Corporate Responsibility Report 2013–14

Royal Mail plc







Foreword from Moya Greene

I am pleased to report another good performance. We have built a foundation for sustained, steady performance against a backdrop of significant structural and operational change.

Last year was one of major achievement for Royal Mail, with a good financial and operational performance, agreement in principle on a new industrial relations framework with the CWU and a successful flotation on the London Stock Exchange.

The Group's operating profit after transformation costs increased to £430 million from £403 million. UK Parcels, International & Letters (UKPIL) revenue was up two per cent at £7,787 million. General Logistics Systems (GLS) delivered revenue growth across all its markets: total revenue was £1,651 million and operating profits were £108 million. With this good financial performance we are able to continue to make a major contribution to the UK economy through employment, procurement and taxation. We remain a core part of the UK's social fabric.

We are facing a number of headwinds. The competitive environment on the parcels side is becoming more intense. We are taking steps to remain the leader in this growing market.

On the letters side, the headwind is direct delivery and we have strategies in place to counter its adverse financial impact. However, without timely regulatory action, direct delivery could undermine the economics of the Universal Service and our ability to generate sustainably a five to ten per cent EBIT^[1] margin in our reported business.

Our strategic approach

Our corporate responsibility strategy is an integral part of realising our core strategic priorities. The objectives at the heart of our business and corporate responsibility strategies are the same – to ensure a sound and sustainable Universal Service and to generate sustainable shareholder value.

We aim to be independently rated as one of the most responsible companies. I am pleased to report that this year we were ranked in the top 10 most responsible businesses in the UK by Business in the Community. We also achieved a Silver distinction in the 2014 RobecoSAM Corporate Sustainability Yearbook, the assessment that forms the foundation of the Dow Jones Sustainability Index. We rank amongst the top four companies globally in our industry: Transportation and Transportation Infrastructure.

Our customers

Every person and business in the UK is a potential customer. We are the only company that has the capability to deliver a 'one pricegoes-anywhere', six-days-a-week service to more than 29 million addresses across the UK. We are focused on getting things right for our customers and being their first choice.

We are offering customers more choice about how and when their parcels are delivered. We are also refreshing our locations and training our colleagues to improve customers' experiences when collecting their parcels. In September 2014, we began piloting Sunday afternoon opening at around 100 Delivery Offices, as well as Sunday parcel deliveries to home addresses within the M25.

We gather customer feedback extensively across our business and use it to improve the customer experience. Our own research indicates that our mean business customer satisfaction score is 75. This is an increase on 74 last year, and 70 in 2011-12. We achieved a six per cent reduction in customer complaints. We also exceeded our regulatory Quality of Service targets for First Class and Second Class mail.

Our people

Our people are key to our transformation and the delivery of our business success. We provide good-quality jobs. Research we commissioned by the Centre for Economics and Business Research Ltd (Cebr) in 2013 showed we make a significant contribution to social inclusion. Our employment is disproportionately weighted towards areas with high levels of deprivation and where job opportunities are fewer. On average across the UK, one in every 200 employees works for Royal Mail^[2].











SATISFACTION SCORE



We have a **long heritage** of contributing to our communities.

In December 2013, we announced an agreement in principle with our main union, the CWU. This was approved by its members in February 2014. The agreement is wide-ranging in its coverage and focused in its support of the business. It represents a joint commitment to radically improve industrial relations and create a can-do culture in the interests of customers, employees and the Company.

Our communities

Our main contribution to society is our economic impact. Our contribution is significant. For the 2013–14 financial year, Cebr estimated we made the seventh largest contribution to the UK economy of all UK corporations. We had a total economic impact of more than £10.9 billion[3], made up of direct and indirect contributions to the wider economy.

This is supported by our active investment in communities. In early 2014, we celebrated reaching 25 years and £50 million in charitable donations through our payroll giving scheme. The generosity of our people has been recognised by two National Payroll Giving Excellence Awards and a Platinum Payroll Giving Quality Mark Award. We also met our target to raise £2 million for our Charity of the Year, Prostate Cancer UK. Royal Mail matched money raised by colleagues, penny-for-penny, for this worthy cause, which was selected by our people. This will fund at least 34 specialist prostate cancer nurses in areas of need across the UK.

Our environment

Managing and reducing our impact in a responsible manner will help us save costs, compete more effectively and deliver a good service to our customers. During the year, we reviewed our environment strategy and reconfirmed our targets for carbon emissions and waste. We also published a new Groupwide Environment Policy to strengthen our approach. We achieved a 5 per cent reduction in our UK carbon footprint per £1 million revenue in 2013-14 compared with the previous year. We are on track to achieve our longterm target of reducing emissions by 20 per cent by 2020-21, compared with 2004-05. We also diverted 71 per cent of waste from landfill last year, achieving our 2014-15 target of 70 per cent one year ahead of schedule.

Being a listed company

In October 2013, Royal Mail successfully floated on the London Stock Exchange and was subsequently admitted into the FTSE100. More than 700,000 members of the public bought shares in Royal Mail: the largest single extension of private share ownership in the UK for some time. I am delighted to say they were joined by the overwhelming majority of our employees in the UK, who in total received free a ten per cent stake in our Company. We are pleased our shares are so widely held, and that alignment has been created between the interests of shareholders and employees.

In summary

Corporate responsibility is a core part of our focus on being a sustainable and stakeholder-focused business. It is integral to our success. We have a long heritage of contributing to our communities. Our people go the extra mile, both serving our customers and supporting good causes in their local communities. Some companies struggle to describe their social purpose. Ours is not in doubt.

We summarise our key achievements in 2013-14 on pages 16 to 17 of this report. Here we also set out areas we will seek to strengthen. Future priorities are summarised at the end of the Customer, People, Community, Supplier and Environment chapters. While we have significantly moved on our agenda in 2013-14, there is more to do.

We know it is the dedication of our people that has enabled our success to date and forms the basis of our strong brand. Looking forward, we will continue to ask a lot of them to ensure continued progress. I am grateful for their ongoing support. I know that we will work through the current challenges and that together, we will drive our business forward and realise our collective objectives.

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Moya Greene

Chief Executive Officer

^[1] Earnings before interest and taxes.

^[2] Based on ONS Labour Market Statistics 2014.

^[3] This was incorrectly reported as £10.5 billion in the 2013-14 Annual Report and Financial Statements.



At a glance

Royal Mail makes a major contribution to the UK's social and economic infrastructure. As the designated provider of the Universal Service, we play a vital role in connecting millions of customers, businesses, organisations and communities - including those in the most remote rural areas. We are the only company that has the capability to deliver a 'one-price-goes-anywhere', six-days-a-week service on a range of letters and parcels to more than 29 million addresses across the UK. We add value to our communities.

This report primarily covers the Group's UK Parcels, International & Letters (UKPIL) delivery businesses, operating under the Royal Mail and Parcelforce Worldwide brands.

The UK represents around 92 per cent of our employee headcount and our focus is therefore on this country. We are increasing the coverage of our European business General Logistics Systems (GLS), and where stated, have included GLS data. The remaining data represents UKPIL

Contributing to the economy



- We made the **seventh largest** contribution to the UK economy of all UK corporations^[1]
- Our impact totalled £10.9 billion in terms of value added to the economy, made up of direct and indirect impacts^[2]

Providing employment



- Across UK and Europe, we have **162,000** employees and pay £4.4 billion in wages
- Royal Mail is recognised by The Times as one of the **Top 50** Employers for Women in the UK
- 1 in every 200 employees in the UK works for Royal Mail[4]



Connecting people

- We exceeded our targets, delivering 93.2 per cent of First Class mail and 98.9 per cent of Second Class mail on time
 We delivered 16.5 billion letters and 1.5 billion parcels through

Supporting communities

TO CHARITIES AND GOOD CAUSES

ROYAL MAIL IS AN IMPORTANT PART OF LOCAL COMMUNITIES **FUNDED** < **NURSES**

- 85 per cent of people in the UK think Royal Mail is an important part of local communities[5]
- We raised enough to fund at least 34 prostate cancer nurses in areas of need across the UK
- We contributed £9.8 million directly to charities, good causes and schemes for disadvantaged groups. In addition, our people raised £3.3 million for good causes across the UK
- Our people have contributed £50 million to over 975 charities since our payroll giving scheme began in 1989
- We delivered around **4.8 million items** of mail through our Articles for the Blind service - a free delivery service for blind and visually impaired people

^[1] Finding of Cebr economic impact assessment of UKPIL, commissioned by Royal Mail in 2014.

^[2] This was incorrectly reported as £10.5 billion in the 2013-14 Annual Report and Financial Statements.

^[3] Including GLS, excluding UK partially-owned subsidiaries.

^[4] Based on ONS Labour Market Statistics, 2014.

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About Royal Mail Group

Royal Mail is proud to be the sole provider of the Universal Service in the UK, delivering letters and parcels throughout the country for a universal public tariff, six days a week.

29 MILLION UK ADDRESSES







Who we are

Royal Mail is the UK's designated Universal Postal Service Provider, supporting customers, businesses and communities across the country. We deliver six days a week to more than 29 million addresses across the UK. General Logistics Systems (GLS), our European parcels business, operates one of the largest ground-based, deferred parcel delivery networks in Europe.

In October 2013, Royal Mail successfully floated on the London Stock Exchange and was subsequently admitted into the FTSE100. More than 700,000 members of the public bought shares in Royal Mail. These investors were joined by the overwhelming majority of our people in the UK, who in total received free a 10 per cent stake in our Company. The Free Share Offer created the largest Free Share stake of any major UK privatisation. In addition to our employees' Free Shares, approximately 15,000 Royal Mail employees chose to purchase shares in the Company through the Employee Priority Offer. Through this, alignment has been created between the interests of shareholders and employees.

Our values

Royal Mail's values are central to the way we operate and to our strategy for transforming our business. They reflect the principles, beliefs and aspirations that guide our behaviour and shape our culture:

- We work safely
- We have a passion to deliver for our customers
- We have pride and care about what we do
- We work together and treat each other fairly
- We are trusted to succeed
- We act commercially

Our operations and networks

Royal Mail Group operates through two businesses: UK Parcels, International & Letters (UKPIL) and GLS.

UKPIL comprises Royal Mail's core UK and international parcels and letter delivery businesses under the Royal Mail and Parcelforce Worldwide brands. Royal Mail's network is unparalleled in the UK in its scale and scope. It supports the provision of services for the collection, sorting and delivery of parcels and letters by Royal Mail. This includes those services Royal Mail provides as the UK's designated Universal Postal Service Provider. Parcelforce Worldwide is a leading provider of express parcel services.

GLS is the Group's European parcels business. It operates one of the largest ground-based deferred^[1] parcel delivery networks in Europe. Across Europe, the GLS network covers 37 countries and nation states through a combination of wholly owned and partner companies. As our gateway to Europe, GLS is a strategically important part of the Royal Mail Group.

Where we are now

Royal Mail continues to be one of the UK's most trusted and respected brands. Our most recent Corporate Image Report, conducted by Ipsos MORI in November 2013, indicated that 71 per cent of customers thought Royal Mail's services were good value for money. In 2014 we ranked 15 out of 500, our highest ever position, in the Business Superbrands survey, up from 17 in 2013 and 51 in 2012.

In May 2014, just after year end, Royal Mail was ranked the 10th most reputable company in Britain by the Reputation Institute in its yearly poll^[2]. Our ranking was supported by our sound corporate responsibility performance. In its most recent study the Reputation Institute found that after Products and Services, perceptions of corporate behaviour and corporate responsibility are the most important drivers of reputation.

^[1] The least time-sensitive type of delivery

^[2] UK RepTrak Pulse study.

Our future competitiveness as a business depends on our ability to transform successfully in order to meet changing customer needs and capture new opportunities as they emerge. It also depends on our ability to engage our employees in a customer-focused culture.

Our transformation

Royal Mail is undertaking one of the biggest industrial transformations in the UK in recent history. It is our response to an inherent, structural decline in the volume of letters that are sent, and the need for our business to capture the growth in parcels that is being driven by online retailing. We are using our strong, established position to introduce new products and services and increase customer focus. This will enable us to manage these changes, take advantage of new opportunities, and build upon our ability to deliver the Universal Service across the UK.

Our people

We employ more than 162,000^[1] people across our Group. UKPIL employs approximately 148,000 people across the UK. GLS employs approximately 14,000 people in a range of frontline, operational and support roles.

Our performance

We continue to make good progress. We have built a foundation for sustained, steady performance against a backdrop of significant structural and operational change.

- Group revenue increased by two per cent on a like-for-like basis^[2], due to parcel revenue growth in both UKPIL and GLS. Parcels are the largest contributor to Group revenue, accounting for 51 per cent
- UKPIL letter revenue (including marketing mail) declined to £4,625 million, a two per cent reduction. The four per cent decline in addressed letter volumes for the full year was at the better end of our forecast range of four to six per cent per annum. Marketing mail revenue, part of letter revenue, was £1,111 million
- GLS revenue was £1,651 million, up seven per cent. Volumes increased six per cent, with growth in both domestic and international volumes
- Group operating profit after transformation costs increased to £430 million. The operating profit margin reduced from 4.4 per cent to 4.2 per cent as a result of the provision for the management reorganisation programme
- GLS operating profit was £108 million. The operating profit margin decreased from 6.7 per cent to 6.5 per cent due to the full year effect of further increases in sub-contractor rates in Germany







	Reported 52 weeks 2014 ^[2]	Adjusted 52 weeks 2013
Group external revenue (£m)	9,456	9,146
Operating profit after transformation costs (£m)	430	403
Free cash flow (£m) ^[3]	398	334

^[1] Excluding UK partially owned subsidiaries.



Royal Mail in the private sector

Last year was a year of major achievement for Royal Mail, with a good financial and operational performance, agreement in principle on a new industrial relations framework with the Communication Workers Union (CWU) and a successful flotation on the London Stock Exchange. As a listed company, we continue to focus on great customer service, good quality jobs and making a difference to our communities.

- Our customers continue to enjoy a high quality, six-day-a-week Universal Service across the UK, from cities to remote rural areas. In 2014, we are also piloting Sunday afternoon opening at around 100 of our delivery offices across the UK
- We continue to deliver to a very high standard. Our regulated Quality of Service specifications are amongst the highest of any major European country. In 2013-14 we exceeded our targets for both First and Second Class mail
- Our services remain good value for money. Royal Mail's stamp prices are among the best value in Europe. First and Second Class stamp prices for letters up to 100 grams remain well below the European average^[4]
- The overwhelming majority of UK colleagues received a free stake in our Company, creating alignment between the interests of shareholders and employees
- We have reached an agreement with the CWU on an Agenda for Growth, including legally-binding terms covering employee pay, protections and industrial stability as well as a programme of work to help deliver change at pace in operations
- We continue to support our communities and our heritage. We delivered 4.8 million items free of charge last year through our Articles for the Blind service. We continue to work with the British Postal Museum and Archive, supporting them in developing a new museum and exhibition space, and commemorating the centenary of the First World War

Our future

Royal Mail is changing. The expansion in online retail and the decline in letters mean that we are increasingly a parcels business. Our vision is to be recognised as the best delivery company in the UK and across Europe.

Delivery companies are increasingly technology companies. In 2011, UKPIL began a five year IT transformation programme, one objective of which was to support the delivery of our parcels strategy. We know that the ability to track parcels is vital for delivering against customer needs. Looking forward, key areas of investment will provide additional tracking systems, including expanding barcoding and SMS messaging.

We are adapting to respond to customer needs, investing in improving their experiences and putting customers at the heart of what we do. We are upgrading enquiry offices to create a more pleasant experience for customers and employees, and we are rolling out a programme of training in customer care.

We have completed the expansion of the capacity of Parcelforce Worldwide, with a domestic hub opened in Chorley in 2013 and 11 depots newly opened or upgraded across the UK in the financial year.

Alongside our investment in parcels, our letters strategy in the UK aims to manage the decline in letters through innovative technology, operational efficiencies, and adding value to addressed mail.

In Europe, online retail is driving growth for GLS, and increasing the proportion of business-to-consumer deliveries that it handles. We are responding to our changing customer needs by investing in IT infrastructure to provide the value for money, security and peace of mind that customers demand.

We must continue to deliver change at an increasing pace to meet the challenges of the changing mix of mail, the liberalised UK postal market, intense parcel competition, and a need to become more productive and efficient. In December 2013, we announced an agreement in principle with the CWU. This was approved by its members in February 2014. The agreement represents a joint commitment to radically improve industrial relations and create a can-do culture in the interests of customers, employees and the Company. We are focused on bedding down this agreement to ensure we provide a stable and unique platform for problem solving and for jointly moving the business forward at a faster pace.



^[2] Throughout this document, growth/decline rates and margins are stated on a like-for-like basis, unless otherwise indicated. Like-for-like changes in revenue and costs and like-for-like margins are calculated after adjusting for movements in foreign exchange in GLS' revenue and costs, and working days in UKPIL revenue. For volumes, like-for-like movements are adjusted for working days in UKPIL.

^{[3] 53} weeks 2013 Non-GAAP.

^[4] European average is 63 pence for inland stamp prices up to 100 grams, First and Second Class combined.

Our strategy

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We have a clear vision to be recognised as the best delivery company in the UK and across Europe. The objectives at the heart of our business and corporate responsibility strategies are the same – to ensure a sound and sustainable Universal Service and to generate sustainable shareholder value.

Our strategy aims to maintain our market-leading positions and target new segments and channels where we can grow. We also focus on being a more efficient and flexible company, with a greater emphasis on anticipating and responding to our customers' needs.

Our corporate strategy's three priorities:

Priority One: Being a successful parcels business

In the UK, our focus is on maintaining our market-leading position, delivering significant IT upgrades and introducing new products. In Europe, GLS will continue to grow and improve its offering.

Priority Two: Managing the decline in letters

We have launched Mailmark™, which provides business customers with tracking information and significant operational benefits for us. MarketReach promotes the value that physical mail brings to advertising campaigns and maintains our marketing mail volumes in the face of competition from digital channels. Unfettered direct delivery competition is a threat to the Universal Service. We are asking Ofcom to undertake a full review of direct delivery now.

Priority Three: Being customer-focused

Customers have more and more choices. Our strong brands mean we are well positioned in our core markets. The rollout of new delivery methods is now almost complete. Coupled with the full deployment of handheld scanners, it is transforming how we deliver parcels. Our focus on first time delivery gives our customers

what they want and drives greater operational efficiency. Important initiatives in this respect include the launch of Local Collect, our click and collect solution with the Post Office, and longer opening hours.

Our business model, presented on pages 14-15 of the Annual Report and Financial Statements, highlights that our management of customer, people and financial matters is essential to our business success. Our strategic priorities are underpinned by a focus on managing our business successfully, through both financial and non-financial initiatives.

We continually aim to be more efficient. Embedding a more collaborative culture will support the rollout of standardised processes and consistent execution across our operations. Further investment in our people lays the foundation for even better customer service and culture change. Transforming our technology provides the tracking capability to compete in an even more competitive marketplace. Further detail on our business model and strategy is provided in our 2013–14 Annual Report and Financial Statements (www.royalmail.com/2013–14AR).

Integrated responsibility

Our corporate responsibility strategy is an integral part of fulfilling our business model and realising our core strategic priorities.

The links between our corporate responsibility aims and our core strategic priorities are shown in the table opposite. This also summarises achievements against each corporate responsibility objective for 2013-14.

PRIORITY ONE BEING A SUCCESSFUL PARCELS BUSINESS

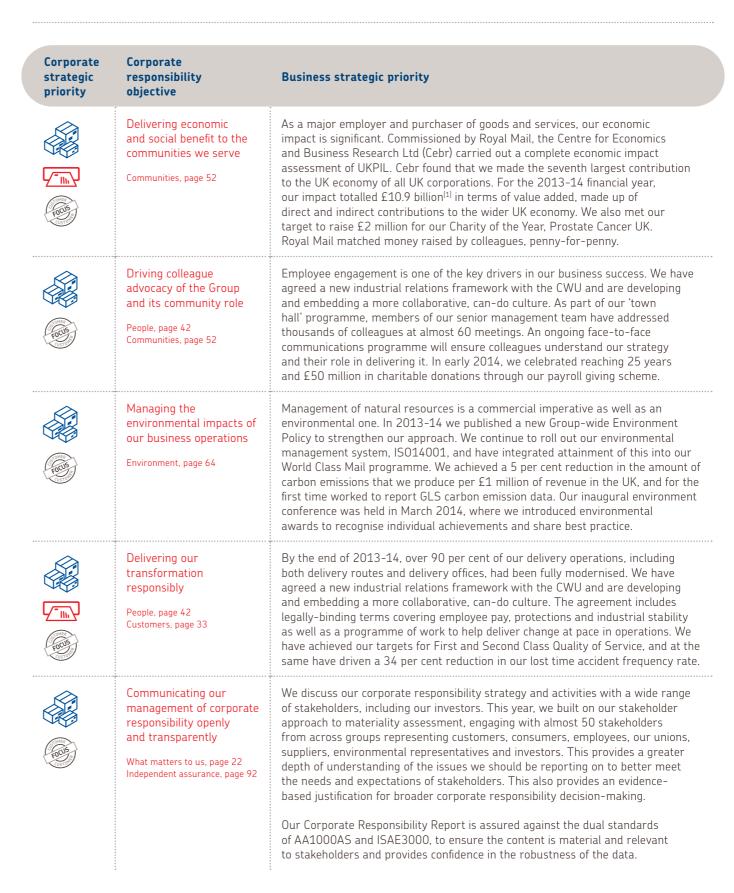


PRIORITY TWO MANAGING THE DECLINE IN LETTERS



PRIORITY THREE BEING CUSTOMER-FOCUSED







Delivering our strategy

Our corporate responsibility strategy is reviewed and supported by our senior business leaders (see Corporate Responsibility Governance on page 14). Supporting this, we have a comprehensive structure of delivery tools that promotes clear responsibilities and targeted measurement to achieve our aims. In this way, responsibility is integrated throughout the business (see opposite).

Our Corporate Balanced Scorecard reflects our business model imperatives of customer, people and financial, setting out key performance indicators (KPIs) to drive business success. Managers' bonuses, from Board members down, are linked to the Scorecard. On the ground, our policies, procedures and training engage and inform our people. Using our three strategic priorities as focal points, each cascaded level works towards achieving our vision: to be recognised as the best delivery company in the UK and across Europe.

Corporate Balanced Scorecard

Our Corporate Balanced Scorecard consists of three segments (People, Customer and Financial) and their respective KPIs. We have updated our KPIs to reflect the significant changes that took place during 2013–14.

Changes to the scorecard are:

- Second Class Quality of service has been replaced by composite parcels quality of service, reflecting the increasing importance of parcels to our business. Achievement of Second Class Quality of Service is linked to achievement of our First Class Quality of Service, which remains on the scorecard
- Delivery Office modernisation and delivery hours reduction has been replaced with a broader KPI on collection, processing and delivery productivity. This reflects the nearcomplete roll out of our modernisation programme and addresses the important driver of matching resource to workload

Our performance against the Corporate Balanced Scorecard KPIs is included in the wider set of corporate responsibility KPIs on pages 18 to 21.

Using our three strategic priorities as focal points, each cascaded level works towards **achieving our vision**.





Corporate responsibility delivery

Integration of corporate responsibility throughout the business is driven by a set of delivery frameworks and tools

Corporate Balanced Scorecard

- Supports the implementation and execution of our strategy by linking managers' remuneration to both business and individual KPIs
- Managers' bonuses are also linked to the scorecard
- 55 per cent of KPIs are corporate responsibility-related, specifically targeting people and customer issues
- Managers' individual targets and appraisals are aligned with the three areas of Customer, People and Financial

World Class Mail

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- Driving continuous improvement at the frontline, engaging and involving our people in transformation
- Improving performance in safety, productivity and environment through a comprehensive seven-step system

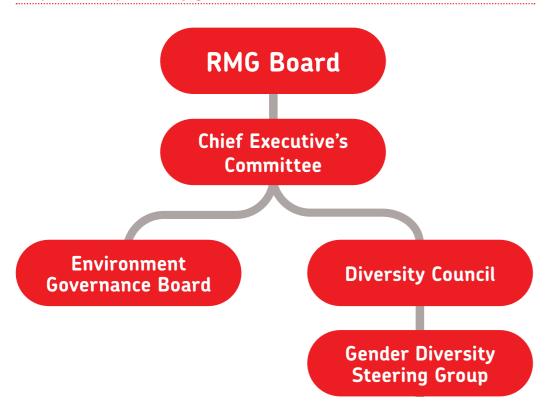
Policies, procedures and training

See policies at: http://www.royalmail.com/policies

- Corporate Responsibility Policy sets out our strategy, governance and commitment to corporate responsibility including our support of the United Nations Global Compact (UNGC) and Universal Declaration of Human Rights
- Responsible Procurement Code of Conduct –
 requires all suppliers to adhere to the United
 Nations Universal Declaration of Human Rights
 and act in accordance with the Ten Principles of
 the UNGC. These include provisions against labour
 abuses, such as forced labour and child labour, as
 well as prohibitions against corruption and bribery
- Environment Policy sets out our commitment to environmental management
- Other relevant support includes the Royal Mail Code of Business Standards and the Equality & Fairness; Bullying & Harassment; Anti-Bribery policies and Associated Employee Training



Corporate responsibility governance







Royal Mail Group Board -

Receives regular updates on corporate responsibility activities, e.g. monthly health and safety briefings. It also reviews and approves the Corporate Responsibility Report every year.

