice available to them, the Trustees consider that they are enabled properly to exercise their functions as Trustees of the Plan. Details of the training undertaken during the year can be found on page 7 of this report.

Other Plan Matters

The main project undertaken this Plan year was the migration of the Plan's administration from Zurich's "DCP" platform to their more modern "CSP" platform. The move was completed in November 2017 and will give members a 0.02% discount (of assets per annum) and better technology online to actively make appropriate choices about their retirement.

Another significant project was to prepare for RMG's pensions reform programme. This saw members default to the highest contribution rate, which the Trustees believe will better help members prepare for a more comfortable retirement.

The Trustees continue to prioritise the Plan communications. A new website has been set up, www.rmdcp.uk which will help members make better choices about their retirement savings.

Governance statement

As Trustees of the Plan, we have reviewed and assessed our systems, processes and controls across key governance functions and we are satisfied that these are consistent with those set out in The Pensions Regulator's:

- Code of Practice 13: Governance and administration of occupational defined contribution trust-based schemes; and
- Regulatory guidance for defined contribution schemes.

These are underpinned by the DC quality features.

Based on our assessment we believe that we have adopted the standards of practice set out in the DC code and DC regulatory guidance. These help demonstrate the presence of DC quality features, which we believe will help deliver better outcomes

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for members in retirement. The Trustees will be carrying out a formal assessment against the code of practice in 2018.

The Trustees would like to thank all those who have helped during this year's Plan operations.

For and on behalf of the Trustees,
Michael Chatterton, Chair of Trustees:

Date:

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Statement of Trustees' Responsibilities for the Financial Statements

The audited financial statements, which are to be prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, are the responsibility of the trustees. Pension scheme regulations require the trustees to make available to Plan members, beneficiaries and certain other parties, audited financial statements for each Plan year which:

- (i) show a true and fair view of the financial transactions of the Plan during the Plan year and of the amount and disposition at the end of the Plan year of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Plan year; and
- (ii) contain the information specified in the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement whether the accounts have been prepared in accordance with the Statement of Recommended Practice Financial Reports of Pension Schemes.

The trustees have supervised the preparation of the financial statements and have agreed suitable accounting policies, to be applied consistently, making estimates and judgements on a reasonable and prudent basis. They are also responsible for:

- assessing the Plan's ability to continue as a going concern, disclosing, as applicable, matters related to going concern;
- using the going concern basis of accounting unless they either intend to wind up Plan, or have no realistic alternative but to do so; and
- making available each year, commonly in the form of a trustees' annual report, information about the Plan prescribed by pensions legislation, which they should ensure is consistent with the financial statements it accompanies.

The trustees also have certain responsibilities in respect of contributions which are set out in the statement of trustees' responsibilities accompanying the trustees' summary of contributions.

The trustees are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether

ROYAL MAIL DEFINED CONTRIBUTION PLAN

due to fraud or error, and have a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to them to safeguard the assets of the Plan and to prevent and detect fraud and other irregularities.

ROYAL MAIL DEFINED CONTRIBUTION PLAN

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

ROYAL MAIL DEFINED CONTRIBUTION PLAN

Fund account for the year ended 31 March 2018

	Notes	2018 £'000	2017 £'000
Contributions & Benefits			
Employer contributions	2	90,792	81,315
Employee contributions	2	1,132	1,240
Total contributions		91,924	82,555
Transfers in from other plans	3	1,073	1,970
Other income	4	7,833	5,773
		8,906	7,743
Benefits	5	(12,941)	(9,674)
Leavers	6	(145)	(560)
Transfers from other plans	7	(2,557)	(2,714)
Other Payments	8	(963)	(1,242)
Administration expenses	9	(632)	(254)
		(17,238)	(14,444)
Net additions from dealings with members		83,592	75,854
Returns on investments			
Investment income	10	9	6
Change in market value of investments	11	16,230	37,306
Investment management expenses	12	(1,072)	(906)
Net returns on investments		15,167	36,406
Net increase in fund during the year		98,759	112,260
Net assets of the Plan at 1 April		378,284	266,024
Net assets of the Plan at 31 March		477,043	378,284

The notes on pages 26 to 35 form part of these financial statements.