Chief Executive's Committee (CEC) -Chair: CEO

Individual members of the CEC take responsibility for corporate responsibility aspects of the people, customer, community, environment and supply chain strands. The Managing Director of Communications, Strategy, Regulations and Pricing is accountable to the CEO for implementing the corporate responsibility strategy, supported by the Corporate Responsibility team.

Environment Governance Board -

Chair: Group Director of Safety, Health, Wellbeing & Sustainability

Drives the environment strategy. proposing targets for approval by the CEC and ensuring delivery of improved

performance. The group is made up of senior managers accountable for functional areas concerned with material environmental issues, including fleet, facilities management and customers.

Diversity Council -

Chair: Company Secretary

Formed in late 2013. Responsible for progressing and monitoring our diversity performance. Members include the Chief Operating Officer, Group HR Director, frontline employees and representatives from the CWU and Unite. The Council met for the first time in March 2014. Its progress will be regularly reviewed by the CEC.

Gender Diversity Steering Group -Chair: Chief Operations Officer

Formed in 2010. Supports our gender strategy and will now report to the Diversity Council. Focuses on developing policies and initiatives to attract new talent and support female colleagues' career progression.



We aim to be independently rated as one of the most responsible companies in the UK. We work with external indexes to benchmark our performance and measure our progress.

In 2014, we were ranked as one of the top 10 most responsible companies in the UK in Business in the Community's (BITC) newly revised Corporate Responsibility Index. We achieved a four-star rating. This year's Business in the Community assessment included a number of stretching questions to test governance and leadership. Despite this more demanding assessment, we maintained our score of 96 per cent.

We also achieved a Silver distinction in the 2014 RobecoSAM Corporate Sustainability Yearbook, which is the foundation of the Dow Jones Sustainability Index (DJSI). The assessment rated Royal Mail as one of the We rank amongst the top four companies globally in our industry: Transportation and Transportation Infrastructure.

In the DJSI-based assessment we achieved or matched industry-best scores for five out of 17 criteria: Codes of conduct; Compliance; Corruption & bribery; Supply chain management; Corporate citizenship & philanthropy; Labour practice indicators & human rights and Human capital development.

Both the BITC and DJSI assessments highlight environmental management as an area for improvement. In the last year, we have made progress. We have continued to rollout our environmental management system ISO14001, reviewed our environment strategy and released our Environment Policy. We continue to look for opportunities to embed effective environmental management through the work of the Environment Governance Board. Further details are provided in



Our progress and future priorities

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Our customers (see page 33)

Key achievements 2013-14

- Reduced the number of complaints we received by six per cent
- Increased our customer satisfaction score to 75, a one point increase over the same measure in 2012-13
- Launched our new 'click and collect' service, enabling businesses and their customers to arrange collection from one of 10,500 Post Office branches
- Continued to offer one of the bestvalue mail services in Europe, despite increasing our prices to ensure the sustainability of the Universal Service

Areas to strengthen

- Deliver continuous improvement in first time delivery success
- Continue to improve the customer experience through customer service training for employees and refurbished delivery offices
- Continue to improve the online customer experience

Priorities for 2014-15

- Demonstrate the role and value of direct mail in increasing the effectiveness of advertising and communication activities
- Improve customer service points through refurbished offices, additional employee training and new IT systems that reduce customer waiting times
- Pilot Sunday afternoon opening at around 100 delivery offices
- Trial Sunday parcel deliveries within the M25
- Expand our international tracked returns service
- Work to migrate customers onto our MailmarkTM barcode technology and help them make the most of the tracking capabilities MailmarkTM provides
- Extend parcel acceptance times, including at weekends, for parcel business customers
- Make our 'click and collect' service available to 20,000 small and medium enterprises (SMEs)

Our people (see page 42)

Key achievements 2013-14

- The overwhelming majority of UK employees are now shareholders in Royal Mail, giving our people a direct stake in the Company and its future success
- Named as one of the Times Top 50 Employers for Women in 2014
- Achieved a 34 per cent reduction in our lost time accident frequency rate compared to 2012-13
- Almost 50,000 colleagues attended instructor-led training in the UK, with 90,000 attending web-based training sessions
- Agreed a ground-breaking new agreement on an Agenda for Growth with our main union, the CWU
- Earned the Two Ticks accreditation from Jobcentre Plus, recognising our commitment to supporting employees and candidates with disabilities

Areas to strengthen

- Continue to ensure more people feel valued and recognised and have more opportunities to progress
- Increase diversity across the workforce

Priorities for 2014-15

- Prioritise road safety through driver programmes and review our approach to occupational road risk
- Continue to upgrade our Safety, Health and Environment Management system ensuring alignment with OHSAS 18001 and ISO14001
- Address concerns raised through our Employee Survey, both at a Group and business unit level
- Continue the roll out of the Management Acceleration Programme and Essential Business Skills
- Develop new apprenticeship programmes for Project Management, Finance and Direct Mail
- Pilot a personal development programme aimed at female junior operational managers
- Deliver customer experience training for around 2,000 frontline employees in enguiry offices
- Develop targeted health and wellbeing plans with a particular focus on the mental wellbeing of our people









Our communities (see page 52)

Key achievements 2013-14

- Achieved our target of raising £2 million for our Charity of the Year partner, Prostate Cancer UK, including matched giving
- Colleague fundraising, excluding payroll giving, reached almost £740,000 – an increase of seven per cent, or £46,000, compared to 2012-13. Our matched giving, fundraising and volunteering grants rose 32 per cent, from £543,000 to almost £718,000
- GLS Italy used its networks to collect and deliver aid supplies in Sassari, Italy, following the devastation of Cyclone Cleopatra in November 2013
- We were the first organisation to be certified at Platinum Standard for supplier management by the Chartered Institute of Purchasing & Supply

Areas to strengthen

- Develop impact assessments for our key community programmes to clearly demonstrate the value provided by our support and to continue to drive improvements
- Seek new ways to leverage our business and assets to better support communities

Priorities for 2014-15

- Launch a new Charity of the Year programme
- Build on the success of our support for schools programme, responding to the recommendations of our Medway pilot
- Continue to raise awareness of the work of the Rowland Hill Foundation
- Roll-out a process to identify and track our use of small and medium sized enterprise suppliers
- Review our procurement governance process and incorporate ethical, environmental and other risks into decisions on whether contracts must be submitted to the Royal Mail Board
- Deploy additional anti-bribery due diligence across procurement

Our environment (see page 64)

Key achievements 2013-14

- Reduced the amount of carbon emissions that we produce per £1 million of revenue by 5 per cent in the UK
- Consumed six per cent less water and sent 16 per cent fewer tonnes of waste to landfill
- Installed over 4,200 new recycling bins at our sites, achieving 71 per cent diversion of waste from landfill
- Strengthened our environmental reporting processes and procedures, including reporting on GLS carbon emission data
- Doubled the number of Royal Mail UK sites that hold Environmental Management System ISO14001 to 14
- Held our inaugural environment conference for around 80 Environment Pillar Leads and supports, and launched our environmental awards to recognise individual achievements

Areas to strengthen

- Continue expansion of ISO14001 accreditation across Royal Mail sites
- Review, update and supplement our environmental targets to help drive improved performance

Priorities for 2014-15

- Expand our ISO14001 accreditation to other Royal Mail sites
- Roll out the HGV telemetry system to improve efficiency performance through accurate data capture and real-time feedback on driving style
- Begin roll-out of LED lighting in 14 large processing sites with the greatest opportunity for energy reduction; and, install energy monitoring equipment at 70 energy-intensive sites to provide real-time data and pinpoint changes that should be made
- Identify solutions for diverting difficult-to-recycle items from landfill, such as machine belts
- Review and action recommendations of our water footprint assessment
- Develop a targeted supplier engagement programme incorporating environmental assessments into upcoming tenders, to encourage innovation in sustainability



Key performance indicators

1.4

Customers	Target for 2013-14	2013-14 Performance	2012-13 Performance	Achievement
First Class Quality of Service ^[1]	93.0%	93.2% ^[3]	91.7% ^[3]	Achieved See page 38
Composite parcels quality of service ^[1]	95.1%	95.1%	NA	Achieved See 2013-14 Annual Report and Financial Statements (ARA), page 11
Mean business customer satisfaction ^[1]	75	75	74	Achieved See page 34
Customer complaints ^{[1][2]}	509.9k	458.7k	489.9k ^[4]	Achieved See page 37



People	Target for 2013-14	2013-14 Performance	2012-13 Performance	Achievemen
Lost time accident frequency rate ^{[1][5]}	1.05	0.77	1.17	Achieved See page 46
Total accidents	Reduce the number of work-related accidents	10,999	13,878	On track See page 46
Days lost due to accidents	Reduce the number of days lost due to accidents	33,351	44,405	On track See page 46
Fatalities	Zero work-related fatalities	4	7	Not achieve See page 46
Sickness absence (%)	Reduce the sickness absence amongst our workforce ^[6]	4.3%	4.3%	Not on trac l See page 47
Employee engagement ^[1]	51	54	50	Achieved See page 44
Customer focus ^[1]	66	69	65	Achieved See page 34
Learning and development	Ensure employees are appropriately equipped with skills and knowledge	50,000 colleagues attended instructor-led training in the UK; 90,000 attended web-based training sessions	Trained over 2,100 Operational Workplace Coaches and introduced 163 new World Class Mail Champions and Champion Supports	On track See page 47
Diversity and inclusion	Offer Springboard training to 1,000 female employees in 2013-14	Provided 67 Springboard training programmes to over 1,000 female employees	Trained 11 facilitators. Had 458 applicants and six new programmes planned by end March	Achieved See page 49

^[1] This is a key performance indicator on our Corporate Balanced Scorecard.

^[2] As defined by the Customer Services team.

^[3] This is not adjusted for force majeure. In 2012-13 the adjusted for force majeure result was 92.5 per cent, including external events such as snow, volcanic ash clouds and the 2012.

^[4] This has been restated from 486.4k due to the addition of Door to Door complaints. These were previously tracked separately and have been integrated to improve oversight of complaints across the business.

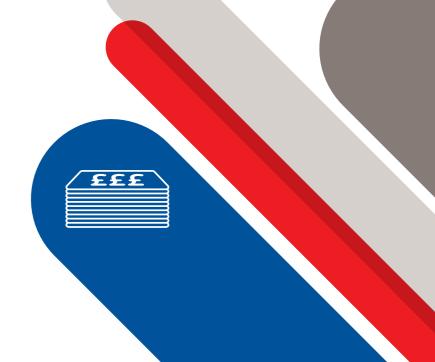
^[5] The number of work-related accidents resulting in an absence on the next day or shift per 100,000 hours worked.

^[6] Sickness absence rates are now calculated on a 12-month rolling average basis. Coverage has been improved to cover all UKPIL employees and all reasons for ill-health: occupational, non-occupational and accidents. Calculation based on Sickness Absence Hours / Expected Working Hours x 100.

Communities	Target for 2013-14	2013-14 Performance	2012-13 Performance	Achievement
Community investment	Raise £2 million, including matched giving for Prostate Cancer UK over a two-year partnership	Raised £2 million, including matched giving	Raised £800,000 including matched giving	Achieved See page 52
Colleague engagement	Increase the numbers of colleagues supporting charities through payroll giving, matched giving and fundraising	£3.3 million raised; with a 7 per cent increase in employee fundraising and a 22 per cent increase in applications for matched giving, volunteering and fundraising grants	£3.2 million raised; with a 4 per cent increase in payroll giving and 11 per cent increase in employee fundraising	On track See page 52
Suppliers	Phase in our new Supplier Relationship Management System across the company	Reviewed and revised our critical supplier list, identifying around 50 organisations to target from 2014-15	55 suppliers engaged; on- the-job training for contract management employees with 90 per cent of contract owners now in place	On track See page 62

Environment	Target for 2013-14	2013-14 Performance	2012-13 Performance	Achievement
Carbon emissions	Achieve a 20 per cent reduction in carbon emissions by 2020- 21 compared with a 2004-05 baseline	705.2k tonnes CO ₂ e, 19 per cent below emissions in our baseline year ^[1]	730.3k tonnes ^[2] CO ₂ e, 16 per cent below emissions in our baseline year	On track See page 67
Waste	Divert 70 per cent of waste from landfill by 2014-15	71 per cent of waste diverted from landfill, achieving our 2014-15 target one year ahead of schedule	66 per cent of waste diverted from landfill; 23 per cent reduction in waste to landfill; 10.7k tonnes of waste to landfill; 23.3k tonnes diverted from landfill	Achieved See page 70
Water	Manage and reduce our use of water	6 per cent reduction in water consumption	1,508k m³ water consumed, a reduction of 12.6 per cent	On track See page 71

Financial ^[3]	Target for 2013-14	2013-14 Performance	2012-13 Performance	Achievement
Total UK costs, before transformation costs (£m) ^[4]	£7,418 million	£7,242 million	£7,151 million, adjusted 52 week basis	Stretch ^[3] See 2013-14 ARA, page 23
Group operating profit ^[4]	£696 million	£670 million ⁽⁵⁾	£598 million, adjusted 52 week basis	Above threshold^[3] See 2013-14 ARA, page 4
Free cash flow ^[4]	£357 million	£398 million	£334 million, 53 week basis, non-GAAP	Stretch^[3] See page 8 and 2013-14 ARA, page 4
Group revenue ^[4]	£9,601 million	£9,436 million ⁽⁶⁾	£9,146 million, adjusted 52 week basis	Above threshold ^[3] See page 8 and 2013-14 ARA, page 4
Collections, processing and delivery productivity ^[4]	2.5 per cent	1.7 per cent	1.7 per cent	Threshold^[3] See 2013-14 ARA, page 5



20-21

^[1] Our 2004-05 baseline represents CO₂ rather than CO₂e emissions.

 $^{^{[2]}}$ CO₂e emissions for 2012–13 have been restated from 746,500 tonnes, in accordance with revised Defra emission factors. $^{[3]}$ More detailed information is provided in the 2013–14 Annual Report and Financial Statements on page 65.

 $^{^{\}text{[4]}}$ This is a key performance indicator on our Corporate Balanced Scorecard.

^[5] Group operating profit before transformation costs and adjusted for foreign exchange.

^[6] Group revenue adjusted for foreign exchange.

What matters to us

Royal Mail is a stakeholder-focused business. We are part of the UK's social fabric. The support of external stakeholders, such as customers, communities, suppliers and government is integral to our success and the on-going sustainability of our business.

Our stakeholders

Communication with our stakeholders is important to the success of Royal Mail and its continued transformation. We must ensure that we understand stakeholder views and expectations. At the same time, we aim to help stakeholders gain a better understanding of our business, as well as our need to change. An open, transparent dialogue with our stakeholders to materiality assessment. We engaged helps us to identify where our operations have the greatest impact, and where corporate responsibility can deliver the greatest benefits. Our primary stakeholders and how we engage with them are described on pages 26 to 31.

Our shareholders

The flotation of Royal Mail adds another stakeholder group: our shareholders. More than 700,000 members of the public acquired shares in Royal Mail when we floated on the London Stock Exchange in October 2013. They were joined by a wide range of institutional investors and the overwhelming majority of our employees

The success of our Employee Share Offer means that our employees now own 10 per cent of our business, aligning their interests with Royal Mail's commercial success, and with our continuing ability to deliver a sustainable Universal Service. Each eligible full-time employee who participated in the Free Shares Offer now has 729 shares and received a dividend payment of around £96 before tax, on 31 July 2014. In addition to this, more than 15,000 of our employees chose to purchase shares in the Company through the Employee Priority Offer.

Determining materiality

We discuss our corporate responsibility strategy and activities with a wide range of stakeholders, including our investors.

We continue to pursue effective reporting on those elements that matter to stakeholders. This year, we built on our stakeholder approach with almost 50 stakeholders from across groups representing customers, consumers, employees, our unions, suppliers, environmental representatives and investors. Through this, we aimed to gain a greater understanding about the key issues they expect us to report on in order to better meet those expectations. At the same time, the process provides an evidence-based justification for broader corporate responsibility decision-making.



FREE SHARES OFFER FOR EACH **PARTICIPATING** FMPI OYFF

EMPLOYEE PRIORITY OFFER **15.000 EMPLOYEES PURCHASED SHARES**





STAKEHOLDERS

Each eligible full-time employee who participated in the Free Shares Offer now has **729 shares** and received a dividend payment of around £96 before tax.

Corporate responsibility experts from Corporate Citizenship independently ran the assessment, gathering views across three stages:

- Research into key issues this included a review of existing reports, management and assurance statements, a media scan and a review of external standards such as the Dow Jones Sustainability Index and Global Reporting Initiative. It also included an issues benchmarking of industry peers and competitors based on their reporting
- Stakeholder survey and interviews stakeholders were engaged through an online survey or telephone interview. This provided both quantitative and qualitative evidence of the relative importance of different issues facing Royal Mail
- Stakeholder panel a high-level stakeholder panel provided a greater depth of understanding and nuance to the issues covered in the research and survey stages. It also served to test the findings to see if there were any outlying issues that had not been previously covered

Stakeholder panel

The stakeholder panel comprised representatives from primary Royal Mail stakeholder groups including employees, investors, business partners, communities and suppliers. Participants attended from:

- Alliance Trust plc
- Business in the Community
- British Postal Museum and Archive
- CBI
- Charities Trust
- Citizens Advice Bureau
- Communication Workers Union
- John Lewis Partnership
- Peugeot
- Post Office Ltd



The clear message gathered from stakeholders was: focus on the basics. People are most interested in Royal Mail's economic impact; being responsibly run and governed; prioritising the customer; providing high quality, goodvalue products and services; and responsible environmental management. These basics should be emphasised in our reporting.

In an increasingly commercial and competitive environment, it is more important than ever that we stress our unique corporate purpose and role as a Universal Service provider. We should demonstrate how social and environmental responsibility makes good long-term business sense. We must continue to engage actively with stakeholders, and report openly and frankly about performance, progress and difficult choices, as the Company continues to change.

The findings of the stakeholder engagement were used to inform our materiality matrix shown on page 24, highlighting the key issues that influence our business success.



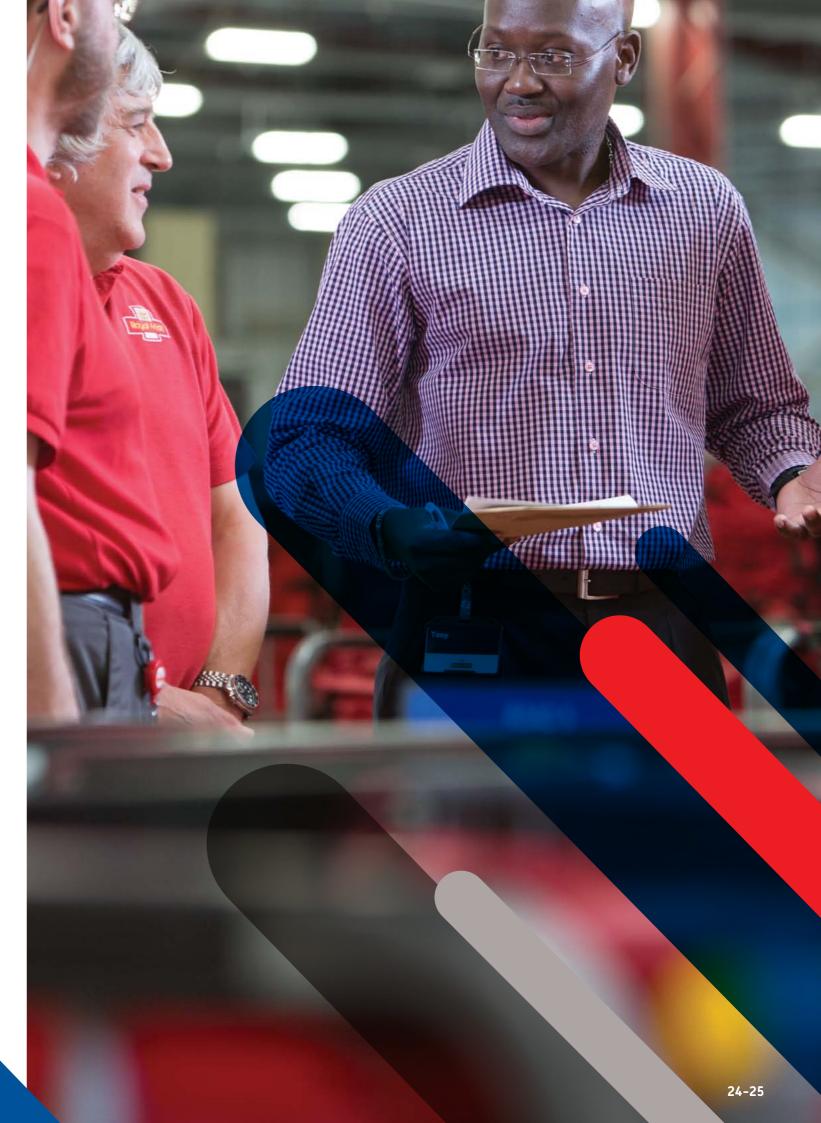


LOW INFLUENCE ON BUSINESS SUCCESS HIGH

Materiality matrix

We spoke to around 50 external stakeholders to rank the relative importance of different corporate responsibility issues according to them. Internally, our Group Strategy team, along with other senior managers, ranked issues in terms of their perceived influence on business success; with 'success' being defined by both financial and non-financial outcomes. The outputs of these rankings are set out in the matrix above.

We disclose information on the majority of those issues deemed to be materially important by both parties. Issues in the bottom left hand corner are managed by the Company but are not covered in detail in our corporate responsibility reporting. We will update this matrix on a regular basis and use it to inform our reporting going forward.





Key stakeholders

This table provides an overview of key Royal Mail Group stakeholders and how we engage.