ROYAL MAIL DEFINED CONTRIBUTION PLAN

Statement of Net Assets (available for benefits) as at 31 March 2018

	Notes	2018 £'000	2017 £'000
Allocated to members			
Pooled investment vehicles	11	472,709	372,443
Current assets	13	5,240	4,901
Current liabilities	14	(3,472)	(1,902)
		<u>474,477</u>	<u>375,442</u>
Not allocated to members			
Current assets	13	2,633	2,934
Current liabilities	14	(67)	(92)
		<u>2,566</u>	<u>2,842</u>
Net assets available for benefits		<u>477,043</u>	<u>378,284</u>

The financial statements summarise the transactions of the Plan and deal with the net assets at the disposal of the Trustees. They do not take into account obligations to pay benefits which fall due after the Plan year end.

The notes on pages 28 to 36 form part of these financial statements.

The financial statements on pages 26 to 27 were approved by the Trustees and were signed on its behalf by:

Trustee: Michael Chatterton (Chair)

Trustee:

Date:

ROYAL MAIL DEFINED CONTRIBUTION PLAN

Notes on the Annual Financial Statements

Accounting policies

1.1 Basis of preparation

The Financial Statements have been prepared in accordance with Financial Reporting Standard 102 - the Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council and with the guidance set out in the Statement of Recommended Practice (SORP) (revised November 2014). The Scheme Trustees have taken advantage of the option to adopt the revised Fair Value Hierarchy outlined in the amendment to FRS 102 (March 2016) for an accounting period earlier than that required in the Standard.

Where the financial statements refer to 31 March (no year stated), these dates are applicable to both financial years ended 31 March 2017 and 31 March 2018 (as per relevant column).

1.2 Valuation of investments

The investment assets of the Plan comprise units allocated to accounts held in members' names under the insurance policy issued to the Trustees.

These units are included at market value and are stated at the prices provided by the Plan administrator.

1.3 Change in market value

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments and unrealised changes in market value of investments held at year end.

1.4 Contributions

Normal contributions from employers and employees are made in accordance with the rates set out in the Payment Schedule in force for the Plan year. Contributions, including voluntary contributions, are accounted for on an accruals basis when deducted from payroll.

1.5 Benefits

Single cash sums on retirement or death are accounted for on an accruals basis based on the date of retirement or death.

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The purchase of annuities is the means by which the Trustees discharge their full liability to pay the pension of a retiring member of the Plan. The purchase of annuities is accounted for on an accruals basis.

Pension Funds are exempt from taxation except for certain withholding taxes.

1.6 Transfer values

Transfer values represent the capital sums either received in respect of members from previous pension arrangements or paid to new pension arrangements for members who have left service or opted out. They take account of transfers where the receiving pension arrangement has agreed to accept the liabilities in respect of the transferring members.

1.7 Opt Outs

Refunds of contributions in relation to members who opt out are accounted for on an accruals basis when invoiced by Royal Mail.

1.8 Investment Income

Investment income arising from the underlying investments from the pooled investment vehicles is rolled up and reinvested within the pooled investment vehicles. This is reflected in the unit price and reported within the change in market values which are provided on a daily basis.

1.9 Expenses

The expenses of the Plan are accounted for on an accruals basis.

2 Contributions

	2018 £'000	2017 £'000
Employers		
normal	90,792	81,315
Employees		
normal	902	956
additional voluntary contributions	230	284
	91,924	82,555

ROYAL MAIL DEFINED CONTRIBUTION PLAN

The Trustees introduced Pension Salary Exchange during the year ended 31 March 2016 so the total employers' contributions includes in essence, employee contributions.