Stakeholder	Who they are	What they expect	How we engage	Progress during 2013-14	Looking ahead to 2014-15
Customers					
Ŝ.	Consumer senders and receivers of mail Small and medium sized enterprises, including online marketplace traders Large corporations, Government and public sector	Provision of the six-day-a-week, one-price-goes-anywhere Universal Service at competitive prices Us to understand and meet their changing requirements A high-quality and consistent service Value for money	Around 15 million customer conversations a year through phone, email, letter and Twitter Our frontline postmen and women engage with our customers at point of collections and on deliveries six-days-a-week Our sales team of account managers: field, desk, new business and specialists Our www.royalmail.com website Business and consumer customer surveys and focus groups Our relationship with the Post Office allows customers to buy products and services at 10,500 Post Office branches	Reduced customer complaints by six per cent Launched Local Collect – the UK's largest 'click and collect' network – in partnership with the Post Office Introduced enhanced delivery information for our Special Delivery and Tracked offerings Optimised our website for mobile usage Launched a tracked parcels return service for customers returning items to a retailer Launched barcoding of letters for business customers	Improve customer service points through refurbished offices, additional employee training and new IT system that reduce customer waiting times. Make further improvements to the online customer experience. Pilot Sunday afternoon opening at around 100 delivery offices. Trial Sunday parcel deliveries within the M25. Extend parcel acceptance times, including at weekends, for parcel business customers. Help customers derive more value from the direct marketing mail they send.
Colleagues	• 162,000 employees ^[1]	• Engagement on issues of	Weekly Work Time Listening	Following our recent flotation, the	Continue to drive down accident
	• 17 per cent female ^[1]	importance to the Company High standards of health and safety	 and Learning sessions JustSayIt (an email link to the CEO) 	overwhelming majority of our UK employees are also shareholders in our Company. Free Shares gave	numbers and lost time accidents • Prioritise road safety through
U	 10 per cent in the UK declare themselves to be from 	Equality and fairness	Royal Mail TV	our people a direct stake in the Company and its future success.	driver programmes and review our approach to occupational road risk
	minority ethnic groups • Six per cent in the UK identify	throughout workplaces Learning and development support	Intranet and myroyalmail.com	This was the largest Free Share stake of any major UK privatisation	 Address concerns in areas highlighted by our Employee Survey:
	themselves as having a disability	- Learning and development support	 Our monthly magazine, Courier, Courier Specials and Newsflashes sent direct to employees' homes 	Significant fall in workplace accidents as a result of our focus on safety and minimising risk	ensuring more people feel valued and recognised; providing more opportunities to progress; and increasing the number of people
		·	 Postcards, posters and daily and weekly emails sent to business units or individuals' homes 	Improved employee engagement score in our annual Employee Opinion Survey	who feel involved in decisions that affect them and their work
			A programme of 'town halls', forums, conferences and on-site engagement with senior managers and leaders across the business		Develop new apprenticeship programmes for Project Managemer Finance and Direct Mail
Suppliers					
	Over 6,300 suppliers Our annual procurement spend is approximately 6.2.5 billion	 Fair and transparent contracting and ordering processes, and payment in accordance with agreed terms 	Group procurement monitors compliance with our Responsible Procurement Code of Conduct, based on the LIN Global Compact's	Achieved the Chartered Institute of Purchasing and Supply (CIPS) Platinum Certification – the first organisation worldwide to have achieved this.	Continue to encourage suppliers to set objectives to improve their performance in social, environmental and otheral issues.



is approximately £2.5 billion

• Clear, relevant information on Royal

Mail's requirements and standards

environmental and ethical issues

based on the UN Global Compact's

10 principles around good human rights, labour and environmental

practice, and anticorruption

worldwide to have achieved this

Stakeholder	Who they are	What they expect	How we engage	Progress during 2013-14	Looking ahead to 2014-15
Unions					
	Communication Workers Union (CWU) – an estimated 80 per cent of operational and administrative grade employees are members Unite Communication and Managers' Association (Unite CMA) – an estimated 40 per cent of our managers are members of Unite CMA	Fair and respectful treatment of members Consultation and engagement on issues of importance to the Company Negotiation of improvements to terms and conditions	 Weekly meetings held between CWU representatives and frontline operational managers to discuss resource to workload, review core costs, upcoming work and additional resource requirements Daily/ad-hoc meetings as required to review resourcing and in support of individual members Dedicated specialist industrial relations team regularly consulting with unions to address businesswide issues such as jobs, pay, privatisation and transformation 	 Agreed a ground-breaking new agreement on an Agenda for Growth with our main union, the CWU. It is about improving industrial relations, creating a cando culture and a joint commitment to delivering business success Overhaul of bullying and harassment procedure to focus on informal resolution and mediation where possible Joint work with Unite to address workload/prioritisation issues for delivery office managers 	 Implementing initiatives designed to embed progressive management-union-employee relationships, including joint training, new approaches to issue resolution and stronger union involvement in governance and change initiatives Completing review of HR procedures regarding conduct and capability Embedding membership of new joint governance structures
Investors					
	Institutional investors and retail investors HM Government The overwhelming majority of our employees in the UK, who in total received free a 10 per cent stake in our Company. Approximately 15,000 employees also chose to buy shares through the Employee Priority Offer	• Sustainable shareholder value	Regular financial reporting and disclosures to the market as required by the UKLA's Disclosure and Transparency Rules A comprehensive Investor Relations programme Annual General Meeting	 A large number of institutional investors and more than 700,000 members of the public bought shares in Royal Mail: the largest single extension of private share ownership in the UK for some time £490 million of Free Shares in Royal Mail allocated to approximately 150,000 employees. This was the largest Free Share stake of any major UK privatisation and creates alignment between the interests of shareholders and employees 	Continuing financial disclosures to the market and Investor Relations programme Focus on being a more efficient and flexible company Maintain our market-leading positions and target new segments and channels where we can grow Aim to deliver sustainable shareholder value
Local communities					
	Communities across the areas in which we operate Charities and non-government organisations	Operating in a socially responsible way Appropriate access to service	Support our people in making a difference to local communities Collaborative working with charity partners	 Made a total economic contribution of £10.9 billion^[1] in terms of value added, made up of direct and indirect contributions to the wider UK economy Delivered around 4.8 million items for free through our Articles for the Blind service Raised £1.2 million, including matched giving, for our Charity of the Year Prostate Cancer UK, reaching our £2 million target Celebrated reaching 25 years and £50 million in charitable donations through our payroll giving scheme 	 Roll out our new Charity of the Year partnership with The Stroke Association UK Continue working with the Keep Me Posted campaign to protect the rights of consumers to choose, without penalty, to receive communications such as bills and statements by post Review and refresh our community investment strategy



Stakeholder	Who they are	What they expect	How we engage	Progress during 2013-14	Looking ahead to 2014-15	
Ofcom						
	 Independent regulator for the UK communications market 	 Us to meet high Quality of Service standards for the Universal Service 	 Regular engagement through reporting, face-to-face meetings 	Ofcom brought in amended regulatory requirements for the	 In letters, the current suspension of access price changes and unfettered direct delivery are a threat to the 	
	Ofcom's primary regulatory duty for postal services is to secure the provision of the	Continuous improvement in the efficiency of our operations	 and consultation responses Relationship managed by the Regulation and 	provision of post boxes to better align with the needs of consumers • We consulted with Ofcom on various	fundamental economics of the Universal Service. We are calling on Ofcom to take action now and carry out	
	Universal Postal Service	 Regular updates on our performance, including providing data to enable monitoring against this 	Compliance departments	technical and minor amendments to the Universal Service conditions	a full review of direct delivery. Such a review would be in line with Ofcom's primary duty to secure the provision	
		Responses to public consultations regarding the regulatory framework		Royal Mail made changes to the Universal Service product portfolio to simplify and align to user needs	of the Universal Service	
UK Government						
	At the time of writing, HM Government had a stake of c.30 per cent in our Company	As the policy holder for postal services, Government expects Royal Mail Group to deliver the Universal Service Obligation for the UK Like any other shareholder, the Government expects Royal Mail Group to deliver sustainable shareholder value Compliance with applicable law and regulations	 Royal Mail Group retains a relationship with the Shareholder Executive and meets as required with Government on shareholder matters through the Company Secretary's department Day-to-day engagement through our Government Affairs, Regulation, Group Communications and Investor Relations departments Royal Mail Group regularly engages with Business, Innovation and Skills, other government Departments and the Devolved Administrations on key policy issues as a strategic partner 	In the first half of the year Royal Mail Group was wholly owned by HM Government. On 15 October 2014, the Company was floated on the London Stock Exchange. Government ownership was reduced to a shareholding of c.30 per cent	Continue to work with Government discussing policy developments related to postal services, e.g. preserving the Universal Service, competition, customer service, security and European policy	
International stakeholders						
	 Universal Postal Union (UPU): a United Nations (UN) body, which has 192 member states, dedicated to the development 	 Engagement on issues of importance to the development of the organisations and the global postal network 	 Taking a leading role at the UPU as an elected member of the Postal Operations Council 	Implementation of decisions taken at the 2012 UPU Congress Entered on the Transparency Register	 UPU Strategy Forum to be held in October 2014, in Cote d'Ivoire, reviewing progress on the Doha Postal Strategy 	
	of the global postal service	Commitment to and participation	 Raising our visibility and engagement with EU decision-makers and the 	of the European Union (see page 40)	Continue Quality of Service	
	 PostEurop: regional union of the UPU in Europe with 52 postal operators. Its aim is to promote 	in the various bodies, groups and work programmes	wider EU stakeholder community • An elected member of the	 Focus on the development of services to support e-commerce, both in Europe and globally 	measurement and operational services to support international mail exchange	
further cooperation among the			PostEurop Management Board	Improved efficiency of Quality of	 Continuing development of e-commerce services 	
	International Post Corporation (IPC): dedicated to improving		 Leadership (at CEO level) as a member of the IPC Board 	Service measurement, and continued operational and IT enhancements		
	service quality, promoting cooperation and interoperability, and providing informed intelligence about the postal markets		 In all organisations, providing leadership and expertise on topics of importance to Royal Mail Group and our stakeholders 			



2 🕕



Our customers

We are focused on getting things right for our customers and being their first choice. Being customer-focused is one of our three strategic priorities. As a responsible brand of long standing, our customers trust us to deliver.

1.5 BILLION PARCELS

≥ 16.5 **BILLION LETTERS** 2013-2014

Key facts

- As the UK's Universal Service provider, Royal Mail delivers to more than 29 million addresses, across the UK, six days a week, for a uniform, affordable price
- The UK has the highest quality specification of any major European country for its Universal Service
- We carried around 1.1 billion parcels and 16.5 billion letters within the UK in 2013-14
- Letters (including marketing mail, magazines, bills and statements) account for around 50 per cent of Royal Mail Group's revenues
- Our European network, GLS, spans 37 countries and nation states and delivered over 400 million parcels in 2013-14

Key achievements in 2013-14

- We increased our customer satisfaction score to 75, a one point increase over the same measure in 2012-13
- We reduced the number of complaints we received by six per cent
- We launched our new 'click and collect' service, enabling businesses and their customers to arrange collection from one of 10,500 Post Office branches
- We changed the way that we process incoming calls for delivery offices to deliver a more consistent and professional customer service experience
- We continued to offer one of the best value mail services in Europe, despite increasing our prices to ensure the sustainability of the Universal Service

Our customer strategy

Royal Mail Group Ltd is the sole provider of the Universal Service in the UK. We play a vital role in connecting millions of customers, businesses, organisations and communities including those in the most remote rural areas.

Customer satisfaction is essential for Royal Mail's future competitiveness. Ensuring we keep our promises in a sustainable and consistent way is a key driver in ensuring our customers remain satisfied. By delivering the service we promise we will retain existing customers and attract new ones.

We know that our customers have plenty of choice when it comes to where they take their business. We want to be their first choice. Our strategy for doing so is focused on four priority areas:

- Understanding our customers' needs, in order to upgrade our services effectively and respond to changing requirements
- Being easy to do business with, by simplifying our processes and making life easier for senders and recipients
- Maintaining a high Quality of Service, collecting and delivering successfully and in-line with our customers' expectations and meeting the standards for the Universal Service set down by Ofcom
- Providing value for money to all customers

Monitoring the health of the Royal Mail brand

The strength of the Royal Mail brand is a good indicator of the quality of service that we provide for our customers. In the last year we have succeeded in improving our performance across a range of external and internal measures:

- Royal Mail was ranked 15 out of 500 in the Business Superbrands survey^[1], our highest ever position, and a significant improvement over our ranking of 51 in 2012
- In May 2014, we were ranked the 10th most reputable company in Britain by the Reputation Institute in its yearly poll^[2] up from 32nd in 2013
- In March 2014, 73 per cent of our customers said they were favourable towards us, and 69 per cent said they could not imagine life without Royal Mail^[3], with both scores representing an improvement over the previous year
- Consumers rate Royal Mail as the most trusted delivery company, and most say that we are the company they prefer to use^[3]

Understanding customer needs

Customer research is an integral part of how Royal Mail does business. We talk to our customers to find out what is working for them, what they think of Royal Mail and what needs to improve. We know that this process is vital for maintaining high service levels, being easy to do business with, and remaining first choice for both individuals and business customers.

We conduct two major on-going pieces of customer research. Every month we survey about 700 business customers from the very large to the very small, investigating satisfaction levels, and inquiring about their experience with us. We also speak to around 3,000 consumer customers, who contact us each month. When we speak to them, we ask them their opinion about Royal Mail and their experience of our services.

Our scores continue to improve. Our mean business customer satisfaction score is 75. This is an increase on 74 last year, and 70 in 2011-12. In our second full year of gathering consumer customer satisfaction scores, we have also seen a steady increase from 68 in 2012-13 to 70 in 2013-14.

After our customers, our own people are best positioned to tell us how customer-focused our products and services are. We use our annual Employee Survey to gauge what they think about the customer experience. This year we achieved a customer focus score of 69 compared with 65 last year.

During 2013-14, we implemented post-call surveys with both business customers and consumers, to obtain real-time feedback for line managers and enable us to tackle issues proactively. This process has already helped to reduce the number of occasions when customers escalate complaints because their issues are not dealt with effectively. It is also helping to inform the training of our frontline advisers who answer customer service calls.

Our research programme tells us that our customers have the following priorities:

Business customer priorities

- Being easy to do business with
- Providing value for money
- Providing a consistently high-quality service; collecting and delivering successfully and in-line with customer expectations

Consumer customer priorities

- Items arriving in good condition
- Deliveries arriving on time

We have been able to act on a number of key improvement areas identified through customer research. We have introduced our Delivery to Neighbour scheme to help improve our rate of first-time delivery; improved doorstep experiences through tracking and signatures on handheld scanners; made it easier to book a redelivery online; and centralised calls to delivery offices for a more consistent customer experience.

During 2013-14, we used customer feedback to revise and expand our options for the dimensions of small parcels and we used research on how consumers interact with their mail to help businesses make more effective use of our service in advertising campaigns.

69%
OF CONSUMERS
COULD NOT IMAGINE
LIFE WITHOUT
ROYAL MAIL





In 2013–14, we became one of the first UK companies to carry out mobile accessibility testing for our website, engaging with people with different disabilities to check the quality of their experience on desktop machines, mobiles and tablet devices. We are currently reviewing the recommendations that this research generated and plan to start making improvements to the online experience for these groups during 2014–15.

Policy Expert



Insurance company, Policy Expert has been using direct mail to reach out to potential customers for the last two years working closely with Royal Mail to optimise its targeting and improve return on investment. In 2013–14, Royal Mail carried out a heat-mapping exercise to establish the effectiveness of the packs Policy Expert uses, and identify potential improvements for testing.

"Given the clarity of the research and findings that Royal Mail provided us with, we are confident of improving our response rates over the coming months, We will be engaging further to monitor the performance and look for other opportunities to improve."

Andy Cole -Head of Marketing, Policy Expert

Being easy to do business with

Providing simple, flexible choices that suit our customers' needs and budgets is essential to Royal Mail's future competitiveness. We look to capture the growth in online retailing in order to ensure a sustainable Universal Service and put additional value and services into the letters sent through our network. We cannot achieve either without being easy to do business with.

Customers delivering and receiving parcels have different needs to those sending and receiving letters. We have therefore developed some different priorities and initiatives for parcels and letters.

For parcels, we are focused on:

- Getting the basics right we have streamlined our product range to make it easier for customers to choose the right service for them. We are refreshing our enquiry offices and training our customerfacing colleagues to improve customers' experiences when collecting their parcels
- Getting the technology right we are making it easier for customers to access our networks through to tracking and management information; upgrading the core GLS operating system to ensure continued market-leading IT capabilities; and adding barcodes to UK parcels to improve customer information and operational efficiencies
- Expanding and automating our networks we have expanded the capacity of Parcelforce Worldwide. We are undertaking detailed planning for parcels systems upgrades and automation in the core Royal Mail networks

During 2013-14, we launched our new 'click and collect' service, Local Collect. Delivered in partnership with the Post Office, this is the largest service of its kind in the UK, and enables businesses and their customers to arrange collection from one of 10,500 Post Office branches. Building on the success of our Delivery to Neighbour scheme, launched in 2012, Local Collect provides yet more convenience and flexibility for customers receiving parcels through Royal Mail.

Both Local Collect and Delivery to Neighbour are designed to reduce frustrations around missing deliveries. We have also conducted extensive employee training, focused initially on our larger delivery offices, to reduce causes for complaint. We share our learnings through internal communications channels such as Royal Mail TV, Courier and our weekly Work Time Listening and Learning sessions.

For businesses and consumers sending parcels, we provide email and SMS delivery notification free of charge for anyone using Tracked and Special Delivery Guaranteed products.

We followed the launch of our simplified parcels offering in the UK with a streamlined range of international parcels options. As with the UK, we have added a tracking facility to our returns product for international parcels. Better tracking for returns makes it easier for retailers to invite customers to try items and return them if not wanted, increasing sales and improving customer service.

^[1] Business Superbrands 2014.

^[2] UK National RepTrak Pulse Report 2014.

^[3] Ipsos MORI Consumer CSI Survey 2013-14.

Feedback from SME business customers helped to guide our redesign of the dimension options for small parcels during 2013, offering more flexible choices for both them and their customers and ensuring greater value for money.

For letters (including marketing mail, magazines, bills and statements), we are focused on:

- Investing to improve operational efficiency. Leveraging benefits of our investments in letter automation by increasing the number of letters sorted into delivery order and optimising mail handling techniques
- Managing the structural decline in the letters market. We are rolling out Mailmark™: barcode tracking technology for machine-readable business, advertising and publishing mail
- Demonstrating the role and value of direct marketing mail. We are promoting the value that physical mail brings to advertising campaigns and customer communication activities

During 2013-14 we redesigned some of the ways our customers use our services, both online and offline, to ensure an improved experience of Royal Mail.

For businesses, we have redesigned the set-up process with a focus on creating a positive first experience and providing clear information on services to prevent problems later on. We have also made it easier for relocating businesses, providing a single point of contact to minimise the hassle involved in changing premises.

Online, we have redesigned how customers access our most frequently used services. The new online experiences for three of these services, redirection, redelivery and fee to pay, are already live and have increased the number of people completing these tasks online.

Communicating with our customers

We are working to ensure that the process of contacting Royal Mail is as smooth as possible for our customers. At the same time, we are making clear and proactive communication an essential part of how we do business, to reduce the need for customers to get in touch. During 2013-14, we spoke to customers on the phone on more than 8 million occasions, sent over 550,000 emails and sent and received more than 328,000 tweets. Our Twitter account @RoyalMail enables us to provide rapid, real-time information to customers, keeping them informed about potential disruptions and updates, capture feedback and deliver customer service.

The communication plan supporting our Royal Mail transformation programme involves reaching out to business customers to explain the changes we are making. We communicate all pricing and product changes clearly in advance, keeping customers updated on improvements to our service, and providing daily updates at busy times. During 2013-14, we sent more than 5.5 million letters and over 11,000 emails to support the change programme. This approach to outbound communications played an important role in supporting businesses through the demands of the Christmas period.

For business customers, we launched a live chat function on the Royal Mail website, to enable easy, convenient access to online advice and cut down on the need for customer service calls.

These new initiatives have delivered a stepchange in customer service with over 83 per cent of business customer calls answered within 20 seconds, 50 per cent of business customer emails answered within three hours and 98 per cent answered within 24 hours.



OVER 83% OF BUSINESS CUSTOMER ANSWERED WITHIN 20 SECONDS





50% EMAILS ANSWERED WITHIN 3 HOURS

24 HOURS

Improving the customer experience

As we handle more and more parcels, customer enquiry offices are becoming an increasingly important element in Royal Mail's interaction with its customers. During 2013-14 we invested in our Customer and You programme, which focuses both on upgrading our enquiry offices and providing training for enquiry office employees to help them respond to customer needs more intuitively.

"It's about reading the customer, what mood they are in and how certain personalities want different things. People who come across as standoffish might actually just be in a hurry to get to work and don't have time to chat. Others want to give us their life story! We need to adapt the way we deal with them and make sure every individual has a great experience."

lain Thomson -Bromley postman

Our Customer and You training has already rolled-out across more than 1,100 enquiry offices, and includes workshops focused on reading different types of customer and responding appropriately to their needs. We are redesigning our enquiry offices as Customer Service Points with welcoming, open-plan layouts and increased storage space for parcels. We will continue to roll out the Customer and You programme throughout 2014.

Fixing problems

Recognising and fixing problems with our service is an important element of being easy to do business with and reducing the number of complaints that Royal Mail receives. We achieved significant improvements in the level of customer complaints^[1] over the year. Overall, complaints were down six per cent on last year, reducing from 489,900^[2] in 2012-13 to 458,700 in 2013-14.

During 2013, we changed the way we process incoming calls to ensure customers receive a professional, dedicated customer service experience. Calls that previously came into our enquiry offices are now transferred to a dedicated Customer Experience department, which can capture feedback and escalate problems more effectively. This also frees up time for our frontline staff to serve the customers collecting parcels.

Four issues account for the majority (62 per cent) of complaints: redirection, misdeliveries, redeliveries and Something for You cards. Our performance has improved for three of these complaints, the exception being Something for You cards. Our Delivery to Neighbour initiative is a key focus as we seek to improve the effectiveness of our delivery operations and reduce redeliveries. Recent Ofcom research found that 94 per cent of customers were satisfied with our Delivery to Neighbour service. Other areas of focus include:

- Redirection making it easier to view information on our website, facilitating quicker redirection set-ups and introducing new sorting frames that make redirection requirements clearer to our employees and increase accuracy
- Misdelivery using complaint data to identify problem areas and highlighting these when mail is prepared for delivery. As part of the overall reduction, repeat misdelivery complaints fell by 31 per cent year-on-year
- Redelivery failures simplifying the online redelivery booking process and making it easier to identify when several different parcels can be redelivered at the same time
- P739 or Something for You cards piloting a new version of the P739 card as part of our Customer and You programme, with clearer messages around bringing the required ID to pick up a parcel, and the time when parcels will be available for collection. For customers collecting their parcels, we are focused on improving the speed of parcel retrieval and reducing queuing times



- [1] As defined by the Customer Service team.
- [2] This has been restated from 486,400 due to the addition of Door to Door complaints. These were previously tracked separately and have been integrated to improve oversight of complaints across the business.

Harrier LLC



A keen understanding of business requirements and the ability to tailor bespoke solutions around customers helped to return a major contract with Harrier LLC to Royal Mail in 2013.

Harrier is one of the UK's leading digital print providers with customers including Tesco Photo, Funkypigeon. com, Snapfish, Truprint, Sainsbury's and Boots. Six years ago, the company switched its business to a competitor. The changes made to Royal Mail since then helped to make a compelling case for bringing the business back.

Our business solutions and local operations teams worked together to create a bespoke solution for Harrier's large letters and parcels that anticipated the precise needs of the business. We were able to demonstrate substantial sorting cost savings. And the fact that the switch took place just before the busy Christmas period provided an early opportunity to demonstrate the new levels of customer service at Royal Mail.

"The help we received from Royal Mail made this one of the easiest changes we have ever made. Royal Mail's 'can-do' attitude will take them far."

Tony Perry - Logistics and Services Manager, Harrier LLC

Maintaining a high-quality service

Delivering when we say we will is a key component of our service standards. Royal Mail has demanding Quality of Service targets set by Ofcom as part of our obligation to deliver the Universal Service. We are proud to report that we delivered improvements against nine of these measures during 2013–14.

We delivered 93.2 per cent^[2] of First Class items on time, beating our regulatory target of 93 per cent and improving on the previous year's performance of 91.7 per cent^[2]. We also beat our 98.5 per cent target for Second Class mail, delivering 98.9 per cent within three days of posting. In fact, our on-time delivery performance was our best since 2008-09.

Our Special Delivery performance now stands at 98.6 per cent, an increase of 0.4 per cent year-on-year. Of our 118 postcode areas, 114 met the 91.5 per cent minimum standard for on-time deliveries, a substantial increase from the 73 that did so in 2012-13 and our best performance for seven years.

This performance was achieved against the backdrop of our privatisation and our continuing transformation programme, including a rolling programme of changes to delivery methods. We expect our initiatives to contribute to continued high standards going forward.

Providing value for money

At the end of March 2014, First and Second Class stamp prices changed for the first time in two years, with First Class stamps rising by 2p to 62p and Second Class prices rising 3p to 53p. The price of Large Letter First Class stamps also increased by 3p to 93p, and the price for Second Class Large Letters by 4p to 73p. Prices for sending weighted parcels increased by an average of 2.6 per cent.

These changes comply with the regulatory framework for UK postal services that was introduced by Ofcom in 2012. Ofcom introduced a cap on Second Class stamp price increases. Our price rise is considerably less than the increase to 57p that the cap would have allowed. There is no price cap on First Class stamps.



93.2% DELIVERED ON TIME



positobe areas
Delivered over
91.5%
ON TIME



When setting prices, Royal Mail balances providing good value with the need to maintain a high-quality Universal Service, which operates six days a week and in which one price is enough to take a letter anywhere in the UK. The Universal Service requires a fixed-cost infrastructure costing more than £7 billion a year.

The price of stamps needs to reflect this. Our regulated Quality of Service specifications are amongst the highest of any major European country. We performed ahead of target for both First and Second Class delivery in 2013-14.

Royal Mail's stamp prices are among the best value in Europe. First and Second Class stamp prices for letters up to 100 grams remain well below the European average^[3].

Research by Ofcom in March 2013 shows that postal services remain affordable. Household spend on post is less than one-twentieth of the amount spent on other utilities such as telephone services, electricity and gas, and represented only 0.1 per cent of household expenditure at 2012 prices. We also continue to operate schemes that ensure our business pricing is as competitive as possible. Account customers and use of meters provides business customers with significant discounts.

Priorities for 2014-15

- Demonstrate the role and value of direct mail in increasing the effectiveness of advertising and communication activities
- Improve customer service points through refurbished offices, additional employee training and new IT systems that reduce customer waiting times
- Deliver continuous improvement in first-time delivery success
- Pilot Sunday afternoon opening at around 100 delivery offices
- Trial Sunday parcel deliveries within the M25
- Expand our international tracked returns service
- Work to migrate customers onto our Mailmark[™] Barcode Technology and help them make the most of the tracking capabilities that Mailmark[™] provides
- Extend parcel acceptance times, including at weekends, for parcel business customers
- Make our 'click and collect' service available to 20,000 small and medium enterprises

[1] Not adjusted for force majeure.

^[2] This is not adjusted for force majeure. In 2012-13 the adjusted for force majeure result was 92.5 per cent, including external events such as snow, volcanic ash clouds and the 2012 London Olympics.

[3] European average is 63 pence for inland stamp prices up to 100 grams, First and Second Class combined.





Dealing fairly and openly

Our commitment to clear and open communication with our stakeholders makes transparency an essential element of our strategy. It is fundamental to the type of business that we want to be. A collaborative and transparent relationship with all of our stakeholders strengthens our brand, ensures a better understanding of developing customer needs and the regulatory environment, and helps to embed high standards within the way that we operate.

Transparency and the European Union

In early 2014, Royal Mail signed the European Union Transparency Register Code of Conduct. This commitment demonstrates that we 'play by the rules' in being transparent and respectful of democracy when we deal with European institutions.

Transparency matters in this context because it empowers us to play a role in discussions with the EU about industry developments and issues. It ensures confidence that when we share important information and opinions we are doing so in a way that is fair and open. This is fundamentally good for our business – and it is a principle that we apply to other areas of transparency as well.

Scam mail

We understand the distress caused to households by the threat of scam mail, and we are committed to addressing this threat and providing support to vulnerable people when it comes to dealing with it.

Royal Mail is an active member of the National Scams Hub, which launched in 2012 with the aim of identifying and addressing fraud, and supporting victims. The Hub is sponsored by the National Trading Standards Board and hosted by East Sussex Trading Standards. Representatives on the steering group include the National Fraud Intelligence Bureau, Action Fraud, the National Crime Agency and the Metropolitan Police. We are committed to working closely with the Hub to identify and stop scam mail wherever and whenever we can.

During 2013-14, we have continued to raise awareness of the scam mail threat amongst our people, encouraging them to report any complaints to our security team. In Bognor Regis, we worked with Sussex Police to raise awareness of scam mail sent to residents, ensuring our employees were able to answer any questions concerned people might have. We have a national helpline for customers who believe that they, or their family, are receiving fraudulent mail, and we encourage people to send the mail in question to us so that we can work with the appropriate authorities to investigate it. We also mail a free Action Fraud leaflet to communities on request, and provide guidance on our website at: www.royalmail.com/scam-mail.com

Returned mail	2013-14	2012-13	2011-12
National Returns Centre employees	150	134	140
Items processed (m)	17.05	19.15	21.2
Revenue generated at auction (£m)	1.86	1.32	1.2
Cost of running National Returns Centre (£m)	3.45	3.25	3.4

Returned mail

The overwhelming majority of mail items we handle are delivered safely to the correct address. However, a small proportion of items are unfortunately undeliverable, for reasons that include incomplete addresses and lack of forwarding addresses for recipients who have moved home. It is part of our commitment to openness to report what happens to this mail. In 2013-14, our National Returns centre in Belfast processed 17.05 million items, out of a total of some 14 billion pieces of addressed mail that we handled. We aim to return undeliverable mail to the sender. If this is not possible, we securely dispose of it. In addition, we auction valuable items that cannot be returned to help fund the cost of our returns centre.

Delivery exceptions

Royal Mail aims to collect and deliver every item of mail that passes through our network. There are, however, cases where it is not possible to deliver mail to certain addresses. We term these cases Universal Service exceptions and, where required, we report on them in detail each year. Our 2013 Exceptions Report, published in October 2013, showed there were 2,986 addresses where it was not possible to deliver mail. This represents 0.01 per cent of the 29 million addresses to which we deliver.

There were 2,001 long-term Universal Service collection exceptions in the report published in April 2013. This represents one per cent of around 205,000 collection

points across the UK. These exceptions can be caused by a variety of reasons including difficulties in accessing post boxes and business post boxes that are only open Monday to Friday. We report all of these exceptions to our regulator, Ofcom, on a regular basis.

In December 2013, the new Delivery Exception and Collection Exceptions Direction came into effect. Under this, we are no longer required to report on temporary exceptions, but to report on delivery and collection exceptions that have been in place for more than twelve months. We are also required to report on a broader section of exception categories such as health and safety, poor security and lack of road access. Moving forward, we will report against this revised framework.

Data protection and privacy

We know that privacy is very important to the public, our customers and our people. Compliance with the Data Protection Act underlies all our business policies and procedures governing the use of personal information. We handle personal information fairly, securely and in line with the rights of individuals. Our privacy policy explains how we collect, use, share and protect personal information.

Exceptions to our delivery and collections service	2013-14	2012-13	2011-12
Long term delivery exceptions	2,555	2,553	2,571
Short term delivery exceptions	431	447	442
Long term collection exceptions	2,001	2,001	2,100

Our people

2.2

Our people are fundamental to our ability to achieve our strategic priorities. They are central to our role at the heart of communities. Managing our transformation responsibly and driving colleague advocacy of the Group and its community role are therefore two of our core corporate responsibility objectives.

Key facts

- Over 162,000 employees across our Group^[1]
- 17 per cent female; 83 per cent male^[1]
- The vast majority of our UK employees are now Royal Mail shareholders with a tangible stake in the future of our business
- 75 per cent of our UK employees say they would like to be with Royal Mail Group in two years' time

Key achievements in 2013-14

- We reduced our lost time accident frequency rate by 34 per cent year-on-year
- We increased the response rate to our annual Employee Survey from 75 per cent to 85 per cent
- Almost 50,000 colleagues attended instructor-led training in the UK, with 90,000 attending web-based training sessions
- We were named as one of the Times Top 50 Employers for Women in 2014, in recognition of our commitment to gender equality
- We earned the Two Ticks accreditation from Jobcentre Plus, recognising our commitment to supporting employees and candidates with disabilities
- In February 2014, over 94 per cent of CWU members voted in favour of the proposed Agenda for Growth. This covers employee pay, protections and industrial stability as well as a programme of work to help deliver change at pace in operations

Our people strategy

We are a people business, and our colleagues are fundamental to our ability to achieve our strategic priorities. It is their active support and engagement that will ensure we grow our parcels business, manage the decline in letters and build a culture around delivering for our customers.

Our people strategy is therefore focused on ensuring:

- We create a customer-focused culture with the right mix of people
- Our people are safe, engaged, respected, treated fairly and feel valued
- We continue to invest in people and provide opportunities for all
- Our colleagues are fairly rewarded within a stable industrial relations climate

Transforming Royal Mail

Our transformation programme has involved making large-scale changes in order for Royal Mail to compete effectively in the changing postal market. Our people have shown consistent flexibility and commitment since we began the process of transforming our business in 2007.

Our approach to modernisation has touched every area of our business from mail collections and processing through logistics, sorting and delivery. By the end of 2013–14, over 90 per cent of our delivery operations, including both delivery routes and delivery offices, had been fully modernised, with the remainder scheduled for completion early in 2014–15.



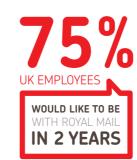
17%
FEMALE
83%
MAI F



74,000
HANDHELD
SCANNERS
FOR BETTER
CUSTOMER SERVICE



60 TOWN
MEETINGS



Major changes in the last seven years have included:

- More efficient mail sorting through 998 new, refurbished or upgraded machines, with 19 out of 20 letters automatically sorted and eight out of 10 sorted into precise delivery sequence
- Reducing our number of mail processing plants, improving efficiency, optimising our capacity and delivering a better service for customers
- Increased parcel delivery capability through 14,000 shared delivery vans and greater use of lightweight and high-capacity trolleys
- Roll-out of 74,000 handheld scanners by Christmas 2013, to track and trace items, capture performance data and enable better customer service
- Our continuous improvement process embedded across all mail centres and delivery sectors (see page 67)

We know that change can be difficult for our people. Transformation of our business to compete effectively has involved the rationalisation and consolidation of our estate. There has been an inevitable impact on colleagues where sites are closed and operations streamlined. Providing full and effective support during this transition is an important part of our transformation process.

We support affected colleagues, helping them to make informed choices about the future. Under our Clear Choice and Next Steps programmes, internal transition managers and external, expert career coaches come together to provide one-to-one advice, information and guidance. Key transition support includes:

- Information zones for asking questions and understanding different options for financial and practical support
- Career discussions outlining choices such as transfer to a new unit, reduced weekly hours or voluntary redundancy
- Awareness events introducing colleagues to external agencies and providers
- Enrichment days where employees can trial working in a new mail centre or delivery office
- Outplacement support to help with job searches, setting up a business or preparing for retirement

Engaging colleagues within a customer-focused culture

Engaged employees are essential for the customer-focused culture that we are building at Royal Mail. Engagement is one of the three people-related KPIs on our Corporate Balanced Scorecard (see page 12).

Following our recent flotation, the overwhelming majority of our UK employees are also shareholders in our Company. Free Shares gave our people a direct stake in the Company and its future success. Each eligible full-time employee who participated in the Free Shares Offer now has 729 shares. They, along with all shareholders, received a final dividend of 13.3 pence per share, before tax, on 31 July 2014. Approximately 15,000 employees bought shares in the Company at the same time. Through this, alignment has been created between the interests of shareholders and employees.

Internal communications

Throughout a year of transformation and change for Royal Mail, we continued to build engagement and dialogue through the following channels:

- As part of our 'town hall' programme, members of our senior management team addressed thousands of colleagues at almost 60 meetings
- Approximately 150 senior managers held around 500 on-site engagement sessions explaining the changes, what it means for the business and providing our people with the opportunity to ask guestions and be heard
- We held two Group Forums for our most senior managers, and our annual Operations and Modernisation forum for approximately 4,000 operations managers and union representatives
- Helping colleagues to understand our Employee Shares Offer was a key focus of internal communications during 2013-14.
 Communications included a dedicated booklet sent to all employees; a national roadshow to 108 locations addressing colleague queries on share ownership; dedicated Royal Mail TV programmes; special editions of the Courier newsletter; and briefings from managers

We undertook surveys with delivery office managers to gauge their understanding and ensure effective communications. By November 2013, 88 per cent felt 'informed' or 'well informed' about the Free Shares offer. Additionally, 61 per cent felt positive or very positive about Royal Mail's flotation and privatisation – this had more than doubled compared with September 2013. Over the same period, the number of people feeling negative or very negative halved, from 29 per cent to 15 per cent.



Employee engagement

We recognise that effective engagement is a two-way process. At the same time as communicating effectively with our colleagues, we must have meaningful channels in place for receiving their feedback and responding to their concerns. Our annual Employee Survey is one important channel for this feedback.

Each year we develop a Corporate Action Plan (CAP) to target key issues raised through the survey. Actions and progress are reviewed by our Employee Panel, made up of people from across the business, including union representatives. In 2013-14 we focused on communicating our strategy and the future of the business; addressing concerns around bullying and harassment; and improving ways to make people feel valued and recognised.

We supported managers in the creation and implementation of local action plans, based on feedback from the Employee Survey. More than 300 have received specialist support and coaching to help increase engagement.

In 2014, the response rate for our employee engagement survey increased by 10 per cent, from 75 per cent in 2013 to 85 per cent. Our overall engagement score increased from 50 to 54. Other outcomes include:

- Job satisfaction has increased six points to 67 per cent
- 70 per cent of people feel their job responsibilities are clear, up from 67 per cent in 2013
- 75 per cent say they understand the need for change in Royal Mail Group, up from 73 per cent in 2013

Levels of engagement also play a role in employee turnover, which influences business recruitment and training costs. Including temporary contractors, our turnover rate is 6.3 per cent - compared to the average UK turnover rate of 10.6 per cent^[1]. Turnover for permanent employees is lower at 4.6 per cent. 75 per cent of our UK employees say they would like to be with Royal Mail Group in two years' time.

While the vast majority of scores across the Employee Survey improved, there are still areas where we need to do more. We need to continue to ensure more people feel valued

and recognised (39 per cent, up from 34 per cent in 2013). We need to ensure our people feel they have more opportunities to progress (36 per cent, up from 31 per cent in 2013-14). And we need to continue to increase the number of people who feel involved in decisions that affect them and their work (38 per cent, up from 35 in 2013).

GLS also undertakes targeted engagement activities. For example in GLS Belgium, the management team visits each depot at least once a year to engage with employees; while in GLS Poland, 360-degree feedback has been used to inform development plans and training requirements.

Just Say It

Launched in 2010, our Just Say It initiative provides all Royal Mail people with a channel of email communication to our CEO, Moya Greene. Moya typically receives several hundred emails each month, and during 2013-14, Just Say It provided a popular channel for raising concerns and asking questions about the privatisation process. Employee feedback that we have acted upon includes: updating processes to ensure that recognition awards are issued on time; improving the uniform ordering procedure; and highlighting the need for employees to take responsibility for the condition of their delivery vans.

Working with our unions

Maintaining a productive and co-operative working relationship with our unions is a core part of our strategy. Royal Mail and its unions share a common goal: to help secure Royal Mail's future so it can grow and remain successful.

We recognise two unions, the Communication Workers Union (CWU) and Unite/CMA. We estimate that approximately 80 per cent of our operational and administrative grade employees are members of the CWU and approximately 40 per cent of our managers are members of

During 2013-14, the number of days lost due to strike action was 2,226 (balloted strikes: 1,042, unballoted strikes: 1,184), compared with 1,366 in 2012-13.













ground-breaking new agreement on an Agenda for Growth with our main union, the CWU. It is about improving industrial relations, creating a can-do culture and a joint commitment to delivering business success. The agreement includes legally-binding terms covering employee pay, protections and industrial stability as well as a programme of work to help deliver change at pace in operations. The industrial stability framework sets out a new approach to resolving workplace issues. In February 2014, over 94 per cent of CWU members voted in favour of the proposed Agenda for Growth. 57 per cent of eligible members voted in the ballot. The agreement includes:

- A three year pay deal, including a three per cent increase in 2013-14
- A commitment to work together to develop and implement business strategies, respond to competitive challenges and develop new approaches to improve efficiency. There will also be joint Royal Mail/CWU training programmes to deliver industrial stability
- Defined processes and strict timescales to resolve any disputes. New mediation procedures will introduce additional expertise and help to reach agreement, with internal processes escalating automatically to independent external mediation as required
- · Protections, including the maintenance of existing terms and conditions of employment; a commitment to retain a predominantly full-time workforce: no additional franchising or outsourcing; and an objective to continue to manage change without recourse to compulsory redundancy

CWU representatives and site managers continue to meet regularly at a local level to discuss resources and workload, review core costs and address any issues.

Together for Growth

The Agenda for Growth agreement with the CWU focuses on Royal Mail and its unions working together and improving industrial relations to drive success. Together for Growth is an extensive programme of development for managers and union representatives to support cultural change within Royal Mail. Its objectives include increasing the pace and agility of change, and improving managers' ability to communicate with and engage their teams. The programme has been jointly developed through focus groups, field testing and feedback into materials. Over 7,500 colleagues will complete the programme, which is expected to run until September 2015.

Pensions reform

We consulted with the CWU and Unite/CMA on our proposed reform of Royal Mail's defined benefit pension scheme, which in its previous form represented a significant threat to the future viability of our business.

Whereas a large number of UK employers have announced that they are closing or seeking to close their defined benefit schemes due to substantially increased funding costs, we proposed using the assets that remained in the Royal Mail pension plan to keep the scheme open to existing Royal Mail members only, at least until March 2018. This proposal, which does not involve any changes to members' contribution rates, retirement ages or accrual rate, was agreed with our unions following a member ballot and enacted during 2013-14.

[1] http://www.xperthr.co.uk/blogs/employment-intelligence/2013/10/turnover-hr-data-round-up







Safeguarding our colleagues

Our employees' safety, health and wellbeing is an enduring priority for Royal Mail. We are committed to achieving and maintaining an incident-free working environment where everyone is safe, healthy and secure.

Preventing accidents

We continue to make progress in reducing our lost time accident frequency rate (LTAFR)[1], which we adopted as our key safety KPI on our Corporate Balanced Scorecard during 2012-13. We achieved a LTAFR of 0.77 this year; a reduction of 34 per cent compared to 2012-13 and 48 per cent compared to 2011-12. Both the total number of accidents and the working days lost due to accidents decreased by about 21 per cent. In addition to supporting a safer and more engaged workforce, the reduction in working days lost is estimated to have saved the business around £1 million.

We are committed to reviewing and updating our management framework to ensure it provides the best possible protection for our people. During 2013-14, we started an upgrade of the Royal Mail Group Safety, Health and Environment (SHE) Management System, ensuring alignment with OHSAS 18001 and ISO14001. As part of this process we have taken the opportunity to upgrade some of our key risk control processes such as our Severe Weather Risk Assessment process.

Part of our management of hazards involves equipping our postmen and women with the skills to assess risks as they encounter them. We have developed approaches to dynamic risk assessment, and aligned those to our programme (see page 67). This has included working with the CWU to develop a training package, Delivering Safely, which has completed a trial and is being expanded across our operations.

Health and safety KPIs

Total accidents

Lost time accident frequency rate

Managing the risk of dog attacks

Following the success of the Dog Awareness Day in 2012, we joined with one of our unions, the CWU, to host a Dog Awareness Week in July 2013 and further raise the profile of this hazard. Feedback received during the week led to the development of a card to request assistance from customers in keeping dogs under control. Following a successful trial the card will be rolled out in areas where there is a particular profile of dog attacks.

Following the revision of the Dangerous Dogs Act, we are also working with our unions, the CWU and CMA, to develop a clear procedure that will enable us to better respond to dog attack incidents and pursue legal action.

Fatalities

We strive to improve our safety performance in everything we do. It is with great regret that we report four people lost their lives in connection with our activities in the UK in the past year. All fatalities were associated with road traffic accidents with our vehicles. We liaise closely with the relevant authorities and undertake our own detailed investigations to establish the root cause of each accident and, where possible, to determine what lessons can be learned. We have a fatal and serious standard and protocol which tracks investigation report production and the closure of actions. This is discussed at Board level and is communicated across the Group.

Members of our Group-wide and regional business unit safety teams have also undertaken external fatal and serious accident investigation and evidence gathering training. This provides enhanced capability and additional investigation resource for all serious incidents, supporting continual improvement across Royal Mail.

1.17

13,878

2011-12

1.47

15,859

2012-13





COLLEAGUES

ATTENDED

INSTRUCTOR-LED

TRAINING





Improving employee health and wellbeing

Providing support for employee health and wellbeing boosts workplace morale and helps to demonstrate the value we attach to our people. Besides attracting the best employees to work for Royal Mail, it ensures a healthy workforce that can deliver a better service for our customers, and reduces the cost of absence.

We have seen an increase in mental healthrelated absences in recent years. Our focus is on providing support that can help colleagues return to work as soon as possible. We have developed a new occupational health service for employees who are absent with mental health and musculoskeletal issues, providing guicker access to services and a dedicated health professional who can support their return to work.

Our sick absence percentage is the key measure of our performance in supporting employee health and wellbeing. We changed the way that we calculate sickness absence rates during 2013-14, moving to a 12-month rolling average that will enable us to cover our full UK employee population, include all reasons for ill health, and calculate the hours lost through absence more robustly. Our sickness absence rate under this new measure remained at 4.3 per cent during the year.

Royal Mail's support for health and wellbeing includes the following services:

- The Feeling First Class online portal, which provides access to check-ups, health and fitness advice, and shares discounts from health and wellbeing providers. The portal registered its 7,000th employee during 2013-14
- Health Fairs, which tour business units offering a basic health check and access to health and wellbeing information. Tens of thousands of our people have completed a basic health check at one of the fairs, and we have now added a focus on mental health to our planning of the events

- On-site Gyms and external gym offers, with 37 gyms now open at Royal Mail sites
- The HELP Employee Assist Service, which offers counselling, financial and legal advice
- Access to occupational health services for all employees

Investing in our people

Royal Mail is fully committed to the training and development for our people, in order to equip them with the skills they need to deliver our Group strategy. During 2013-14, almost 50,000^[3] colleagues attended instructor-led training in the UK, with 90,000^[3] attending web-based training sessions. This equates to around 88,000 training days. Our Learning Curricula provide a clear outline of available and relevant courses for each employee, and ensure that their skills are developed through courses such as the Driver Certificate of Professional Competence and our Executive Leadership Development Programmes.

Developing the skills required to deliver a good customer experience has been a particular focus during 2013-14. We rolled out our Customer and You training to 1,700 employees at around 1,000 customer service points. This included developing skills such as the ability to identify different customers' priorities and respond accordingly. For more detail, see our Customers section on page 37.

In February 2014, we launched the Management Acceleration Programme (MAP), delivered through Oxford University's Said Business School. This aims to develop 500 of our high-potential managers over the next two years. We have also worked with our unions to develop Essential Business Skills (EBS), a training programme that aims to build a more collaborative relationship between unit managers and union representatives. We anticipate that 8,500 participants will go through this programme after it launches in June 2014.

In GLS Germany, employees are able to study for a bachelor degree in logistics management or information management whilst working for the company, providing a natural next step for those completing apprenticeships. GLS Germany also runs a management development programme that supports the careers of high-potential employees. In Italy, GLS offers technical, professional and soft skills training. During 2013-14, the GLS Italy Academy created defined training courses tailored to the needs of different roles within the business.

0.77

10,999

2013-14



Days lost due to accidents 33,351 42,393 69,930 Total number of fatalities 4 7 6 Sickness absence^[2] 4.3 4.3 4.3

^[1] The number of work-related accidents resulting in an absence on the next day or shift per 100,000 hours worked.

^[2] Sickness absence rates are now calculated on a 12-month rolling average basis. Coverage has been improved to cover all UKPIL employees and all reasons for ill-health: occupational, non-occupational and accidents

^[3] This represents the number of attendees. Actual number of colleagues may be lower as one person may have attended multiple training sessions. Calculation based on Sickness Absence Hours / Expected Working Hours x 100.

Supporting diversity and equal opportunity

Royal Mail employs a diverse mix of people that reflects the communities we serve. We are committed to being an equal opportunities employer and we proactively seek to recruit people from socially-excluded groups. We are a signatory to the Government's Think, Act, Report Initiative and work with Business in the Community's Opportunity Now and Race for Opportunity programmes, which promote equal opportunities best practice.

During 2013-14, we participated in the Opportunity Now and Race for Opportunity benchmarks to assess how we are doing on diversity. We achieved a Gold standard in the Opportunity Now assessment and a Silver in the Race for Opportunity measure. This is a good result but we recognise that there is more to do.

We commissioned an external diversity review to assess which of our approaches are working well, and which require more development. The review has generated a number of recommendations that we are developing into a revised diversity framework for Royal Mail. These include:

- Diversity awareness and behavioural training
- Addressing the importance of diversity as part of Royal Mail's induction programmes
- Diversity KPIs that establish accountability for line managers
- Comprehensive monitoring and reporting systems
- Improved communication of our flexible working policy

In 2013 we established a Diversity Council to drive our diversity performance. Chaired by the Company Secretary, it includes the Chief Operating Officer, Group HR Director, frontline employees and representatives from our unions the CWU and CMA. The Council met for the first time in March 2014. Its progress will be reviewed by the Chief Executive's Committee.



Gender Diversity	UK	UKPIL		_S
(headcount)	Female	Male	Female	Male
Royal Mail plc Board ^[1]	4	7		
Senior Management	694	1,789	36	243
Management	1,715	6,950	2 720	2 25/
Administrative	1,700	1,341	2,739	2,354
Operational	19,011	115,274	1,924	6,515

Ethnicity distribution (headcount) ^[2]	Asian	Black	Chinese	Mixed	Other	White
Royal Mail plc Board ^[1]			20 0 0 0 0 0 0 0 0 0	2 0 0 0 0 0 0 0 0	2 2 3 4 5 5 6 7	11
Senior Management	69	23	1	14	511	1865
Management	417	184	10	67	1648	6339
Administrative	128	46	8	23	488	2348
Operational	8238	3904	262	850	25842	95189



MAKE UP 36% OF OUR BOARD



Gender diversity

Royal Mail was named as one of the Times Top 50 Employers for Women in 2014, in recognition of our commitment to gender equality. In 2013, we were named as one of Business in the Community's Top 10 Private Sector Organisations for gender equality.