3 Transfers in

	2018 £'000	2017 £'000
Individual transfers	1,073	1,970
	<u>1,073</u>	<u>1,970</u>

4 Other income

	2018 £'000	2017 £'000
Claims on life assurance policies	7,828	5,752
Other income	5	21
	<u>7,833</u>	<u>5,773</u>

5 Benefits payable

	2018 £'000	2017 £'000
Purchase of annuities	472	317
Lump sum death benefits	7,991	5,632
Commutations and lump sum retirement benefits	4,478	3,725
	<u>12,941</u>	<u>9,674</u>

The Trustees have an insurance policy which is held with Zurich Assurance Limited at year end to cover the Plan against the lump sum payment in the event of a member's death in service.

6 Leavers

	2018 £'000	2017 £'000
Refunds to members leaving service	145	560
	<u>145</u>	<u>560</u>

ROYAL MAIL DEFINED CONTRIBUTION PLAN

7 Transfers to other Plans

	2018 £'000	2017 £'000
Transfers to other schemes	2,557	2,714
	2,557	2,714

8 Other payments

	2018 £'000	2017 £'000
Group life assurance premium	669	1,000
Employer trustee reserve refund	292	241
Opt outs - return of contributions	2	1
	963	1,242

The Trustees paid £669,206 from the Employer Reserves towards the Plan Life Assurance Premium for the year ended 2018. The remaining balance of the premium is paid by RMG.

As with the Life Assurance premium, some administration expenses below are paid directly by RMG and some are paid from the Employer Reserve. The Trustees only include expenses paid from the Employer Reserve in these financial statements.

9 Administration expenses

	2018 £'000	2017 £'000
Professional charges	332	210
Other payments	298	5
Levies	1	38
Bank charges	1	1
	632	254

ROYAL MAIL DEFINED CONTRIBUTION PLAN

10 Investment income

	2018 £'000	2017 £'000
Bank Interest	9	6
	<u>9</u>	<u>6</u>

11 Investments

	2018 £'000	2017 £'000
Insurance policy - pooled investment vehicles:		
Market value at 1 April 2017	372,443	260,701
Purchases at cost	102,310	91,228
Disposals	(20,084)	(16,792)
Change in market value	16,230	37,306
Market value at 31 March 2018	<u>470,899</u>	<u>372,443</u>
Cash deposits	1,810	-
	<u>472,709</u>	<u>372,443</u>

The change in market value of investments during the year comprise all increases and decreases in market value of investments held at any time during the year including profits and losses recognised on sales during the year.

The companies operating the pooled investment vehicles are all registered in the United Kingdom. Investments purchased by the Plan are allocated to provide benefits to the individuals on whose behalf corresponding contributions are paid. The investment managers hold the investment units on a pooled basis for the Trustees through a policy of insurance with Zurich Assurance Limited. The Plan administrators allocate investment units to members. The Trustees may hold investment units representing the value of employer contributions that have been retained by the Plan that relate to members leaving the Plan prior to vesting.

The investments held as at 31 March were split as detailed below:

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Fund name	Market value at 01/04/17 £'000	Purchases at cost £'000	Disposals £'000	Change in market value £'000	Market value at 05/04/18 £'000
Active Diversified	455	102	(48)	11	520
Active Emerging Market Equity	125	353	(64)	(6)	408
Active Global Equity	166	187	(77)	(15)	261
Active Global Equity Fund (SSF)	-	1	(1)	-	-
Annuity Bonds	2,724	370	(446)	36	2,684
Cash	3,583	2,507	(1,905)	11	4,196
Diversified Assets	572	139	(59)	26	678
Diversified Bond	22,008	11,244	(3,439)	153	29,966
Emerging Market Equity Fund (SSF)	-	17	-	-	17
Ethical	2,208	483	(152)	(6)	2,533
Global Equity	6,515	997	(602)	354	7,264
Growth	329,986	85,272	(12,947)	15,706	418,017
Inflation Linked Bonds	2,318	283	(247)	(5)	2,349
Shariah	1,783	355	(97)	(35)	2,006
Total	372,443	102,310	(20,084)	16,230	470,899

There were no direct employer-related investments at the reporting date 31 March 2018 (2017: nil).