At our Board and senior management grades, we have relatively high gender diversity (see table below). At Board level, 36 per cent of members are female. On average, FTSE 100 companies have 17.3 per cent female representation on their boards^[3].

At senior management level, 26 per cent of employees are female, compared to 15 per cent in operational functions. We are committed to improving the gender balance across all areas of the business.

Our Gender Diversity Steering Group drives our strategy, developing policies and initiatives that support the progression of colleagues and attract new talent. The Group will now report to the Diversity Council.

During 2013-14, more than 1,000 female employees in non-management positions participated in our Springboard women's development programme. This programme is designed to support female frontline employees develop their careers at Royal Mail. In late 2013, we also launched an Ambassador pilot programme in our eastern operating region, which helps to connect Springboard participants with development opportunities in their local areas.

Addressing unconscious bias

To help ensure equality of opportunity when it comes to filling roles at Royal Mail, we

have conducted a detailed analysis of our recruitment and promotion processes and identified the possibility of unconscious bias playing a role. Such bias can act as a major barrier to inclusion, not least because those making decisions are unaware that their judgements are being unduly influenced. We have developed an e-learning awareness tool that is designed to make managers more aware of their potential biases and help to avoid those biases influencing their decisions. In 2014-15, the tool is being deployed across all our hiring managers, who are responsible for ensuring that the recruitment and promotions process is fair and transparent. We will subsequently roll it out across all managers.

Disability

As a Disability 'Two Ticks' employer, Royal Mail welcomes job applications from candidates with a disability or health condition. We have reviewed our recruitment processes to ensure a fair approach for people with disabilities and we interview all disabled applicants who meet the minimum criteria for a role. Additionally, the case study on page 50 provides insight into our partnership with disability charity Remploy.

We make reasonable adjustments to the workplace to support employees who become disabled. We provide training as required, for example in assistive technology and software.

We introduced deaf awareness training workshops for hearing-impaired employees, their colleagues and managers. We also focus on ensuring those with disabilities are not discriminated against through the provision of anti-discrimination workshops. Approximately six per cent of our employees identify themselves as having a disability^[4].

Age distribution (headcount)[2]	<30	31-49	50+
Royal Mail plc Board ^[1]	0	1	10
Senior Management	89	1612	782
Management	645	5002	3018
Administrative	309	1599	1133
Operational	12551	71051	50683

^[3] As at 30 March 2014. Jan Babiak resigned from the Board with immediate effect on 29 April 2014. This statistic is inclusive of her being a Director during the year ended 30 March 2014.

^[2] Excluding GI

^[3] The Female FTSE Board Report 2013, Cranfield University School of Management.

^[4] Percentage of employees identifying themselves as having a disability in the 2014 Employee Survey.

Remploy and the First Shot programme

We have been a national partner of disability charity Remploy since 2008, working together to provide jobs and placements for people with disabilities. During 2013-14, around 300 people with disabilities started working at Royal Mail as a result of this partnership. We are pleased to report that in April 2014, just after year-end, we reached a significant milestone: Royal Mail has now provided employment to 2,000 people through the partnership. We are one of only three organisations to have supported this number of Remploy people into work.

Our Group HR Director is on the Board of Trustees of the Business Disability Forum. Through this we became aware of, and took, the opportunity to extend our Remploy partnership by committing to support at least 40 people made redundant by the closure of Remploy factories across the country. We have developed a programme of placements, providing participants with the opportunity to learn new skills in order to support them into new roles. By the end of April 2014, more than 40 people had applied to be a part of the scheme.

Inclusive recruitment

Besides our commitment to ensure equal opportunities for those with disabilities. Royal Mail runs a number of schemes to support young people and the long-term unemployed when it comes to finding roles within our business.

During 2013-14, we ran three apprentice programmes, recruiting 44 young people for placements in engineering, vehicle maintenance and operational management.

Our Vehicle Technician Programme has been running for over a decade. We continue to review and update the programme to ensure it remains relevant and effective, partnering with work-based training specialists, Babcock International, to develop the training component. Our Operational Management Programme has completed its second year, with several

graduates already securing permanent positions at Royal Mail. Our flagship Advanced Engineering programme is now in its fourth year and our first set of graduates, due to complete their courses in 2014-15, have also secured permanent roles in our business.

We are one of eight national partners in Business in the Community's Ready for Work programme. The programme has now supported more than 3,000 long-term unemployed people in finding a new job. Royal Mail offered 33 placements under the scheme during 2013-14, bringing to over 400 the number of people that we have helped to prepare for work in this way. We continue to work to remove potential barriers to our Ready for Work participants applying for permanent roles at Royal Mail, and ensure a smoother recruitment and induction process.

Broadening our support for diversity

During 2013-14 we broadened our support for other aspects of diversity. We have piloted a religion and belief workshop that will be deployed in some parts of our business during 2014-15. We also established a focus group for Lesbian, Gay, Bisexual and Transgender (LGBT) employees. This group will help us to understand the experience of working at Royal Mail for LGBT employees, and embed relevant priority actions within our diversity framework action plan.

At the end of 2013-14, we also became a member of Stonewall, the LGBT support organisation. We are working with them to identify relevant actions for our diversity action plan.

Promoting diversity in our talent pipeline

Our graduate schemes aim to develop a leadership pipeline for Royal Mail by attracting, selecting and developing high-calibre talent to grow our business. Between 2011 and 2013 we trebled the number of graduates that we hired from 29 to 128. We have already recruited an additional 128 graduates for 2014. Our intake for 2013 was 32 per cent female: 28 per cent in Operations and Logistics, and 69 per cent in Finance and HR. Ethnic minorities represent 17 per cent of all graduates on our programmes.



THREE TIMES THE NUMBER OF





We are committed to creating and maintaining a working environment that is free from bullying and harassment, and where we treat each other with dignity and respect. This is key to driving employee engagement. During 2013-14:

- We worked closely with our unions to develop a joint statement on bullying and harassment and in February 2014, distributed the new booklet to all employees. It defines what constitutes unacceptable behaviour and gives practical advice on how to resolve situations. Since our revised policy and procedure were first published in July 2013, we have been able to increase the number of cases that are resolved informally
- We launched a new mediation service which helps to resolve workplace issues. We are also training a number of Royal Mail employees in mediation skills
- We rolled out anti-discrimination workshops for managers, highlighting their responsibility to identify and prevent this unacceptable behaviour
- We held focus groups with employees at all levels, to understand the experience of bullying and harassment at Royal Mail

With increased awareness, we have seen the number of bullying and harassment complaints increase. The majority of complaints relate to value and respect at work and inappropriate banter. We continue to take bullying and harassment seriously. Conduct action was taken in 74 per cent of cases in 2013-14, compared with 69 per cent the previous year.

To ensure more effective action on complaints, we will be increasing the number of our Independent Harassment Investigators during 2014-15. We also commissioned an external organisation to review our diversity policies and procedures and identify areas for improvements. We are currently acting on the recommendations of this review.

Breaches to the Code of Conduct

Our Code of Business Standards sets out the standards of behaviour that we expect from our people at Royal Mail Group. It is about doing the right thing: following the law, acting honourably and treating others with respect. It sets out our values, policies and behaviours that are required to make Royal Mail Group a trusted, positive and successful place to work. Where standards are not maintained, appropriate actions are taken under the Code of Conduct.

In 2013-14, 2.695 breaches to the Code of Conduct were recorded. Breaches include relatively minor incidents such as a failure to follow workplace practices, through to bullying and harassment and theft of mail. In the year, 35 per cent (952) of cases resulted in suspended dismissal or dismissal. Information is reviewed centrally in order to inform policies and procedures and to provide coaching for managers.

We are currently reviewing the Code of Conduct with our unions, and plan to launch a new policy in 2014-15. We are also reviewing our HR system portal to improve managers' experiences in managing conduct cases.

In addition, our security team works round the clock to identify both internal and external threats to the network and we have robust measures in place to deal with any breaches. We work diligently to ensure that we meet or exceed security standards required in the recruitment, vetting, training and conduct management of staff; in the definition and delivery of security standards throughout its entire pipeline; and in the investigation, resolution and reporting of any breaches of the code or of criminal law.

Our priorities for 2014-15

- Continue to drive reductions in accidents and our lost time accident frequency rate
- Continue to upgrade our Safety, Health and Environment Management System, ensuring alignment with OHSAS 18001 and ISO14001
- Prioritise road safety through driver programmes and review our approach to occupational road risk
- Address concerns in areas highlighted by our Employee Survey: ensuring more people feel valued and recognised; providing more opportunities to progress; and increasing the number of people who feel involved in decisions that affect them and their work
- Launch a new bullying and harassment awareness campaign
- Continued roll out of the Management Acceleration Programme and Essential **Business Skills**
- Develop new apprenticeship programmes for Project Management, Finance and Direct Mail
- Enhance focus on diversity actions through our Diversity Council
- Pilot a personal development programme aimed at female junior operational managers
- Deliver customer experience training for 2,000 frontline employees in enquiry offices
- Develop targeted health and wellbeing plans that address mental health issues





Our communities

2.3

Delivering economic and social benefit to the communities we serve is one of Royal Mail's core corporate responsibility objectives, and reflects our role at the heart of life in the UK as the sole provider of the Universal Service. We seek to be an integral, valued and trusted part of every community where we operate.

Key facts

- Royal Mail makes the seventh biggest contribution of any company to the UK economy
- One in every 200 people working in the UK is employed by Royal Mail
- We deliver 4.8 million items free of charge through our Articles for the Blind service
- In early 2014, we celebrated reaching 25 years and £50 million in charitable donations through our payroll giving scheme

Key achievements in 2013-14

- We contributed £9.8 million directly to charities, good causes and schemes for disadvantaged groups
- Our people raised a further £3.3 million for charities and good causes across the UK
- We achieved our target of raising £2 million for our Charity of the Year partner, Prostate Cancer UK, including matched giving
- We provided £136,000 in matched giving and grants schemes to support employees' fundraising for other charities and good causes
- GLS Italy used its networks to collect and deliver aid supplies in Sassari, Italy, following the devastation of Cyclone Cleopatra in November 2013

Our payroll giving scheme began in 1989 and has supported over 975 charities across the UK. We have been recognised with a Guinness World Record and were this year awarded two National Payroll Giving Excellence Awards.

Through our Charity of the Year matched giving and grant schemes, we have successfully encouraged more colleague involvement. Colleague fundraising, excluding payroll giving, reached almost £740,000. This is an increase of seven per cent, or £46,000, compared to 2012–13. Our matched giving, fundraising and volunteering grants rose 32 per cent, from £543,000 to almost £718,000, supporting local communities with more cash and more time.

Our Articles for the Blind service costs remained consistent at over £5.6 million. We are proud to be able to support blind and partially-sighted people with this service.

£9.8
MILLION
CONTRIBUTION TO
CHARITIES
GOOD CAUSES
DISADVANTAGED
GROUPS



Our community investment (£m)	2013-14	2012-13	2011-12
Amount contributed by Royal Mail	£9.79	£9.49	£9.10
Amount contributed through employee fundraising	£3.25	£3.18	£3.01
Total contributions supported by Royal Mail	£13.04	£12.67	£12.11
Total voluntary contributions	£6.93	£6.55	£5.53
Cash – Royal Mail	£2.66	£2.36	£1.72
Cash – employee fundraising	£3.25	£3.18	£3.01
In-kind	£0.24	£0.24	£0.34
Time	£0.40	£0.41	£0.35
Administration	£0.37	£0.35	£0.12
Total mandated contributions	£6.11	£6.13	£6.58
Cash	£0.47	£0.48	£0.38
ln-kind	£5.64	£5.65	£6.20



Our community strategy

In the UK, Royal Mail is a truly national business that reaches people on a local level. We have a presence in every community. We connect customers and companies across these communities, making commerce happen and increasing prosperity.

Our community strategy is focused on enhancing this contribution to the UK economy by linking our role as an employer to targeted community investment. We align our activities with the central goals of our business strategy and the interests of our people.

Our strategy is to connect and contribute to our communities in the following ways:

- Connecting through our business we make a positive economic contribution to the UK through our core business operations. We do this by providing good-quality jobs and being an inclusive, equal opportunities employer
- Connecting through our employees we provide our large UK workforce with meaningful opportunities to get involved in their communities and deliver real benefit to good causes
- Connecting with tomorrow we promote education and literacy in the communities we serve, supporting their future social and economic wellbeing

Connecting through our business

As a major employer and purchaser of goods and services, our economic and social impact is significant. Commissioned by Royal Mail, the Centre for Economics and Business Research Ltd (Cebr) has carried out a complete economic impact assessment of UKPIL. Cebr found that we made the seventh largest contribution to the UK economy of all UK operations. For the 2013–14 financial year, our impact totalled £10.9 billion^[1] in terms of value added, made up of direct and indirect contributions to the wider UK economy. This includes our contribution through employment, procurement and taxation. Among the findings of the Cebr Report were:

- Royal Mail contributes almost £6.70 in every £1,000 of UK economic output including direct and indirect impacts
- We contribute around £1.66 billion in taxes to the UK Exchequer, including employer and employee National Insurance contributions, income taxes and business rates
- In addition, Royal Mail has a significant indirect economic impact in the form of activity generated through our supply chain, where we spend £2.5 billion each year procuring goods and services from over 6,300 suppliers.



In 2013, Cebr research found that we make a significant contribution to social inclusion through the vital employment and earnings we bring to some of the UK's poorer regions.

We offer jobs where there are generally fewer opportunities. Our employment also matches the population profile: where there are more people, we offer more jobs. On average across the UK, one in every 200 people works for Royal Mail. However in certain areas, this can be as high as 40 per cent – or two out of every five workers.

We build on the beneficial economic impact of our business through active investment in communities and our charitable giving programme, as well as through additional initiatives to promote social inclusion.

Social inclusion

Royal Mail is committed to promoting equal opportunities and reducing disparities and divisions within the UK. Our employment practices play a key role in promoting social inclusion through providing job opportunities for all. Full details are provided in the Our People section of this report on page 42.

Our apprenticeship and graduate programmes help young people into work and provide a route to gaining qualifications whilst earning a salary. At the same time, our Ready for Work programme provides opportunities for the long-term unemployed, and we work with Remploy to support those with disabilities.

Schemes such as these help to embed diversity within Royal Mail, providing us with new perspectives on our business and promoting a culture of acceptance and understanding. The work experience placements that we provide also create opportunities for our existing employees to take on mentoring roles and develop their communication and leadership skills.

Rowland Hill Fund

The Rowland Hill Fund is an important element in the social inclusion and support that employment with Royal Mail provides. The fund supports current and former Royal Mail employees who fall on hard times, helping those dealing with sudden illness or long-term sickness, redundancy and disability, or serious financial problems. Its work is particularly important in the current economic climate.

During 2013-14, the fund provided 363 grants with a total value of almost £330,000.

Royal Mail contributes around £50,000 a year to the fund, in addition to around £60,000 in in-kind support costs such as facilities, services and HR support. During 2013–14, we helped to provide a new customer management system for the fund, saving an additional £60,000 from its costs. Our employees also give generously, donating around £120,000 a year through our payroll giving scheme.

Keep Me Posted

Royal Mail is a key supporter of the Keep Me Posted campaign that launched in July 2013. Keep Me Posted aims to ensure that consumers are always given the choice of receiving important information, such as utility bills and bank statements, in paper form. Along with other supporters, we believe that this 'right to choose' is an important means of protecting vulnerable consumers such as those without digital skills, those that do not have access to broadband internet connections and the elderly. The campaign has garnered the support of 50 charities, consumer organisations, businesses and trades unions. A full list can be found on the Keep Me Posted website: www.keepmeposteduk.com

Articles for the Blind

The Articles for the Blind service is another important element in Royal Mail's support for communities and social inclusion. The service has helped to deliver post to blind and partially-sighted people for nearly a century, and has provided free postage for these groups for almost 50 years. We work with the Royal National Institute of Blind People (RNIB) and other charities for the blind to ensure the scheme meets their needs. We are fully committed to delivering this scheme against the highest quality of service standard specification of any major European country.

During 2013-14 we delivered around 4.8 million items free of charge through the Articles for the Blind service. We also worked with RNIB to deliver the society's new talking book USB service, an update to its previous audio CDs. Under privatisation we will continue to proudly deliver this service.

1 IN 200
WORKING IN THE UK
ARE EMPLOYED BY
ROYAL MAIL



£330K



Maintaining dialogue with politicians

Communicating with politicians of all parties is an important part of our efforts to promote understanding of Royal Mail's role in communities. Throughout the year, we invite politicians to join their local postmen or women on their delivery round as part of our 'Walking in your postman's shoes' initiative. This scheme has helped us to explain how our business is modernising in response to the changing mix of parcels and letters we deliver, whilst remaining committed to a high-quality Universal Service.

In addition, our festive visits programme is a long-standing tradition that enables politicians from across the UK to visit a local delivery office and say a personal "thank you" to those working there at Christmas. In 2013, more than 750 politicians took this opportunity, a record number that included Rt Hon Theresa May (Home Secretary), Rt Hon Douglas Alexander MP (Shadow Foreign Secretary) and Rt Hon Danny Alexander MP (Chief Secretary to the Treasury).

"My sincere thanks go to local postman VJ Gami, who has been delivering mail to customers in Harrow for more than six years, for showing me the ropes. I was delighted to be given the opportunity to discuss the issues our postal service faces in keeping services running smoothly."

Bob Blackman, MP for Harrow East

Speaker's Parliamentary Placement Scheme

For the second year running, we sponsored the Speaker's Parliamentary Placement Scheme in 2013. Administered by the Social Mobility Foundation, this scheme provides nine months of paid employment with an MP and aims to reach those who would not normally consider a career in Parliament. As part of our sponsorship, we hosted a Corporate Day for those employed by the scheme, explaining how Royal Mail is modernising, hosting a tour of our Mount Pleasant Mail Centre, and setting real-time problem-solving exercises around the demands of Christmas mail.

"My day at Royal Mail was a fantastic and eyeopening experience. It was really interesting to see the way our mail is sorted and how staff go the extra mile to deliver great service. The public affairs exercises were extremely valuable, and we are extremely grateful to Royal Mail for providing us with this opportunity."

Sarah Linney - Speaker's Parliamentary Placement Scheme participant

Giving to communities at Christmas

Christmas is a key focus of Royal Mail's direct charitable giving programme. We donated £50,000 to three charities: Together for Short Lives, Abbeyfields Society and FareShare, ahead of Christmas 2013. The donations supported their work with vulnerable groups in the community at what is often a difficult time of the year. Our support for Together for Short Lives paid for Christmas lunches in hospices across the UK, giving families caring for a seriously ill child the chance to celebrate Christmas together. Our support of the Abbeyfields Society helped 580 sheltered houses and care homes open their doors to elderly people who would otherwise be alone over the festive period. FareShare, which fights hunger and food waste in the UK, received support for its efforts to transport surplus food to a network of charities caring for the vulnerable, including children, and homeless and elderly people.

Support for Sardinia



Devastating weather conditions in parts of Sardinia during November 2013 forced thousands of people to leave their homes due to flooding. GLS's Sardinian depot in Sassari responded to the emergency by collecting aid supplies (water, food, clothing, detergents and also teaching material) from employees and their families and delivering them to the people of Torpé, who were severely affected.

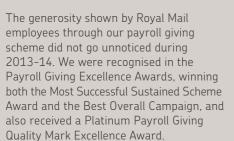


Connecting through our employees

Our people take great pride in the work they do in our communities. Through them, we are able to harness our collective size to address national issues whilst using our employees' individual strengths and interests to support local community needs.

Many local community groups have suffered significant cuts to their funding following the economic downturn. The role that Royal Mail people and their fundraising efforts play in supporting these groups is therefore all the more important. Many of these organisations are key support mechanisms, providing services to vulnerable people and strengthening the health and wellbeing of the community. We consider it a natural extension of our presence within local communities to support them in their work.

Recognition for Payroll Giving



"Over the last few years, you have donated a staggering £270,000. Thankfully for the children who need us, we have amazing people like yourselves willing to help us be there every minute of every day, for every child."

Abbie Haigh - NSPCC

Charity of the Year

In 2012, we launched a new Charity of the Year programme. We introduced penny-for-penny matched giving up to £1 million each year, and an 'everyone's a winner' approach encompassing our shortlisted charities. Our first charity partner under our revamped programme was Prostate Cancer UK – supporting its fight to help more men survive prostate cancer and enjoy a better quality of life.

We set ourselves a stretching target to raise £2 million for the charity, including matched giving, and achieved our target in March 2014. This means that we raised an average of £91,000 every month during the partnership, supported by the individual efforts of thousands of employees and major campaigns such as Movember, the Graduate and Apprentice Fundraising Challenge and Give a Quid Day. We also introduced a text-to-donate service to make giving easier for our people.

The funds that we raised will be used to recruit at least 34 specialist prostate cancer nurses in the areas of the UK where they are most needed. As part of the partnership, we have also worked to raise awareness of this little-known disease through specially designed postmarks and the efforts of our people.

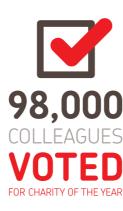
Once we reached our fundraising target for Prostate Cancer UK, we opened up our pennyfor-penny matched giving scheme to the Alzheimer's Society and Whizz Kidz UK, the two other charities shortlisted through our original selection process. We pledged to match funds raised for all three charities by Royal Mail employees up to a further £1 million in total. By the end of the reporting period our contribution helped to buy 31 wheelchairs for young people with mobility impairments, through Whizz Kidz, and provided almost 3,100 hours of dementia support through the Alzheimer's Society.

In March 2014, almost 98,000 colleagues voted for their new charity partner, from a shortlist of three: the Stroke Association, Age UK and Diabetes UK. The Stroke Association received the majority of votes. As a result, the charity will be the main beneficiary of our next fundraising programme, which began in September 2014.

The Stroke Association will use the money we raise to fund grants of up to £300 to support 10,000 stroke survivors who do not qualify for government or other types of help. These grants will fund vital home improvements, such as handrails and specialist kitchen equipment, and activities that help stroke survivors live a more fulfilling life. As part of our 'everyone's a winner' approach, Age UK and Diabetes UK will each receive a donation of £50,000. In addition, once we have raised £2 million for Stroke Association, funds raised for all three charities will be eligible for penny-forpenny matched giving from Royal Mail.



CHARITY
OF THE YEAR
PROSTATE CANCER UK



FUNDED & 31
WHEELCHAIRS

FOR WHIZZ KIDS



Graduate and Apprentice Fundraising Challenge

Royal Mail's Graduate and Apprentice Fundraising Challenge is designed to develop skills and promote teamwork whilst encouraging our young recruits to raise money for our Charity of the Year partner, Prostate Cancer UK. Under the Challenge, small teams compete against one another to design and deploy a fundraising activity.

Building on a successful launch for the programme in 2012–13, we doubled the number of graduates taking part to 142 during 2013–14. Teams were tasked with raising at least £3,500 for Prostate Cancer UK, including matched giving. The teams successfully met targets and raised over £103,000.

"We really enjoyed the fundraising challenge and working as a team to raise money for Prostate Cancer UK. It offered a great opportunity to work with other graduates and apprentices from across the Company, as well as the many Royal Mail colleagues who supported us along the way. We are really proud of how much we raised."

Annie Richardson – HR Graduate, whose team raised £10,616 for Prostate Cancer UK, including matched giving

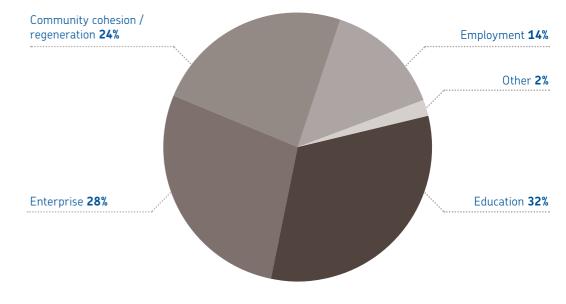
Business Connectors

Since 2012, we have participated in the BITC Business Connectors programme, which places employees in community-based organisations where they help to build connections between local business and local causes. In 2013, we also worked with Scottish Business in the Community through their Hubs programme, which performs a similar role.

During 2013-14 three of our employees worked as business connectors in Torquay, Newcastle-upon-Tyne and Edinburgh, where they have been tackling local issues. Through this programme, our people have been able to improve business literacy amongst social enterprises and have been working to promote education and employability in local communities. Since March 2012, the Royal Mail Business Connectors are estimated to have leveraged around £870,000 in cash, time and in-kind donations.

Business Connectors - focus areas

Royal Mail Business Connectors are estimated to have leveraged around £870,000 in cash, time and in-kind donations since 2012.



(1)

Supporting our people

We have a very large workforce and our colleagues have a wide range of community interests. We harness their passions through the provision of grants, volunteering and fundraising support, helping them to contribute to a range of worthy causes:

- Community matched giving and grant schemes we encourage our people to get involved in community activities through fundraising and community support grants. We match funds raised by colleagues for charities and good causes, up to £200 for each employee in a year. Colleagues can also obtain a grant of up to £200 a year to cover the cost of fundraising activities. In 2013-14 we supported around 344 charities through these grants, contributing almost £690,000 including our Charity of the Year matched giving contributions
- Charity of the Year matched giving for our Charity of the Year partner, we match funds raised by colleagues up to £2,500 per person per year
- Payroll Giving payroll giving provides a tax-efficient way for our employees to support their chosen charities. Our payroll giving scheme is one of the largest in the UK, with over 40,000 employees and pensioners taking part. In early 2014 we celebrated the 25th anniversary of the scheme, and a milestone £50 million in donations. Royal Mail Group employees and pensioners donated more than £2.5 million during 2013-14
- Sports Foundation established in 2002, our Sports Foundation offers grants for our people to provide equipment, trophies and training to local clubs. Through our people we are able to support community sports and local sports clubs. During 2013–14, 51 sports clubs benefitted from the Foundation's grants with an estimated 1,500 people benefiting
- Volunteering volunteering in communities plays an important role in helping build an engaged and committed workforce. It also allows our employees to forge important relationships in the communities where they work. We offer paid time off for colleagues supporting communities and grants of up to £400 to cover volunteering costs. Last year we provided over 2,000 days' paid leave for volunteering activities and almost 9,100 days of unpaid volunteering leave

GLS community initiatives

GLS is active in supporting community organisations across its European markets. During 2013-14, we helped the German Children Hospice Association make St Nicholas' Day special for terminally-ill children by delivering gifts such as clothes, toiletries and toys free of charge to participating children hospices and families all over Germany. In Austria GLS employees and drivers collect Christmas presents for refugee children, which are then distributed through the worldwide Catholic social service organisation, Caritas.

Volunteering at RVS

Our HR Services Recruitment Field
Team for the North of the UK spent a
day with the Royal Voluntary Service
(RVS) in Doncaster. Here they delivered
a recruitment and interview techniques
course to twelve RVS service managers,
to help them recruit volunteers for their
'Good Neighbour' project to support
elderly people in communities. Our
volunteers also worked on a garden
makeover that provides a valued haven
for those suffering from dementia,
their families, carers and friends.



CELEBRATED
25 YEARS
OF PAYROLL
GIVING SCHEME

40,000 DONORS

ONE OF THE LARGEST SCHEMES IN THE UK





Connecting with tomorrow

Well-educated and enterprising young people are the foundation of business success. With these leaders of tomorrow come fresh ideas and inspiration. As a letter business, Royal Mail has a particular interest in literacy levels among young people, encouraging confidence in reading, writing and creativity. We also promote knowledge about the postal system's rich heritage and how it has shaped the modern world.

Supporting schools

Royal Mail provides teachers with educational resource packs (available online at www.teacherspost.co.uk), which are aligned with the National Curriculum and include adapted resources for teaching disabled children. In addition, we support our employees with resources for school visits, which cover subjects such as letter writing, the history of Royal Mail and the importance of mail addressing.

During 2013-14, our mail centre in Medway launched a pilot programme led by one of our Community Champions, Tim Hyde. We are working with the education authority and local schools to assess whether the available resources and school visit agendas meet teacher requirements with regards to the national curriculum. Initial findings from the pilot have been very positive, and feedback will allow us to develop our Teachers Post online resources to support schools, teachers and children.

This year we also ran a school engagement programme through Royal Mail Stamps and Collectibles, using our Special Stamp editions as the basis for additional resource packs aligned with the National Curriculum Early Years Foundation Stage, Key Stage 1 and Key Stage 2. During 2013–14 we delivered lesson planning content inspired by Sporting Dreams, Dinosaurs, Doctor Who and classic children's TV stamps, as well as a programme alongside our Christmas stamp competition (see case study). We delivered 13,450 packs to schools across the UK and almost 55,000 resources were downloaded online. 98 per cent of schools that took part requested future programme packs.

Design a Christmas stamp competition

In Christmas 2013, for the first time in many years, we gave children across the UK the opportunity to design a Christmas stamp. We received more than 240,000 entries. The two winners – Molly Robson (aged seven) and Rosie Hargreaves (aged 10) – were chosen by a panel of judges led by His Royal Highness The Prince of Wales. Their stamps went on sale on 5 November 2013.

We were delighted to see enthusiasm for our Christmas stamps translate into higher volumes of stamped mail in the Christmas period. The Christmas stamps competition was also linked to an educational programme, helping students and teachers meet requirements of the national curriculum.

Dolly Parton's Imagination Library

The Imagination Library founded by Dolly Parton is a global initiative aimed at fostering a love of books and reading in children aged 0–5 years. It provides parents and carers with access to books, and looks to inspire them to read to their children as much as possible. Royal Mail has championed the library, to benefit the children of our employees. We have provided funding for around 950 children to receive a book every month for a year.

British Postal Museum and Archive

Through the British Postal Museum and Archive (BPMA), Royal Mail supports the heritage of the British postal system and raises awareness of its role in shaping the modern world. The BPMA cares for the Royal Mail Archive, which has been officially designated as of Outstanding National Importance, and looks after a remarkable museum collection including iconic objects and innovations spanning 500 years of postal history.

We are currently supporting the BPMA in creating The Postal Museum, which will tell the story of British social, communications and design history through the iconic postal service. The Museum will open up almost 500 years of records and objects from the reign of King Charles I to the present day. The items on show will include a first edition of James Joyce's Ulysses, original evidence from the Great Train Robbery trial, a Victoria Cross and flintlock pistols used to defend mail coaches in the 19th Century.





As well as providing a secure and sustainable home for the BPMA's collections, the new museum will house the Royal Mail Archive in a state-of-the-art archive repository, and will provide a dedicated learning space that can accommodate 10,000 school pupils each year. We have provided long-term funding and support for capital costs as well as a 999-year lease for the museum site. Construction of the museum is due to begin at the end of 2014.

In addition, we are working with BPMA to open up a section of the old subterranean mail railway beneath our Mount Pleasant depot – Mail Rail. This will form a permanent exhibition space explaining the hidden history of moving the mail. Visitors to the Postal Museum will take a journey through 1km of original tunnels, following the same route that much of the nation's mail took for almost 80 years between 1927 and 2003.

The maintenance depot, originally used for maintaining Mail Rail trains, will be converted to form an interactive exhibition space.

We also contribute to the day-to-day running of the BPMA and its educational programmes and exhibitions. We contributed £1.4 million in cash and in-kind donations during 2013-14.

First World War Memorials

More than 75,000 workers from the General Post Office fought in the First World War, including 12,000 men who served with its own regiment, the Post Office Rifles. Four workers from the General Post Office were recognised with a Victoria Cross.

Royal Mail is believed to be the second largest custodian of war memorials in Britain, after the Church of England. To mark the 100th anniversary of the outbreak of the First World War, we have worked with the BPMA to record these memorials in a central database, including the names of all individuals commemorated by them. In this way, we aim to preserve the memory of those who gave their lives. The database can be found at: www.royalmailmemorials.com

We will be holding a memorial service at each of our memorials during 2014 to commemorate the centenary of the War. In addition, we are launching a five-year stamp series commemorating the role Britain and other Commonwealth countries played in the war.

Priorities for 2014-15

- Launch a new Charity of the Year programme
- Build on the success of our support for schools programme, responding to the recommendations of our Medway pilot
- Continue to raise awareness of the work of the Rowland Hill Foundation
- Develop impact assessments for our key programmes to clearly demonstrate the value provided by our support and to continue to drive improvements
- Seek new ways to leverage our business and assets to better support communities

We contributed £1.4 million in cash and in-kind donations to the BPMA in 2013-14.

Our suppliers

Royal Mail works with more than 6,300 suppliers each year. The money that we spend with these suppliers, and the way we manage our relationships with them, have a major influence on our contribution to the economy, our relationships with our customers, and our impact on the environment.

£2.5 BILLION YEARLY SPEND WITH MORE THAN

6,300 SUPPLIERS



Key facts

- We spend around £2.5 billion annually on procuring supplies and services
- We have a network of over 6,300 suppliers

Key achievements in 2013-14

- Royal Mail was the first organisation to be certified as Platinum Standard for supplier management by the Chartered Institute of Purchasing & Supply (CIPS). We revised and updated our supplier strategy, including our approach to the five key areas in which Royal Mail works with suppliers
- We introduced a new due diligence process, to address the risk of trading with suppliers in breach of EU or UN sanctions
- We appointed a dedicated risk manager and introduced an internal assurance team, to check that purchase contracts are compliant with Royal Mail's ethical standards
- We launched additional training for procurement employees, focused on ethical standards

Our supplier strategy

We are committed to ensuring that our suppliers maintain high standards of social, ethical and environmental conduct. We seek to achieve this by requiring that all comply with internationally-recognised standards, by communicating regularly about the responsible business practices that we expect, and also by embedding standards within our supplier contracts. In addition, we are committed to fairness and transparency through our procurement process, ensuring that a broad range of suppliers have the opportunity to work with Royal Mail.

We require all suppliers to adhere to the UN Universal Declaration of Human Rights and act in accordance with the Ten Principles of the UN Global Compact, which promotes responsible practices across the areas of human rights, labour, environment and anti-corruption. We protect the integrity of our operations by enforcing compliance with our mail security procedures and our approach to anti-bribery and corruption. Ethical principles are also embedded in the Partner Code used by GLS Germany, particularly with regards to transport providers.

Managing risk

We take a proactive approach to identifying and managing social and environmental risks within our supply chain. During 2013-14, we continued to develop our Supplier Relationship Management System (SRMS) to embed risk monitoring and ensure clearer communication of the standards we expect. We also revised our approach to the five key areas in which Royal Mail uses suppliers: IT and telecommunications, business services, facilities management and utilities, automation, and vehicles and logistics. As part of this process, we have embedded a number of measures that will help to improve our capacity for supplier management: new KPIs for our vehicle contracts, more competition in driver training to help improve safety standards, key environmental targets around energy consumption and recyclable components for machinery.

Supplier risk is assessed at various stages of the sourcing and supplier management process.

As a member of the non-profit ethical auditing organisation, Sedex, we use self-assessment questionnaires to evaluate and mitigate social, environmental and ethical risks in our supply chain.

Sanctions compliance

During 2013-14, we have taken steps to remind our customers and commercial partners of the need to comply with applicable sanctions rules, in addition to refreshing our general compliance measures in this area. This has included amending our standard contractual wording, including in relation to our scheme documents, to make clear to customers that they should ensure they do not post anything that is contrary to applicable sanctions laws, and that where such items are identified we reserve the right to take appropriate action. Our procurement processes also seek to identify any potential commercial partners that may be subject to sanctions and, more generally, we continue to seek to ensure that our commercial partners are committed to carrying out their activities (generally and for/on behalf of Royal Mail Group) in a sanctions-compliant manner.

Measuring supplier performance

Our Supplier Relationship Management (SRM) programme provides a framework by which we can track and assess whether our suppliers are meeting their social, ethical and environmental requirements under our contracts.

We are currently undertaking a review of how we categorise critical and important suppliers, ensuring a centralised and consistent approach. Supplier criticality has been considered across aspects such as: ability to positively impact our profitability; ability to impact customer retention; and potential associated liability or reputational risks, e.g. through regulatory compliance or safety obligations. As at the year end, we had identified around 50 critical suppliers. We aim to begin roll out of the SRM to priority suppliers in 2014-15. Critical suppliers will be reviewed quarterly and the critical suppliers list refreshed annually.

Building supplier management capability

We have continued to strengthen our capabilities for managing suppliers effectively. In January 2014, we launched a new induction programme for employees working in procurement, with an increased focus on ethical compliance. The training that every procurement employee now undergoes includes mandatory modules on competition law, anti-bribery and compliance with Royal Mail's obligations as the provider of the Universal Service.

Supporting SMEs

Small and medium size enterprises (SMEs) play an important role in the UK economy, and also in Royal Mail's supply chain. We have worked to make our contracts accessible to SMEs, for example by advertising opportunities in the UK Contracts Finder portal and flagging suitable contracts for smaller suppliers to bid for. Where commercially justifiable, larger contracts have been broken down into a set of smaller lots, providing more opportunity for niche suppliers and SMEs to bid for work, rather than allocating a single large contract to one large supplier.

CIPS Platinum Standard for excellence

Royal Mail has become the first organisation to be certified as Platinum Standard by the Chartered Institute of Purchasing & Supply (CIPS). The award followed a rigorous 18-month certification process covering all aspects of our approach to contracting and managing suppliers.

Key priorities for 2014-15

- Roll-out a process to identify and track our use of SME suppliers
- Review our procurement governance process and incorporate ethical, environmental and other risks into decisions on whether contracts must be submitted to the Royal Mail Board
- Deploy additional anti-bribery due diligence





Our environment

Management of natural resources is a commercial imperative as well as an environmental one. Reducing our impact in a responsible manner will help us save costs, compete more effectively and deliver a good service to our customers. It is a key part of our modernisation programme.

Key facts

- Under our World Class Mail (WCM) programme, Environment Pillar Leads seek to drive continuous improvement in reducing environmental impacts of the business. WCM has now been rolled out across all mail centres and delivery sectors
- We collate data from over 5,000 sources to monitor our energy usage and help direct our efforts to where they will have the greatest impact
- We undertake annual network reviews and use double-deck trailers to optimise the journeys in our fleet. We have reduced the number of network miles travelled by almost seven million since 2008-09
- Our European business GLS has a network of 25 environmental representatives, who measure the operation's environmental impacts and exchange best practice on environmental management
- All of the sites in our Parcelforce division are already certified to ISO14001, as are the sites across 19 subsidiaries in GLS
- Around 58,000 parcels are transported each month through GLS Germany's ThinkGreenService, which offsets carbon emissions through reforestation projects

Key achievements in 2013-14

- Doubled the number of Royal Mail UK sites that hold Environmental Management System IS014001 to 14
- Reduced the amount of carbon emissions that we produce per £1 million of revenue by 5 per cent in the UK
- Consumed six per cent less water and sent 16 per cent fewer tonnes of waste to landfill
- Installed over 4,200 new recycling bins at our sites
- Strengthened our environmental reporting processes and procedures and incorporated GLS carbon emission data
- Held our inaugural environment conference for around 80 Environment Pillar Leads and supports, and launched our environmental awards to recognise individual achievements and share best practice
- Worked with the Direct Marketing Association to revise the standards for Sustainable Advertising Mail, encouraging more sustainable practices





REDUCED BY 7 MILLION SINCE 2008-9









Environment KPIs		2013-14	2012-13	2011-12	
<u>@</u>	UKPIL carbon emissions ('000 tonnes CO ₂ e) ^[1]	705.2	730.3	702.0	
9	UKPIL tonnes of CO ₂ e per £1m revenue	90.6	95.7	97.6	
<u>@</u>	GLS carbon emissions ('000 tonnes CO ₂ e) ^[2]	32.6			
	Waste to landfill ('000 tonnes)	9.0	10.7	13.9	
جي	Waste diverted from landfill ('000 tonnes)	22.1	20.3	19.3	
∞	Water consumed ('000 m³)	1,410.1	1,508.3	1,726.4	

Our environment strategy

We aim to make careful management and continuous reduction of environmental impacts an integral part of how Royal Mail does business.

Our environment strategy focuses our efforts to manage environmental impacts around five key areas. These focus areas have been defined by our Environment Governance Board, using internal stakeholder meetings and a materiality assessment, which helps target our activities to where they will have greatest impact. The strategy also identifies several enablers, which play an important role in helping to

fulfil our objectives. These include our WCM performance-improvement framework, and partnerships with data providers that give us the information we need to measure our progress.

We focus on:

- · Gathering sound environmental data, so that we focus our efforts on areas that will deliver the greatest benefits
- Engaging our people to ensure we are all pulling in the same direction
- Integrating technologies into our business that reduce our environmental impact



We launched our environmental awards in 2014, recognising achievements and sharing best practice.

^[1] Carbon dioxide equivalent emissions (CO₂e) have been calculated in accordance with the UK Government's Environmental Reporting Guidance (2013 version). Data has been consolidated according to the 'financial control' approach. We have reported all material Scope 1 and Scope 2 emissions for which we consider ourselves responsible and exclude immaterial sources such as fugitive emissions from air conditioning in owned vehicles. Scope 3 emissions are included in UKPIL reporting [2] GLS carbon emissions only include Scopes 1 and 2, which were introduced for the first time in 2013-14.

Our environmental focus areas



Climate and energy:

Reducing our use of energy and the associated greenhouse gas emissions



Water:

Reducing our demand for water and driving down losses



Waste

Minimising the amount of waste we create and increasing the amount diverted from landfill



Biodiversity:

Preserving and enhancing the natural environment surrounding our property estate



Customers and suppliers:

Working in partnership with customers and suppliers to address our environmental impacts and leverage opportunities

Environment Governance Board

We established an Environment Governance Board (EGB) in 2012, to embed environmental management at a senior level within Royal Mail and provide leadership and focus for our environmental activities. Besides developing our environment strategy, the EGB manages our environmental risk profile and sets targets and monitors progress in our environmental focus areas. It also oversees our programme for the roll out of ISO14001 accreditation.

The Group is chaired by the Group Director of Safety, Health, Wellbeing & Sustainability. It consists of senior managers accountable for functional areas concerned with material environmental issues.

Launching our updated Environment Policy

During 2013-14, we launched our Environment Policy outlining our commitment to conducting business in an environmentally responsible manner and explaining the issues covered by our environmental focus areas. The policy provides a clear, concise statement of why reducing our environmental impact is important to Royal Mail and how we plan to achieve our goals.



OUR CARBON TOOTPRINT



FLEET AND TRANSPORT

34%

BUILDINGS

World Class Mail (WCM)

WCM is the continuous improvement system that drives our modernisation programme. Introduced in late 2008, it aims to engage our people in improving efficiency, safety and quality in the workplace. For environment, it provides a framework within which to identify and drive environmental improvements and progress towards ISO14001 accreditation.

WCM is structured into 10 technical areas, or pillars, which are applicable across all areas of our operations and include environment, people development, safety and quality control/customer satisfaction. A Royal Mail site must complete seven steps for each pillar in order to reach World Class status.

At the heart of WCM is the embedding of common values across our operations, treating high-performance as standard, enhancing training and skills and generating a sense of pride and opportunity in the workplace. We rigorously audit the implementation of WCM programmes across the business, to help celebrate the success of all those involved.

During 2013, we trained 60 new internal auditors to help meet the demand created by our stretching WCM roll-out plan. Following five new awards in 2013–14, 15 mail centres, five delivery offices and one distribution centre now hold WCM Bronze status.

In early 2014, we completed the launch of WCM for our deliveries operations. The launch event saw WCM champions, champion supports, delivery sector managers and plant managers getting together to share experiences and ideas. There are now 145 WCM champions and 137 champion supports in place across deliveries. All have been through a 10-week Academy training programme to provide the know-how they need to apply the WCM approach.

WCM Environment Conference

Our first conference for WCM environmental leads covered key aspects of environmental management over two days of presentations, workshops and interactive games. The conference also featured an awards evening recognising six outstanding contributions from within the WCM community, including the water saving initiatives at South Midlands Mail Centre (see full story on page 71).

GLS eco depots: a ThinkGreen initiative



The GLS ThinkGreen programme provides a management framework for reducing emissions, saving resources and optimising waste management. It also embeds a network of environmental representatives across GLS, who can promote best practice.

ThinkGreen has been the driving force behind the roll-out of GLS eco depots, which are constructed using recyclable materials and make use of heat pumps, rainwater harvesting and photovoltaic cells to reduce a broad range of environmental impacts. GLS opened three new eco depots during 2013-14, at Habay and Nivelles in Belgium and Steinabrückl in Austria. This brings the total number of eco depots in the Group to 15.

Climate and energy

Royal Mail Group's operations emit greenhouse gases (GHGs) through the energy used to power and heat our buildings and, most significantly, the diesel fuel used for the logistics and transport of mail. As a business with a large supply chain, we are also responsible for significant indirect emissions, for example through our use of air transport to ensure mail arrives on time.

In the UK, our buildings contribute around 34 per cent of our carbon footprint, while fleet and transport make up around 65 per cent. In 2013-14 we succeeded in reducing this carbon footprint by 3.5 per cent compared to 2012-13, and by 19 per cent against our 2004-05 baseline^[1].



Reviewing and strengthening our reporting

Royal Mail has published data on GHG emissions for over a decade, as part of our commitment to being an environmentally-responsible company. During 2012-13, the Department of Environment Food & Rural Affairs (DEFRA) issued new guidance and standards on corporate GHG reporting. We have reviewed our data management and reporting practices to ensure that we are aligned with this new guidance.

We undertook a major piece of work to strengthen the reporting of Scope 1 and 2 emissions for our UK operations. In particular, we focused on documenting an improved data processing regime and improving our controls and procedures, to address an observation made during our 2012-13 assurance process and improve data integrity. The benefits of this significant piece of work include greater certainty over our data, clarity over roles and responsibilities, and a data management platform that can better monitor performance against targets and manage the reporting component of our environment strategy.

We also collect and report the Scope 3 emissions of business travel, airmail, and transmission and distribution losses associated with electricity use. We will undertake a review of our reporting of this data during 2014-15 to ensure the same levels of data integrity.

For the first time during 2013–14, we included Scope 1 and 2 emissions from GLS, our European business, in our reporting. As part of this process we carried out a review to assess the robustness of the data. GLS contributes five per cent to our overall Scope 1 and 2 emissions.

Heating oil automated meter reading devices

The Universal Service that Royal Mail Group provides in the UK requires hundreds of delivery offices in rural as well as urban areas. Several of the sites in more remote rural areas do not have access to the gas national grid and so have to be heated using heating oil, a less efficient fossil fuel than the natural gas used at our other sites.

In addition to its greater carbon density, heating oil presents challenges when it comes to measuring and managing consumption. Historically we have been dependent on the invoices we receive to understand heating oil consumption. During 2013–14, we installed automated meter reading devices at 52 of our heating oil sites, giving us the opportunity to improve data quality, track trends and explore opportunities for greater energy efficiency. The devices record oil consumption on a daily basis and transmit to an online data platform via a GPRS wireless data service.

2013-14 CO ₂ e Emissions by Scope ('000 tonnes) ^[1]	Total	UKPIL	GLS
Scope 1	473.1	457.6	15.5
Scope 2	149.7	132.6	17.1
Scope 3	114.9	114.9	

^[2] Carbon dioxide equivalent emissions (CO₂e) have been calculated in accordance with the UK Government's Environmental Reporting Guidance (2013 version). Data has been consolidated according to the 'financial control' approach. We have reported all material Scope 1 and Scope 2 emissions for which we consider ourselves responsible and exclude immaterial sources such as fugitive emissions from air conditioning in owned vehicles. Scope 3 emissions are included in UKPIL reporting.



Managing our building estate

The size of Royal Mail's estate makes reducing energy use in buildings a priority for our environment strategy. Rising energy prices and climate change legislation also make it a commercial imperative for our business.

Our World Class Mail (WCM) programme provides a structure for managing energy efficiency in our buildings, with environmental leads at each WCM site conducting regular environmental audits. In addition, we continue to optimise and upgrade our Building Energy Management System (BEMS) to enable real-time monitoring of energy consumption. We are also rolling out an energy efficiency pilot programme that involves the fitting of meters to individual pieces of equipment, providing live energy consumption data to managers. We have set a target to reduce energy consumption by one per cent year-on-year across our top 100 energy consuming sites.

We make energy efficiency a key component in our plans for upgrading Royal Mail sites. In 2013-14, we completed installation of LED lighting systems with automatic presence controls in Manchester and Mount Pleasant Mail Centres and Daventry Regional Distribution Centre. These are estimated to save 1,870 MWh and over £200,000 per annum. In our Customer and You programme (upgrading enquiry offices for a more pleasant experience for customers and employees), we aim to increase usage of energy-efficient LED lighting and install water-efficient taps in washrooms. GLS uses a network of 25 environmental representatives to monitor the environmental footprint of its sites and help to share best practice on reducing energy consumption.