Members' additional voluntary contributions are invested along with normal contributions and are included in the values shown above.

Transaction Costs

Transaction costs are borne by the members in relation to the transactions in pooled investment vehicles. Such costs are taken into account in the calculating of the single priced units and are not separately reported.

Investment Fair Value Hierarchy

The fair value of financial instruments has been disclosed using the following hierarchy.

Level (1): The unadjusted quote price in an active market for identical assets or liabilities which the entity can access at the measurement date;

Level (2): Inputs other than quoted prices included within Level 1 which are observable (ie developed using market data) for the asset or liability, either directly or indirectly;

Level (3): Inputs which are unobservable (i.e. for which market data is unavailable) for the asset or liability.

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A fair value measurement is categorised in its entirety on the basis of the lowest level input which is significant to the fair value measurement in its entirety.

The Plan's investment assets and liabilities fall within the above hierarchy categories as follows:

At 31 March 2018	Level 2 £'000	Total £'000
Pooled investment vehicles	472,709	472,709
	472,709	472,709

Investment risks

FRS 102 requires the disclosure of information in relation to certain investment risks. These risks are set out by FRS 102 as follows:

Credit risk: this is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Market risk: this comprises currency risk, interest rate risk and other price risk.

- Currency risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.
- Interest rate risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.
- Other price risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Plan has exposure to these risks because of the investments it makes to implement its investment strategy described in the Trustees' Report. The Trustees manage investment risks, including credit risk and market risk, within agreed risk limits which are set taking into account the Plan's strategic investment objectives. These investment objectives and risk limits are implemented through the investment management agreements in place with the Plan's investment managers and

ROYAL MAIL DEFINED CONTRIBUTION PLAN

monitored by the Trustees by regular reviews of the investment portfolios.

Further information on the Trustees' approach to risk management and the Plan's exposures to credit and market risks are set out below. This does not include annuity insurance policies as these are registered and purchased by the individual members and not the Plan. The AVC investments are considered as part of the overall investments of the Plan.

i. Direct credit risk

The Plan invests in pooled investment vehicles and is therefore exposed to direct credit risk in relation to the instruments it holds in unit linked insurance funds provided by Zurich Assurance Ltd.

Zurich Assurance Ltd is regulated by the Financial Conduct Authority and maintains separate funds for its policy holders. The Trustees monitor the creditworthiness of Zurich Assurance Ltd quarterly by reviewing published credit ratings. Zurich Assurance Ltd invests all the Plan's funds in its own investment unit linked funds and it does not use any other investment funds or reinsurance arrangements. In the event of default by Zurich Assurance Ltd, the Plan is protected by the Financial Services Compensation Scheme.

ii. Indirect credit and market risks

The Plan is also subject to indirect credit and market risk arising from the underlying investments held in the Zurich Assurance funds.

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12 Investment management expenses

	2018 £'000	2017 £'000
Member fund based charges	1,072	906
	1,072	906

13 Current assets

	2018 £'000	2017 £'000
Allocated to members		
Contributions due from employer		
Employer	1,912	2,996
Employee	16	29
AVC	9	17
	1,937	3,042
Cash at bank	3,294	1,859
Sundry Debtors	9	-
	3,303	1,859
	5,240	4,901
Not allocated to members		
Cash at bank	2,627	2,773
Sundry Debtors	6	161
	2,633	2,934

Contributions due from the employers for the Plan year ended 31 March 2018 were received and invested in accordance with the Plan rules and the payment schedule.