LED lighting at Manchester Mail Centre

Lighting in the sorting halls of our distribution centres has been identified as the single biggest consumer of electricity in our buildings. Between March and June 2013, we installed a new LED lighting system with automatic presence controls at the sorting hall of our Manchester Mail Centre. This investment of around £500,000 is projected to save over 750,000 kWh of energy and £88,000 each year. This is equal to the electricity consumption of approximately 212 homes every year^[2].

Voltage optimisation at Norwich Mail Centre

In September 2013, we completed the installation of an EMS Powerstar 500kVA voltage optimisation unit at Norwich Mail Centre. The initial investment of £60,000 will save around 54 MWh of energy per annum with an annual financial saving of £5,500. This is equal to the electricity consumption of approximately 15 homes every year [2].

Transporting our mail

We are increasingly a parcels delivery company. As the size of the mail that we deliver grows, the size of our fleet inevitably increases as well. It is therefore essential to keep our transport networks and the fuel consumption of our fleet as efficient as possible.

Aerodynamic vehicle design, eco-start technology and load-efficient double-deck trailers can all deliver efficiency gains. We undertake annual network reviews to optimise transport across road, rail and air. A key focus is on the minimisation of air mail – this is used to meet First Class, Special Delivery and priority traffic obligations, and where we can reduce it, we do.

We now operate 700 double-deck trailers, which offer more than double the capacity of single-deck trailers. These represent roughly 30 per cent of our trailer fleet. A further 44 extra-long double-deck trailers with a 225 per cent capacity improvement over single-deck are scheduled for delivery in 2014-15. Since 2008-09, we have reduced network mileage by almost seven million miles, a reduction of six per cent.

During 2013-14, we trialled auto-adjust roof deflectors on the driver units at our Millbrook centre, which indicate potential fuel savings of between three and five per cent. This is being rolled out across an additional 75 vehicles in 2014-15, and has been added to the standard specification of new units. We also trialled a dual-fuel driver unit at our National Distribution Centre.

In 2013, we appointed Cenex, the Centre of Excellence for Low Carbon and Fuel Cell Technology, to develop our Fleet Carbon Reduction Programme. This aims to identify how current and future Royal Mail fleet profiles, coupled with opportunities for diesel/emissions reductions, will impact overall carbon emissions to 2020-21. It will help us understand the impact of planned and approved initiatives against those which are currently in the pipeline or in early planning.



Up to now, initial adoption costs have prevented low and zero-emission vehicle technology from being commercially viable for our business. However, we continue to keep up to date with developments, evaluating the suitability of emerging technologies through the Government's Low Carbon Vehicle Programme. We have purchased three dual fuel vehicles and 25 Euro VI Mercedes Sprinters to understand the potential efficiencies this will bring to the business. We are utilising a Nissan ENV200 electric small van for demonstration and will take on two electric Peugeot Partner car-derived vans. These will be located alongside the 10 diesel-electric panel vans currently in operation at our Premier Park Delivery Office in Wembley.

In addition to regularly trialling new vehicle technology, in 2014-15 we are introducing a driver behaviour programme focused on embedding fuel-efficient driving techniques through better vehicle tracking. Initial trials suggest that this programme should deliver fuel savings of around five per cent.

Waste

Royal Mail Group's approach to waste management follows the waste hierarchy to avoid landfill: reduce, re-use, recycle, recover (through energy from waste). Reducing the amount of waste sent to landfill reduces costs, while some waste streams present opportunities for revenue generation.

We diverted 71 per cent of waste from landfill last year, achieving our 2014-15 target of 70 per cent one year ahead of schedule.

We regularly analyse the different materials in our waste stream to identify opportunities for further reductions in the waste sent to landfill. Compositional analysis has found that 60 per cent of our general waste could actually be recycled, but is put into the wrong bin. During 2013-14, we took steps to address this issue, with an online survey to assess our employees' awareness levels around recycling. The survey received over 250 responses and helped to identify the waste materials that cause most confusion: paper towels, confectionery packets, tea bags and food waste. Working with a specialist environmental communications agency, we have developed targeted messages around these items, and delivered them at the points where they will have greatest impact, including at vending machines and on canteen tables.

Initiatives to educate employees and raise awareness help to increase the effectiveness of our bespoke recycling bins, which we developed with our facilities management partner Romec, using input from the environmental leads at our World Class Mail (WCM) sites. We deployed a further 4,200 bins during 2013-14, bringing the total in operation to over 7,000 bins across 95 sites

Engaging our people



Thinking creatively can make a difference when it comes to raising awareness of our recycling messages. During 2013–14, our WCM environment leads worked with a specialist waste artist to create sculptures made entirely from waste that had been sent to landfill when it could have been recycled. Constructed using materials from our Heathrow Worldwide Distribution Centre and Medway and Jubilee Mail Centres, these four sculptures have been on an awareness-raising tour of our processing sites and were displayed at our annual Operations and Modernisation conference.

Recycling vehicle parts



During 2013, we launched a new vehicle maintenance programme where selected external salvage agents extract useful body, engine and gearbox parts from our accident-damaged vans and return them to us as spares, extending their usable life. Using Royal Mail body parts also removes the need for paint spraying, as they are already in our colours, and reuses reliable components that could otherwise have been melted down. Between November 2013 and May 2014, this initiative resulted in an average saving of £21,000 per month, equating to approximately £250,000 in a year.



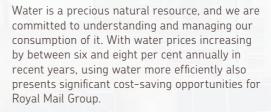




RECYCLING VEHICLE PARTS

£21,000 MONTHLY SAVING





Royal Mail delivery offices and mail centres account for an estimated 76 per cent of our water consumption, primarily through domestic water use in washrooms and catering areas. We also use water for cleaning, building maintenance and washing vehicles.

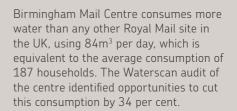
During 2013–14, we worked with the external specialist Waterscan to assess the water footprint of 50 of our top water consuming sites. Together, these represent approximately 30 per cent of our total water consumption, at over 440,000 m³ – enough to fill 176 Olympic-sized swimming pools. This assessment, which built on our previous work with WRAP's Rippleffect programme, involved a detailed audit by Waterscan to identify opportunities for reducing water use. It had three main areas of focus:

- Meter assessment, to ensure each site is being billed correctly
- Supply integrity, to locate leaks or areas of stress in the water supply
- Staff facilities, including understanding opportunities to reduce consumption in washrooms, through changing taps and urinal controls, as well as in catering facilities

Across the 50 sites, our water footprint assessment identified potential savings of around £300,000 per year.

In addition to identifying opportunities to reduce water consumption, we are embedding more efficient use of water into our refurbishment plans for buildings in the Royal Mail property estate. The measures that we are introducing include timeflow controls on all push-button taps and showers, pressure flow controls and flow restrictions. We are also installing rainwater harvesting systems where appropriate, to supply WCs and urinals.

Identifying the third of water wasted at Birmingham Mail Centre



Although no leaks were found on-site, the audit estimated that ineffective urinal controls were wasting around 10,000 m³ of water each year, representing a cost to Royal Mail of more than £25,400. This equals the approximate volume of water in four Olympic sized swimming pools.

Going with the flow at South Midlands Mail Centre



Measuring the flow of water from taps in the South Midlands Mail Centre's bathrooms revealed a simple but highly effective means of cutting water consumption at the site. "Each tap was running at the rate of nine litres per minute, or 150 ml per second," explained environmental lead Siddarth Arora. "By working with our engineer to change the flow timing, we saved 600ml of water on every use." As a result of the change, the centre is now saving approximately 96,720 litres of water per year, equivalent to around 1,200 average baths.





Biodiversity

The size of Royal Mail's property estate means that we have a significant potential impact on the natural environment within and around our sites. Our impact on biodiversity is extended through the potential of our properties as wildlife corridors, and the way that we sustain and enhance flora and fauna at our sites can impact on nature reserves located nearby. We are committed to gaining a more complete understanding of the impact of green areas within our estate.

We have previously recognised the littering of rubber bands as a potential threat to wildlife on and around our sites, as well as a needless expense to our business. We continue to conduct campaigns to raise awareness of this issue and encourage re-use of rubber bands. Since 2010-11, we have reduced the number of rubber bands we use by 15 per cent.

Biodiversity was a key focus at our two-day World Class Mail (WCM) Environment Conference in March 2014. Our WCM environmental leads helped to plant 1,500 native trees at the Woodland Trust's Queen Elizabeth Diamond Jubilee Wood in Leicestershire. The conference included a presentation from the Woodland Trust setting challenges for each site to improve its biodiversity management, and each site representative was provided with a biodiversity pack demonstrating how small actions can deliver big outcomes.

Tree planting in Hungary

For the past six years, GLS Group in Hungary has held a tree-planting event at its head office every spring, inviting customers to join in. Approximately 100 maple trees now line the street to our Budapest site.

Customers and suppliers

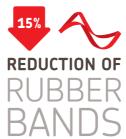
Royal Mail Group works with more than 1.4 million business customers and over 6,300 suppliers across the UK. This extends our environmental impact beyond our own operations. We have the opportunity to work with our customers to help meet their own sustainability objectives through products and services that minimise environmental impacts. We also have a responsibility to ensure that our own suppliers act responsibly across a range of social and environmental criteria to manage our exposure to potential reputational and financial risks.

During 2013–14, we worked with the Direct Marketing Association (DMA) to improve our Sustainable Advertising Mail and Sustainable Door to Door products. These are voluntary specifications that seek to minimise the environmental impact of direct mail through encouraging waste reduction and the use of sustainable material in campaigns. We have updated the specifications to reflect current household recycling rules and improve customer accreditation and auditing procedures. We have also specified the inclusion of a national recycling symbol to increase public awareness of which direct mail material can be recycled.

As part of this process, we have worked with WRAP (Waste Resource Action Programme) and Defra to agree a replacement standard for the environmental performance specification PAS 20/20. The DMA has developed this into a new draft standard for Direct Mail that is due for launch in early 2015.

In 2013-14, 105 of our mailing houses held a valid ISO14001 or equivalent environmental accreditation certificate, a slight increase over the previous year. We encourage such standards through our Partner in Quality scheme, which rewards mailing houses who consistently achieve our quality performance criteria.





Hallmark Consumer Services

Our Partner in Quality scheme provided the incentive for Hallmark to gain ISO14001 accreditation in 2011. Since then the company has set in place a plan for continuous environmental improvement. Managing environmental impacts through increasing its recycling rate to over 85 per cent and reducing energy use has delivered significant cost savings for the business, which renewed its ISO14001 accreditation in 2014.

ThinkGreenService

In 2011 GLS Germany launched the ThinkGreenService, a carbon-neutral shipping service that offsets emissions through investment in a Verified Carbon Standard (VCS) certified reforestation project in Malaysia. In 2013-14 an average of 58,000 parcels per month were sent through the ThinkGreenService.

Our priorities for 2014-15

- Expand ISO14001 accreditation to other Royal Mail sites
- Roll out the HGV telemetry system to improve efficiency performance through accurate data capture and real time feedback on driving style
- Begin roll-out of LED lighting in 14 large processing sites with the greatest opportunity for energy reduction; and, install energy monitoring equipment at 70 energy-intensive sites to provide real-time data and pinpoint changes that should be made
- Work with our new waste contractor to reduce the number of general waste bins at our sites, and further encourage recycling
- Identify solutions for diverting difficult to recycle items from landfill, such as machine belts
- Review and action recommendations of the water footprint assessment
- Develop a targeted supplier engagement programme incorporating environmental assessments into upcoming tenders, to encourage innovation on sustainability

Since 2010–11, we have **reduced the number of rubber bands** we use by 15 per cent.





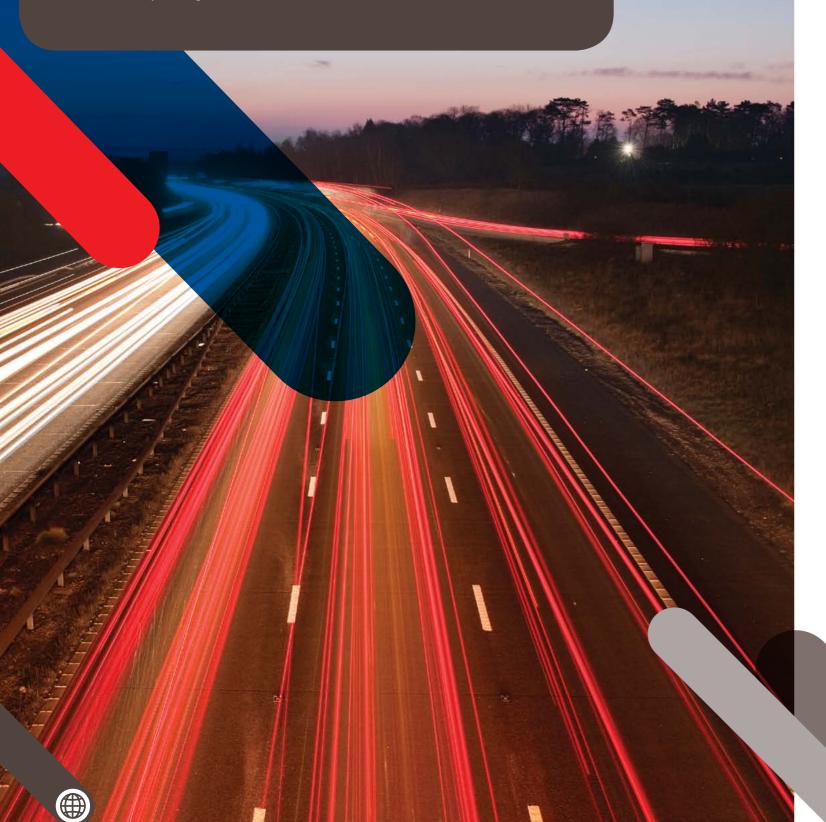
3 GRI Index - 3.1 Employee data

GRI Index

GRI Index

3.1 Employee data 75

3.2 Global Reporting Initiative Index 77



3.1

Employee data

We report in accordance with the Global Reporting Initiative (GRI) Sustainability Reporting Framework, G3.1. This sets out the Principles and Standard Disclosures organisations can use to report their economic, environmental, and social performance and impacts. Our Global Reporting Initiative Index has been checked by Corporate Citizenship. Corporate Citizenship confirms that in their view the Index meets the requirement of B+, as set out in the GRI G3.1 Guidelines. The GRI Content Index starts on page 77.

A1 Total workforce by employment type, contract and region, 2013-14

The total headcount for UK Parcels, International & Letters at the end of 2013-14 was 148,441. This comprises the Group's UK and international parcels and letters delivery businesses operating under the Royal Mail and Parcelforce Worldwide brands.

By region	Total
East	18.6%
North	18.0%
South East	19.1%
South West	15.2%
West	15.6%
Logistics	4.5%
Non-region specific	9.0%
By contract	Total
Permanent	95.9%
Temporary	4.1%
By type	Total
Full-Time	74.0%
Part-Time	26.0%

LA2 Number and rate of employee turnover by region, gender and age, 2013-14[1]

Leavers by region	Headcount	Rate	Joiners by region	Headcount	Rate
East	1,822	1.2%	East	1,137	0.8%
North	1,705	1.1%	North	1,469	1.0%
South East	1,728	1.2%	South East	1,390	0.9%
South West	1,510	1.0%	South West	1,132	0.8%
West	1,498	1.0%	West	986	0.7%
Logistics	254	0.2%	Logistics	311	0.2%
Non-region specific	855	0.6%	Non-region specific	1,534	1.0%
Total	9,372	6.3%	Total	7,959	5.4%

Leavers by age	Headcount	Rate	Joiners by age	Headcount	Rate
<30	1,801	1.2%	<30	3,205	2.2%
31-49	3,393	2.3%	31-49	3,533	2.4%
50+	4,178	2.8%	50+	1,221	0.8%
Total	9,372	6.3%	Total	7,959	5.4%

Leavers by gender	Headcount	Rate	Joiners by gender	Headcount	Rate
Female	1,672	1.1%	Female	1,444	1.0%
Male	7,700	5.2%	Male	6,515	4.4%
Total	9,372	6.3%	Total	7,959	5.4%

^[1] Includes 44 Heritage Trustees not included in the people numbers on page 96 of the Annual Report and Financial Statements 2013-14. The net leavers number differs to the net movement in people numbers derived from the information on page 96 of the Annual Report and Financial Statements 2013-14 due to timing of reporting.

3.2

3.5

3.6

Process for defining report content.

Protocol for further guidance.

Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers). See GRI Boundary

Global Reporting Initiative Index

I. Julategy	and Analysis	
Indicator	Description	2013-14 response
1.1	Statement from the most senior decision-maker of the organisation.	2-3
1.2	Description of key impacts, risks, and opportunities.	10-15, Annual Report and Financial Statements 2013-14 (ARA) 14-15, 29-31
2. Organisat	ional Profile	
Indicator	Description	2013-14 response
2.1	Name of the organisation.	7
2.2	Primary brands, products, and/or services.	7
2.3	Operational structure of the organisation, including main divisions, operating companies, subsidiaries, and joint ventures.	7
2.4	Location of organisation's headquarters.	92
2.5	Number of countries where the organisation operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report.	7, 92, ARA 3
2.6	Nature of ownership and legal form.	7
2.7	Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries).	4-5, 7, ARA 3, 22-31
2.8	Scale of the reporting organisation.	8, ARA 4-5
2.9	Significant changes during the reporting period regarding size, structure, or ownership.	7
2.10	Awards received in the reporting period.	15, 34, 42, 48, 52, 56, 61, 63
3. Report Pa	rameters	
Indicator	Description	2013-14 response
3.1	Reporting period (e.g., fiscal/calendar year) for information provided.	92
3.2	Date of most recent previous report (if any).	92
3.3	Reporting cycle (annual, biennial, etc.)	92
3.4	Contact point for questions regarding the report or its contents.	92

22-24

3 GRI Index - 3.2 Global Reporting Initiative Index

3.7	State any specific limitations on the scope or boundary of the report (see completeness principle for explanation of scope).	92
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organisations.	92
3.9	Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report. Explain any decisions not to apply, or to substantially diverge from, the GRI Indicator Protocols.	36, 38, 40-41, 44, 48-49, 53, 65, 68, 92
3.10	Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement (e.g.,mergers/acquisitions, change of base years/periods, nature of business, measurement methods).	18-20, 37, 65, 92
3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report.	92
3.12	Table identifying the location of the Standard Disclosures in the report.	77-82
3.13	Policy and current practice with regard to seeking external assurance for the report.	92

4. Governance, Commitments, and Engagement				
G3.1 Indicator	Description	2013-14 response		
4.1	Governance structure of the organisation, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organisational oversight.	ARA 47-57		
4.2	Indicate whether the Chair of the highest governance body is also an executive officer.	ARA 38		
4.3	For organisations that have a unitary board structure, state the number of members of the highest governance body that are independent and/or non-executive members.	ARA 38		
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body.	22-31, 43-45, ARA 44		
4.5	Linkage between compensation for members of the highest governance body, senior managers, and executives (including departure arrangements), and the organisation's performance (including social and environmental performance).	ARA 58-69		
4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided.	ARA 46. Board members are required to declare any conflicts of interest at the start of each Board meeting. Directors sign a contract		

annually identifying external roles that might lead to conflicts. For any conflicts identified, the Company Secretary puts processes in place to remove the risk of conflict, e.g. exclusion from relevant Board discussions.

4.7	Process for determining the qualifications and expertise of the members of the highest governance body for guiding the organisation's strategy on economic, environmental, and social topics.	ARA 55
4.8	Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation.	7, 10-13
4.9	Procedures of the highest governance body for overseeing the organisation's identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles.	12-13, ARA 50
4.10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance.	12-13, ARA 50, 65
4.11	Explanation of whether and how the precautionary approach or principle is addressed by the organisation.	ARA 53-54
4.12	Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organisation subscribes or endorses.	13, 61-62, 66, 92
4.13	Memberships in associations (such as industry associations) and/or national/international advocacy organisations in which the organisation: * Has positions in governance bodies; * Participates in projects or committees; * Provides substantive funding beyond routine membership dues; or * Views membership as strategic.	30-31, 47, 49-50, 54, 57
4.14	List of stakeholder groups engaged by the organisation.	22-31
4.15	Basis for identification and selection of stakeholders with whom to engage.	22-31
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group.	22-31
4.17	Key topics and concerns that have been raised through stakeholder engagement, and how the organisation has responded to those key topics and concerns, including through its reporting.	22-31



3 GRI Index - 3.2 Global Reporting Initiative Index

Economic		
Indicator	Description	2013-14 response
DMA	Objectives and results	ARA 4-5
DMA	Responsibilities	ARA 38-40
DMA	Policy	ARA 47-57
DMA	Monitoring	ARA 47-57
EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments.	52-53, ARA 4, 35, 96
EC3	Coverage of the organisation's defined benefit plan obligations.	ARA 88-92
EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts.	52-53, 56-57, 85-89

Environmental			
Indicator	Description	2013-14 response	
DMA	Objectives and results	15, 64-66	
DMA	Responsibilities	11-15, 65-66	
DMA	Policy	13	
DMA	Monitoring	64-73	
EN3 ^[1]	Direct energy consumption by primary energy source.	Natural gas = 2,035.5 TJ; LPG = 13.3 TJ; kerosene = 1 TJ; gas oil = 49.8 TJ; diesel = 5,025.5 TJ; motor gasoline = 5.1 TJ; coal = 2.1 TJ	
EN4 ^[1]	Indirect energy consumption by primary source.	Core electricity = 1,178 TJ; rail electricity = 54.4 TJ photo voltaics = 0.32 TJ	
EN7	Initiatives to reduce indirect energy consumption and reductions achieved.	67-70	
EN16	Total direct and indirect greenhouse gas emissions by weight.	65	
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved.	67-70	
EN22	Total weight of waste by type and disposal method.	65, 70. Approximately two per cent of our waste (662 tonnes) is hazardous and all of this is diverted from landfill.	
EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.	None	





Social: Labour Practices and Decent Work Description 2013-14 response Indicator DMA Objectives and results 42-51 DMA Responsibilities 12-14 **DMA** Policy 13, 44-51 DMA Monitoring 42-51, 75-76 LA1 75 Total workforce by employment type, employment contract, and region. LA2 Total number and rate of employee turnover 76 by age group, gender, and region. LA4 Percentage of employees covered by 44 collective bargaining agreements. LA6 Percentage of total workforce represented in 100 per cent of the workforce are formal joint management-worker health and represented in joint management-worker safety committees that help monitor and advise health and safety committees. on occupational health and safety programs. LA7 Rates of Injury. Occupational diseases, 46-47 lost days, absenteeism and fatalities LA9 Health and safety topics covered in formal Approximately 98 per cent as trade unions are agreements with trade unions. the recognised employee safety representatives for engagement purposes. There is a corporate level safety and health committee which deals with strategic issues and is part of the group policy and arrangement facilities. In addition there are regular meetings at Group and Business Unit level by the safety and health leads with senior trade union safety representatives. LA11 Programmes for skills management and lifelong 47-50 learning to support continued employability. LA13 Composition of governance bodies and 48-49, 75-76, ARA 38 breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity. Social: Human Rights **2013-14** response Indicator Description

DMA 12-13 Objectives and results DMA Responsibilities For employees, responsibility is held with our Group HR Director. For suppliers it is held with our Director of Procurement DMA 12, ARA 37 Policy DMA Monitoring 51-52, 61 HR6 ARA 37 Operations identified as having significant risk for incidents of child labour, and measures taken to contribute to the elimination of child labour. HR7 Operations identified as having significant ARA 37 risk for incidents of forced or compulsory labour, and measures to contribute to the

80-81 [1] This data includes our European business, GLS.

elimination of forced or compulsory labour.

3 GRI Index - 3.2 Global Reporting Initiative Index

Social: Socie	Social: Society			
Indicator	Description	2013-14 response		
DMA	Objectives and results	10-13		
DMA	Responsibilities	We maintain a Home Office-recognised professional criminal investigation team that complies with all tenets of the Police and Criminal Evidence Act, and a team of criminal lawyers that operates under the auspices of the Code of Public Prosecutors.		
DMA	Policy	13-14		
DMA	Monitoring	13-14, 51		
S02	Percentage and total number of business units analysed for risks related to corruption.	All units have been risk assessed for anti-bribery risks as part of annual compliance risk assessment process.		
S03	Percentage of employees trained in organisation's anti-corruption policies and procedures.	Launched customised anti-bribery e-learning targeted at different audiences in May 2012, this has now been rolled out to all managers with over 99 per cent having been tested and passed.		
S04	Actions taken in response to incidents of corruption.	51		
S06	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country.	ARA 44		
S07	Total number of legal actions for anti-competitive behaviour, anti-trust, and monopoly practices and their outcomes.	None		
S08	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations.	None		

Casial	Dundunk	Dannanaihilitu.
Social:	Product	Responsibility

Indicator	Description	2013-14 response
DMA	Objectives and results	12-13
DMA	Responsibilities	13
DMA	Policy	12
DMA	Monitoring	13, 16, 33-38
PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes.	None
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.	16, 18, 33-37
PR6	Programs for adherence to laws, standards etc marketing communications.	38-39, 51, 72
PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes.	None





4.1)

Cebr study details



The Contribution of Royal Mail to the UK Economy

Part 1: A study on the economic contribution of Royal Mail's UK Parcels, International and Letters (UKPIL) business unit to the UK (May, 2014)

Headline findings

The Centre for Economics and Business Research Ltd (Cebr), commissioned by Royal Mail, has carried out a complete economic impact assessment of its UK Parcels, International and Letters (UKPIL) business unit and discovered its significant contribution to national employment, value added and taxation.

We find:

- A direct £5.88 billion contribution to total UK Gross Value Added by Royal Mail's UKPIL business unit, equating to a 0.36 per cent contribution to UK GDP
- A further £5 billion of GVA generated in the wider economy through indirect and induced impacts, bringing the aggregate GVA contribution to £10.9 billion^[1], which equates to about 0.79 per cent of UK GDP
- A £1.66 billion exchequer contribution through employer and employee NICs, income taxes, business rates and a range of indirect taxes paid directly and through UKPIL's suppliers
- A £2.5 billion spend on goods and services provided through UKPIL's external supply chain. This includes inter-business intermediate spend (that is, when UKPIL purchases the services of other parts of the Royal Mail business)
- A further 85,000 FTE jobs indirectly supported by Royal Mail UKPIL in the wider economy
- For every £1 of income from employment paid by UKPIL, an additional £0.56 of income from employment is generated in the wider economy through indirect and induced impacts
- From a position of 19th in the 2009
 Department for Business, Innovation and
 Skills (BIS) GVA Scoreboard (which is based
 on the global operations of the top 50 UK
 based companies), Royal Mail UKPIL remained
 7th in Cebr's adapted GVA Scoreboard
 (based on the UK operations of the top 10

companies in the UK for 2013-14). In an economic context, the benefits deriving from Royal Mail's UKPIL business unit are demonstrable, as our report shows

Methodology and assumptions

For the study, we used a combination of national statistics sources and data supplied by Royal Mail relating specifically to the UKPIL business unit. Royal Mail provided the following information for the financial year 2013–14 for input into the study:

- 1. Taxes less subsidies on products
- **2.** Taxes less subsidies on production: this consists of business rates and employers' national insurance contributions (NICs) at a minimum
- 3. Compensation of employees
- 4. Gross operating surplus and mixed income
- **5.** Intermediate consumption (supply chain)
- **6.** Employment: number of full-time equivalent employees

To establish the size and economic impacts of Royal Mail's UKPIL business unit, we adopted the framework provided by the ONS' supplyuse tables, the most detailed official record of how the industries of the economy interact with other industries, with consumers and with international markets in producing the nation's GDP and national income. Making use of the supply-use framework to analyse a company like Royal Mail - which is only a subset of an industry at the level of disaggregation provided by this framework - is one of the best means of ensuring consistency with the national accounting framework. The process of embedding a specific company, such as Royal Mail, within this framework involves assigning that company a role within the supply-use tables.

Having assigned a role for Royal Mail UKPIL within the supply-use framework, we had the foundation for establishing:

- The economic size (or direct impact) of Royal Mail's UKPIL business unit, using standard measures of GVA – and, from this, the percentage contribution to GDP – exchequer contributions and employment
- The wider economic impact of Royal Mail's UKPIL business unit on the UK economy, using Leontief input-output modelling to estimate a full set of (matrix) multipliers capturing direct, indirect and induced impacts of UKPIL on output, GVA and employment

We use the multipliers in association with the direct impacts data to produce estimates of the total impacts of the industry through the supply chain response (indirect impacts) and the boost to household incomes and expenditure in the wider economy (induced impacts).

For eight years running up until 2009, the Department for Business, Innovation & Skills (BIS) produced a scoreboard of the top 800 UK and 750 European companies by value added. This is the difference between a company's sales (turnover or output) and the cost of bought-in goods and services (intermediate consumption).

The original UK scoreboard included the global operations of UK-owned/listed companies and foreign-owned companies which report in the UK. Royal Mail requested that Cebr establish an adapted version of this scoreboard which takes account of UK operations only. Because Royal Mail UKPIL's operations are UK-based, the adapted scoreboard would provide a more appropriate basis for ranking its economic contribution to the UK relative to other major companies. The process of isolating the share of the value added generated from the global operations of these major companies that could be attributed to UK operations involved an individual review of each of their annual reports and consolidated accounts. This produced reasonable approximations of the shares of their globally generated value added that could be attributed to their UK operations.

Cebr has produced an adapted GVA scoreboard, showing the top 10 companies by value added from UK operations. In this, Royal Mail UKPIL ranks seventh in the UK.

Disclaimer

Whilst every effort has been made to ensure the accuracy of the material in this document, neither Centre for Economics and Business Research Ltd nor the report's authors will be liable for any loss or damages incurred through the use of the report.

Authorship and acknowledgements

This report has been produced by Cebr, an independent economics and business research consultancy established in 1992. The study was led by Oliver Hogan, Cebr Director and Head of Microeconomics with research and analytical support from Cebr Economist, Sandra Bernick. The views expressed herein are those of the authors only and are based upon independent research by them.

This study has been commissioned by Royal Mail Group Ltd and has utilised a combination of data provided by Royal Mail Group Ltd and those available in the public domain through ONS, Nomis etc.

The report does not necessarily reflect the views of Royal Mail Group Ltd.



Part 2: A study to demonstrate Royal Mail's impact on the UK economy through improved social cohesion (September, 2013)

Introduction

Social cohesion is an important concept concerned with the goal of promoting equal opportunities and reducing disparities and divisions within a society, thereby strengthening social relations, interactions and ties. The closely related concept of social inclusion, which is itself a key requirement for achieving social cohesion and a key focus of this report, is concerned with bridging these disparities in society in terms of access to and opportunities for services, jobs and infrastructure.

In this report we examine two aspects of Royal Mail's UK business that increase social inclusion and help effect social cohesion. These are:

- Royal Mail's widespread presence across the UK meaning that it provides jobs in locations where employment opportunities are most scarce
- The apprenticeship and training programmes that Royal Mail provides for employees, which not only bridge educational disparities but can be identified with real productivity gains

Royal Mail's contribution to social inclusion through widespread employment in the UK

Headline findings

Royal Mail contributes to social inclusion mainly via the vital employment and earnings it brings to some of the UK's poorer regions. Royal Mail provided 151,191 full-time equivalent jobs across the UK during 2012-13.

Royal Mail employment is disproportionately weighted towards areas with high levels of deprivation and where job opportunities are fewer. This means Royal Mail jobs tend to 'cluster' where they are most needed, directly answering the need in areas of job scarcity. Specifically, 40 per cent of Royal Mail employees in England work in areas in the bottom 30 per cent of English wards in terms of deprivation. In Scotland 37 per cent of employment locations are within the 30 per cent most deprived wards. This number is even higher in Wales with 59 per cent of staff working in the bottom 30 per cent of Welsh wards.

Furthermore, Royal Mail employs staff in direct proportion to the population of the areas they serve and this is consistent across all regions. Again, this means Royal Mail employment follows the contours of the population so that where there are more people, Royal Mail offers more jobs.

The very nature of Royal Mail's postal distribution network means it has a presence right across the country. This shows Royal Mail employment is distributed far more widely than most other similar-sized companies, thus providing jobs in areas where they are needed. In addition, Royal Mail roles require a wide range of skills, making the Company's jobs accessible to people of varying education levels.

This can indicate that for those people at the bottom end of the employability scale, jobs provided by Royal Mail may well help them to avoid joining the ranks of the long-term unemployed in deprived areas. The unemployment rate in areas where Royal Mail employs staff is 13.8 per cent higher in England compared to the average and 17.7 per cent higher in Wales.

The stability of Royal Mail's business also benefits these communities by providing a reliable source of employment. Royal Mail employs between 0.4 and 0.5 per cent of the working population in England, Wales, Scotland and Northern Ireland.

On average across the UK, one in every 200 people works for Royal Mail. But that figure can be as high as 40 per cent – or two out of every five workers – in certain areas of the country. For the 17 locations in England where Royal Mail employs more than 1,000 staff, the Company employs on average 22.4 per cent of the workforce in those locations.

Methodology and assumptions

To analyse the contribution of Royal Mail to social inclusion in the UK through employment, we relate Royal Mail's employee data to census and deprivation data for the area in which the employee is located^[1]. The postcode location of each Royal Mail employee was matched to its lower super output area (census zone), electoral ward and district.

We then calculated the average deprivation rank, the unemployment rate and the employment rate for each ward where Royal Mail staff are employed. The ward deprivation rank was converted into percentiles by dividing the rank by the total number of wards in each country. Combining this data facilitated the estimation of an overall deprivation and employment deprivation percentile for each ward where Royal Mail employees work.

Royal Mail's contribution through investment in human capital

Headline findings

Royal Mail's commitment to staff training brings millions of pounds in gains to UK productivity. Since 2006, the Company's apprenticeship schemes alone, training postmen and postwomen, engineers and mechanics, is worth £21.2 million to UK productivity based on a conservative estimate^[1]. They also result in a wage premium typically between 14.3 and 15.1 per cent for vehicle maintenance and engineer apprentices.

This hike compares favourably with the 19.1 per cent average salary premium typically yielded by a university degree for new graduates. The schemes boost the productivity of 'core' workers such as postmen and postwomen by 20 per cent and engineers and fleet maintenance workers by 50 per cent. Contrary to the situation facing graduates, however, where they enter the workforce laden with student debts, Royal Mail apprentices are paid while training and, therefore, emerge better off on completion.

The combination of on-the-job training of hundreds of apprentices provides a boost in wages, particularly for young workers. The corresponding lift in productivity helps the general economy, whether they stay with Royal Mail or depart and carry their enhanced skills into the broader workforce. Higher wages also support spending on consumer goods and services in the wider economy. Both of these effects provide a welcome boost to GDP.

Royal Mail has two active apprenticeship schemes: Engineering and Fleet Maintenance. An additional two schemes, Core and Advanced, operated for the period 2009 to 2011 and are no longer active. Engineering apprentices train for three years to achieve a BTEC gualification in engineering or a NVQ Level 3 engineering qualification. Fleet maintenance apprentices train for four years to achieve the IMI NVQ Level 3 qualification in motor vehicle technology. The Core and Advanced schemes were designed for new postmen and postwomen starters. The Core scheme provided the Mail Services qualification and lasted for 12 months. The Advanced scheme lasted for 18 months and provided participants with an NVQ Level 3 in management and an ILM Technical Certificate in First Line Management.

Engineering and Fleet Maintenance apprentices can expect a 78 per cent wage premium over the average full-time employee of the same age (18 to 21), due to the longer duration and more technical nature of these programmes. Similarly, Royal Mail apprentices who completed the Core or Advanced schemes can expect a wage premium of 38 per cent.

These productivity gains are a direct contribution to the UK economy and help reduce the productivity gap between the UK and other developed countries. The benefits also remain with trainees throughout their careers, enhancing their earning power and performance.

Methodology and assumptions

To estimate the productivity impacts of Royal Mail's apprenticeship schemes, we follow the established methodology from Hasluck et al (2008)^[2] in their paper "The Net Benefit to Employer Investment in Apprenticeship Training". This was also utilised in the City and Guilds 2012 Report "The Economic Value of Apprenticeships" and by Cebr during a recent study for the National Apprenticeship Service.

The Hasluck et al approach is to compare the wages and salaries of completed apprentices to unskilled experienced workers in order to identify the marginal productivity gain to the employer from funding the apprenticeship scheme.

To make use of Hasluck et al's estimated productivity gains, we identify an experienced person's wage for the postal and courier services sector (Standard Industry Classification 2007, industry 53). For this purpose, we use the Annual Survey of Hours and Earnings (ASHE), which provides a rich source of data on average earnings in sectors and subsectors of the UK economy.

Combining median wages by age group at the UK level and median wages within the postal and courier services sector, we construct the median wage of postal sector workers with approximately 20 years' experience. Median wages of full-time workers in the UK generally peak approximately 20 to 30 years after entry into the workforce. This suggests that the productivity of the median worker also peaks at this point in their career and that their corresponding salary is appropriate for use as the representative wage of an experienced worker. Implicit also is an assumption that productivity gains for workers in the postal and courier services sector follow the same trajectory as the average for the UK as a whole, and that this applies to all four apprentice scheme career paths.

The gross productivity gains, resulting from apprenticeship completion, are stated in terms of experienced workers' wages. We then apply the productivity gain (as a percentage of experienced worker wages) to the estimated experienced postal services sector median wage.

Finally, we analyse data provided by Royal Mail on the direct cost of each apprenticeship and estimate the indirect salary cost of productive time lost due to training.

Once the gross productivity gains and total costs have been computed for each apprenticeship scheme, we proceed to calculating the net productivity benefits per apprentice. Emulating the procedure of Hasluck et al (2008), we apply the gross productivity gains to total costs over a five-year timeframe. This allows for a sufficiently long time for the costs to be recouped while avoiding the need to develop assumptions about the potential for employees to be promoted and thus move to a higher salary. Because we use 2012 ASHE data and, due to the fact that some schemes do not complete in every year, we deflate all productivity gains to 2012 prices. This is achieved using Cebr's forecasts for real earnings growth over the relevant time period.

Disclaimer

Whilst every effort has been made to ensure the accuracy of the material in this document, neither Centre for Economics and Business Research Ltd nor the report's authors will be liable for any loss or damages incurred through the use of the report.

Authorship and acknowledgements

This report has been produced by Cebr, an independent economics and business research consultancy established in 1992. The study was led by Oliver Hogan, Cebr Director and Head of Microeconomics, with analytical and research support from Cebr Senior Economist Colm Sheehy. The views expressed herein are those of the authors only and are based upon independent research by them.

This study has been commissioned by Royal Mail Group Ltd and has utilised a combination of proprietary data supplied by Royal Mail as well as data available in the public domain through ONS and related sources.

The report does not necessarily reflect the views of Royal Mail Group Ltd.



 $^{^{\}mbox{\tiny [1]}}$ For apprentices employed between 2006 and 2013.

Net productivity gain over the five years post-completion.

^[2] Hasluck et al, 2008, 'The Net Benefit to Employer Investment in Apprenticeship Training', Institute for Employment Research, University of Warwick.

Assurance statement

To the management of Royal Mail Group Ltd

Royal Mail Group Limited's Corporate
Responsibility Report 2013-14 (the report)
has been prepared by the management of
Royal Mail Group Limited (RMG), who are
responsible for the collection and presentation
of information within it. Our responsibility,
in accordance with RMG management's
instructions, is to carry out a limited assurance
engagement on the report. We do not accept
or assume any responsibility for any other
purpose or to any other person or organisation.
Any reliance any such third party may place
on the report is entirely at its own risk.

What we did to form our conclusions

Our assurance engagement has been planned and performed in accordance with ISAE3000^[1] and to meet the requirements of a Type 2 assurance engagement as defined by AA1000AS (2008)^[2]. The AA1000AS (2008) assurance principles of Inclusivity, Materiality and Responsiveness have been used as criteria against which to evaluate the report.

In order to form our conclusions we undertook the steps outlined below:

- 1. Interviewed a selection of RMG management and reviewed Group-level documents to understand the progress made in the area of corporate responsibility during the reporting period and test the coverage of topics within the report.
- 2. Conducted site visits to a logistics site and a delivery office to understand how corporate responsibility is being managed at site-level.
- 3. Reviewed the RMG approach to stakeholder engagement through interviews with employees with responsibility for managing engagement activities at Group and site levels, and reviewed selected associated documentation.
- **4. Reviewed the RMG process for determining material issues** to be included within the report.

5. Reviewed the coverage of key issues within the report against the key issues raised by the RMG stakeholder engagement activities, external media reports and the corporate responsibility reports of RMG's peers, as well as the topics discussed by the RMG Board and Chief Executive Committee.

- Interviewed staff responsible for data reporting and carried out the following activities to review selected Customer, People, Community and Environment data (listed below):
 - Reviewed the guidance on data reporting, key processes and quality assurance performed.
 - Selected a sample of data points from across the business and sought documentary evidence to support the data.
 - iii. Conducted a walk-through of data reported from a sample of sites to test consolidation.
 - iv. Reviewed any explanations provided for significant variances.
 - v. Reviewed the report for the appropriate presentation of the data including limitations and assumptions.
- Reviewed information or explanation about selected data, statements and assertions regarding the corporate responsibility performance of RMG.

Level of assurance

Our evidence gathering procedures were designed to obtain a limited level of assurance, as defined in ISAE3000. The extent of evidence gathering procedures performed is less than that of a reasonable assurance engagement (such as a financial audit) and therefore a lower level of assurance is provided.

The limitations of our review

Our review of data processes was limited to the following selected data sets:

- **Customer** mean customer satisfaction score, number of customer complaints.
- People total number of fatalities, lost time accident frequency rate, employee engagement score, customer focus score, gender distribution, age distribution, ethnicity distribution.
- Community total amount contributed by Royal Mail (£), total amount raised by employees (£).

• Environment – Scope 1 and 2 carbon emissions (tonnes of carbon dioxide equivalent), Scope 3 carbon emissions from: i) Transmission and distribution losses associated with electricity use and ii) Air freight (tonnes of carbon dioxide equivalent), energy consumption by primary source (GJ), total waste to landfill (tonnes), total waste diverted from landfill (tonnes), total water consumption (m3).

With the exception of the carbon data for General Logistics Systems BV (GLS) our review was of UK data only.

Our conclusions

Based on the scope of our review our conclusions are outlined below:

Inclusivity

- > Has RMG been engaging with stakeholders across the business to develop its response to corporate responsibility issues?
- We are not aware of any key stakeholder groups that have been excluded from dialogue
- We are not aware of any matters that would lead us to conclude that RMG has not applied the inclusivity principle in developing its response to corporate responsibility issues

Materiality

- > Has RMG provided a balanced representation of key topics concerning the corporate responsibility performance of RMG?
- We are not aware of any key topics concerning the corporate responsibility performance of RMG which have been excluded from the report
- Nothing has come to our attention that causes us to believe that RMG management has not applied its processes for determining material issues to be included in the report

Responsiveness

- > Has RMG responded to stakeholder concerns?
- We are not aware of any matters that would lead us to conclude that RMG has not applied the responsiveness principle in considering the matters to be reported

Completeness and accuracy of performance information

- We are not aware of any material reporting units that have been omitted from the stated scope of the Group-level corporate responsibility data
- Nothing has come to our attention that causes us to believe that the data relating to the above topics has not been collated properly from Group-level systems
- We are not aware of any errors that would materially affect the data as presented in the report

How plausible are the statements and claims within the report?

 We have reviewed information or explanation on selected statements regarding RMG's corporate responsibility activities presented in the report and we are not aware of any misstatements in the assertions made

Observations and areas for improvement

Our observations and areas for improvement will be raised in a report to RMG management. Selected observations are provided below. These observations do not affect our conclusions on the report set out above.

- This year RMG has worked to strengthen the internal processes and controls for managing, collating and reporting Scope 1 & Scope 2 carbon emissions data. We encourage RMG to extend this work into other environmental data that are important to the business
- This report includes a new separate section regarding activities to manage both commercial and CR risks in the supply chain. This section provides an overview of the ongoing work to identify critical suppliers and monitor their overall performance. However we encourage RMG to describe more clearly the nature of the specific CR risks in the supply chain and how these risks are being monitored and mitigated

Our independence

As auditors to RMG, we are required to comply with the requirements set out in the Auditing Practices Board's Ethical Standards for Auditors. Our independence policies apply to the firm, partners and professional staff. These policies prohibit any financial interests in our clients that would or might be seen to impair independence. Each year, partners and staff are required to confirm their compliance with the firm's policies.

We confirm annually to RMG whether there have been any events including the provision of prohibited services that could impair our independence or objectivity. There were no such events or services in 2014.

Our assurance team

Our assurance team has been drawn from our global Climate Change and Sustainability Services Practice, which undertakes engagements similar to this with a number of significant UK and international businesses.

Ernst & Young LLP, London 5 September 2014

^[2] The 2008 edition of AccountAbility's AA1000 assurance standard.

International Federation of the Accountants' International Standard for Assurance Engagements Other Than Audits or Reviews of Historical Financial Information (ISAE3000).

About this report

Scope of the report

This is our twelfth annual Corporate Responsibility Report. It details our environmental, social and governance performance for the year 2013-14. Our last report was published in January 2013 and covered the financial year 2012-13.

We continue to use the Global Reporting Initiative (GRI) to guide our reporting. This report mainly covers our UK operations (UK Parcels, International & Letters - UKPIL operating under our Royal Mail and Parcelforce Worldwide brands) where 92 per cent of the Group's full time equivalent employees are based. UKPIL contributes 82 per cent of the Group's revenue. As in previous reports, it also includes data from associate companies where we have a controlling interest. Carbon emissions data, for example, includes Romec, in which we have a 51 per cent stake.

Royal Mail Group and Post Office Limited became separate companies on 1st April 2012. All data disclosed in this report, including historical data, therefore excludes Post Office Limited. We have worked to integrate data from our European business, GLS, this year. Where GLS narrative and data is incorporated, this is made clear. GLS represents eight per cent of our employee headcount and 17 per cent of our revenue.

Independent assurance

This report has been assured by Ernst & Young. We appreciate this independent verification of, and opinion on, our reported activity. EY's independent assurance statement is set out on page 90 of this report.

We are a signatory to the United Nations Global Compact and are working to meet its principles. This report meets our United Nations Global Compact Communication on Progress requirements.

We have printed only a limited number of hard copies of this report, in order to minimise waste.

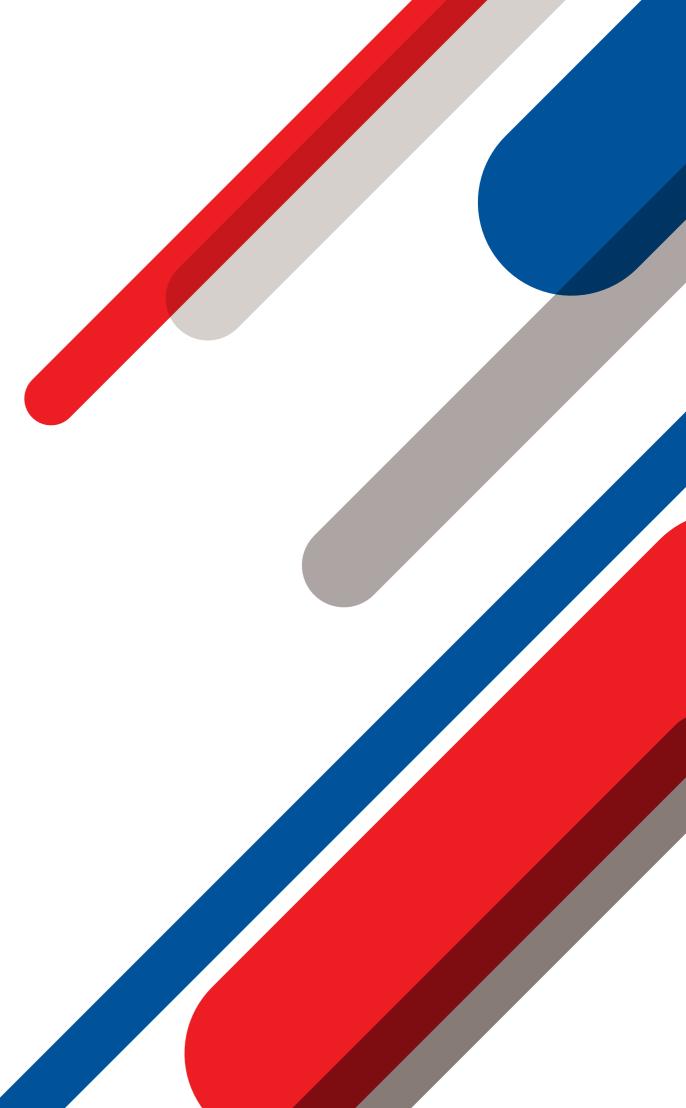
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