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14 Current liabilities

	2018 £'000	2017 £'000
Allocated to members		
Benefits payable	3,219	1,685
Unclaimed benefits	225	217
Sundry Creditors	28	-
	<u>3,472</u>	<u>1,902</u>
Not allocated to members		
Tax payable	67	87
Sundry Creditors	-	5
	<u>67</u>	<u>92</u>

15 Related party transactions

In accordance with the requirements of Financial Reporting Standard 8, disclosure is made below of the transactions with related parties who are part of the Royal Mail Group. In addition to contributions received from employees and payments made to the Plan members, the Plan undertook the following transactions.

- a) All other expenses are borne by the employer.
- b) Contributions received and benefits paid in respect of Trustees of the Royal Mail Defined Contribution Plan who are members of the Plan were in accordance with the Payment Schedule and Plan rules where appropriate.
- c) There are no balances with subsidiary companies of the Royal Mail Group
- d) Other than those items disclosed above and elsewhere in the financial statements, there were no other related party transactions.
- e) The Employer remunerates two independent Trustees to ensure the Plan has the right level of experience to properly exercise its duties. During the year the remuneration in respect of key management personnel was £79,145 for the Plan year (2017: £87,356).

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16 Self Investment

The Plan does not make any investments into Royal Mail Group Plc, other than those made as part of the index investments with Legal & General. Those investments are not made actively and do not form more than 5% of the Plan's assets. There were no direct employer-related investments at the reporting date 31 March 2018 (2017: nil).

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Independent auditor's report to the trustees, of the Royal Mail Defined Contribution Plan

Opinion

We have audited the financial statements of Royal Mail Defined Plan ("the Plan") for the year ended 31 March 2018 which comprise the the Fund Account and the Statement of Net Assets (available for benefits) and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- show a true and fair view of the financial transactions of the Plan during the scheme year ended 31 March 2018 and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Plan year;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- contain the information specified in Regulation 3 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Plan in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Other information

The trustees are responsible for the other information, which comprises the trustees' report (including the report on actuarial liabilities and the summary of contributions), the Chair's Statement. Our opinion on the financial statements

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does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon in this report.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on this work we have not identified material misstatements in the other information.

Trustees' responsibilities

As explained more fully in their statement set out on page 38, the Plan trustees are responsible for: supervising the preparation of financial statements which show a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the scheme's ability to continue as a going concern; disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to wind up the scheme, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Plan trustees, as a body, in accordance with the Pensions Act 1995 and Regulations made thereunder. Our audit work has been undertaken so that we might state to the scheme trustees those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do

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not accept or assume responsibility to anyone other than the scheme trustees, as a body, for our audit work, for this report, or for the opinions we have formed.

Nadia Dabbagh-Hobrow

Signed:

for and on behalf of KPMG LLP, Statutory Auditor

15 Canada Square, London, E14 5GL

Date:

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Statement of Trustees' Responsibilities in Respect of Contributions

Trustees' Summary of Contributions payable under the schedule in respect of the Plan year ended 31 March 2018

The Plan's Trustees are responsible under pensions legislation for ensuring that there is prepared, maintained and from time to time revised a Schedule of Contributions showing the rates of contributions payable towards the Plan by or on behalf of the Employer and the active members of the Plan and the dates on or before which such contributions are to be paid. The Plan's Trustees are also responsible for keeping records of contributions received in respect of any active member of the Plan and for procuring that contributions are made to the Plan in accordance with the Schedule.

This Summary of Contributions has been prepared by, or on behalf of the Trustees, and is the responsibility of the Trustees. It sets out the employer and member contributions payable to the Plan under the Payment Schedule in place for monitoring contributions throughout the year ended 31 March 2018. The Plan Auditor reports on contributions payable under the schedule in the Auditor's Statement about Contributions.

The Trustees introduced Pension Salary Exchange during 2016 so the total employer contributions include, in essence, employee contributions.

Contributions payable under the Schedule in respect of the Plan year

Employer normal contributions:	£90,792,000
Member normal contributions:	£902,000
Contributions payable under the Schedule:	£91,694,000

Reconciliation of Contributions

Reconciliation of contributions payable under the Payment Schedule reported in the financial statements in respect of the Plan year.

Contributions payable under the Schedule (as above):	£91,694,000
Member additional voluntary contributions:	£230,000
Employer additional contributions:	£nil

ROYAL MAIL DEFINED CONTRIBUTION PLAN

Total contributions reported in the financial statements:
£91,924,000

Signed for and on behalf of the Trustees

Trustee: Michael Chatterton (Chair)

Trustee:

Date:

ROYAL MAIL DEFINED CONTRIBUTION PLAN

Independent Auditor's Statement about Contributions to the trustees of the Royal Mail Defined Contribution Plan

Statement about contributions

We have examined the summary of contributions payable under the schedule of contributions to the Royal Mail Defined Contribution Plan in respect of the Plan year ended 31 March 2018 which is set out on page 38 to 39.

In our opinion contributions for the Plan year ended 31 March 2018 as reported in the summary of contributions and payable under the schedule of contributions have in all material respects been paid at least in accordance with the schedule of contributions.

Scope of work on statement about contributions

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the summary of contributions have in all material respects been paid at least in accordance with the schedule of contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Plan and the timing of those payments under the schedule of contributions.

Respective responsibilities of trustees and auditor

As explained more fully in the Statement of Trustees' Responsibilities set out on page 38, the Plan's trustees are responsible for ensuring that there is prepared, maintained and from time to time revised a schedule of contributions showing the rates and due dates of certain contributions payable towards the Plan by or on behalf of the employer and the active members of the Plan. The trustees are also responsible for keeping records in respect of contributions received in respect of active members of the Plan and for monitoring whether contributions are made to the Plan by the employer in accordance with the schedule of contributions.

It is our responsibility to provide a statement about contributions paid under the schedule of contributions to the Plan and to report our opinion to you.

The purpose of our work and to whom we owe our responsibilities
This statement is made solely to the Plan's trustees, as a body, in accordance with the Pensions Act 1995 and Regulations made thereunder. Our work has been undertaken so that we might state to the Plan's trustees those matters we are required to state to them in an auditor's statement about contributions and for no other purpose. To the fullest extent permitted by law, we do not

ROYAL MAIL DEFINED CONTRIBUTION PLAN

accept or assume responsibility to anyone other than the Plan's trustees, as a body, for our work, for this statement, or for the opinions we have formed.

Nadia Dabbagh-Hobrow

Signed:

for and on behalf of KPMG LLP, Statutory Auditor
15 Canada Square, London, E14 5GL

Date:

ROYAL MAIL DEFINED CONTRIBUTION PLAN

Glossary of Terms

Accounting Standards Board (ASB)

The Accounting Standards Board is responsible for producing Financial Reporting Standards.

Active Member

A member of the Plan who is currently working for Royal Mail Group or Post Office Limited and is making contributions into the Plan.

Additional Voluntary Contributions

These are additional contributions made by a member on top of their regular employee contributions to boost retirement benefits.

Annuity

This is the regular income that will be paid by an insurance company in return for a lump sum of money at retirement from the proceeds of a Member Account. The income from the insurance company is what people usually call their pension and the level of this pension will depend upon the age at which the member retires, their sex, health, the size of the lump sum being invested in the annuity and even where they live. There are different types of annuity (and associated options) available which will also affect the size of income, as will the level of market interest rates when the annuity is established.

Asset Class

This is a category of assets, for example equities, bonds, property and cash.

Benchmark

A benchmark is a point of reference for measurement. With regards to an investment benchmark, this will often be an index, such as the FTSE All-Share Index, which can be compared against the performance of a particular fund.

Beneficiary

This is someone who may benefit from a will, trust, pension fund or a life assurance policy in the event of another person's death. A beneficiary under the Plan is a person to whom benefits may be paid when the member dies.

Bonds

Bonds are instruments issued by a company, government or other organisations, under which they borrow money for a fixed amount of time, in return for an agreed rate of interest. UK Government Bonds are called 'gilts'. The interest can either be fixed (for example 5% per year) or index-linked (which means that it varies in line with inflation).

Capital growth

Capital growth is an increase in the market price of an asset.

Cash

Cash funds invest in deposits and other cash based investments which earn interest over time.

Commodity markets

A physical or virtual marketplace for buying, selling and trading raw or primary products. For investors' purposes there are currently about 50 major commodity markets worldwide that facilitate investment trade in nearly 100 primary commodities. Commodities are split into two types: hard and soft commodities. Hard commodities are typically natural resources that must be mined or extracted (gold,

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rubber, oil, etc.), whereas soft commodities are agricultural products or livestock (corn, wheat, coffee, sugar, soybeans, pork, etc.)

Corporate bonds

Corporate bonds are issued by companies as a way of raising money to invest in their business. They have nominal value, which is the amount that will be returned to the investor on a stated future date (the redemption date). They also pay a stated interest rate each year - usually fixed. Corporate bonds are bought and sold on the stock market and their price can go up or down.

CPI

CPI is the consumer prices index. It is the measure adopted by the Government for its UK inflation target. The consumer price indices measure the change in the general level of prices charged for goods and services bought for the purpose of household consumption in the UK.

Contracted-in

Contracted-in means that the Plan is not integrated with State pension benefits. Because the Plan is contracted-in, Active Members continue to build up relevant State pensions benefits whilst contributing to the Plan.

Default

The investment option, contribution rate or Selected Retirement Age that is selected for an Active Member of the Plan when he or she first joins the Plan and remains in place until he or she makes a choice.

Deferred Member

A person who has been, but is no longer, an Active Member and in respect of whom the Plan maintains a Member Account.

Discretionary trust

In a discretionary trust, the trustees are the legal owners of any assets held in the trust. They are responsible for running the trust for the benefit of the beneficiaries.

Diversification

Diversification means allocating exposures within a portfolio across asset classes to reduce risk and potentially enhance expected returns. This results in a reduction of specific risk related to individual asset classes.

Employer Contribution

The percentage of pay that Royal Mail Group contributes into its employees' pension fund. Typically the employer contribution will match or be proportionate to the employee's contribution.

Equities

Another name for shares held in a company or companies.

Ethical investment

Ethical funds aim to invest in such a way that doesn't encourage unethical governance practices or industries or in such a way as to encourage positive business practices.

FTSE All-Share Index

An index of the share prices of more than 800 leading companies and investment trusts on the London Stock Exchange.

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Fund Manager

An individual (or company) who is employed to manage money. Using their skill and experience a fund manager will buy (and sell) shares or other assets, such as property, equities or bonds, that they believe will increase in value in order to provide investment growth or to create a certain level of income.

G7

The G7 is a group consisting of the finance ministers of seven industrialized nations: the U.S., U.K., France, Germany, Italy, Canada and Japan. This group meets several times a year to discuss economic policies.

Government bonds

Government bonds or Gilts are bonds issued by the government which pay a fixed rate of interest twice a year. They are considered safe investments as the government is unlikely to go bust or to default on the interest payments.

However, you are not guaranteed to get all your capital back under all circumstances. Gilts are bought and sold on the stock market where their price can go up or down.

High yields bonds

Generally, a high yield bond will be ranked very low by a rating agency, because these are bonds which have a relatively high chance of default, and therefore have to offer higher returns.

Index

A device that measures changes in the overall price of a collection of shares. The purpose is to give investors an easy way to see the general direction and relative movement of shares in the index. Examples of stock market indices are the FTSE All-Share and Dow Jones.

Inflation

The increase in the price of commodities and/or services over time. The rate of inflation may be recorded in an index such as the Retail Prices Index (RPI) or Consumer Prices Index (CPI). Inflation will affect the buying power of investments or income over time.

Investment risk

In investment terms, the balance of potential loss versus potential gain as perceived by the investor.

Member

A person who has been admitted to membership of a pension scheme and who retains a benefit in the scheme.

Member Account

This is the individual account in which a member's contributions (plus any transfers in) and contributions from their employer are held.

Payment Schedule

The trustees of most types of scheme must draw up a schedule showing:

- the contributions that should be paid to the scheme; and
- the dates when contributions should be paid.

In a defined contribution scheme this is known as a 'payment schedule'.

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Pension

A regular income paid to a person after they have retired or have taken their benefits.

Pensionable Pay

If employed on a full time contract, Pensionable Pay means basic salary or wage but does not include overtime, bonuses or any other items.

If contracted to work less than full time, Pensionable Pay means:

- Basic salary or wage for contractual hours, plus
Salary or wage for non-contractual hours worked each pay period, so long as the member is not paid overtime for those hours.

Earnings for hours of work that are in excess of the number of hours normally scheduled for someone working full time in the role will not be counted for the purpose of Pensionable Pay. Bonuses and other items will not be counted for the purpose of Pensionable Pay.

Plan

The Plan is the term used to describe the Royal Mail Defined Contribution Plan.

Pooled Funds

These are vehicles in which a number of investors pool their assets so that they can be managed on a collective basis. Holdings in a pooled fund are denominated in units and are re-priced regularly to reflect changes in the value of the underlying assets.

Qualifying service

The sum of the period of active membership in the Plan plus every period of service under another pension arrangement that has been transferred into the Plan.

Quantitative easing

Usually, central banks try to raise the amount of lending and activity in the economy indirectly, by cutting interest rates. When interest rates can go no lower, a central bank's only option is to pump money into the economy directly. That is quantitative easing (QE). The central bank does this by buying assets such as government and corporate bonds using money it has created. The institutions selling those assets (either commercial banks or other financial businesses such as insurance companies) will then have "new" money in their accounts, which then boosts the money supply.

Registered Pension Scheme

A scheme which is a registered pension scheme in accordance with section 153 Finance Act.

Regular Employee Contributions

Payments deducted from pay currently at levels of 1%, 3%, 4% and 5% and credited to a Member Account are referred to as regular employee contributions.

Retail Prices Index (RPI)

A monthly indication of the average price changes to a particular 'basket' of consumer goods, and used as a general indicator of price inflation.

Return

The profit or yield from an investment.

Royal Mail Group

Royal Mail and Parcelforce Worldwide.

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Shariah investment

Shariah investment is a way of investing that complies with Islamic Shariah principles.

Sovereign debt

This is debt that is issued by a national government. It is theoretically considered to be risk-free, as the government can employ different measures to guarantee repayment, e.g. increase taxes or print money.

In practice, there have been multiple cases in which governments could not serve their debt obligations and had to default. As a consequence, investors ask for different yields across countries. The more a country's repayment ability is in question and the riskier sovereign debt becomes, the higher is its yield.

Terms of Reference

Terms of reference describe the purpose and structure of a committee.

The Pensions Regulator

A statutory body which regulates pension schemes.

Transfers

Refers to the process by which the current value of a pension plan can be transferred from one registered pension scheme to another. The value (less any applicable charges) is transferred direct from one employer or pension provider to another. It is important that financial advice is taken with any kind of pension transfer.

Trust

An arrangement whereby one or more individuals (trustees) agree to take care of assets and to use those assets in particular ways (as detailed in a Trust Deed or Rules) for particular people (beneficiaries).

Trust Deed and Rules

These are the formal documents that govern the running of the Plan.

Trustee

A person appointed to manage and safeguard the assets of a trust.

Units

Contributions are normally used to buy units in an investment fund. The value of these units will fall or rise in line with the underlying investments. There is often a difference between the buying and selling price to reflect the charges applicable for investing in the particular fund.

ROYAL MAIL DEFINED CONTRIBUTION PLAN



The Royal Mail Defined Contribution Plan

The future is closer than you think.

This document has been prepared for the Trustees of the Royal Mail Defined Contribution Plan by the Plan Secretary.

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