ANNUAL REPORT AND FINANCIAL STATEMENTS 2019-20

Royal Mail plc

CONTENTS

OVERVIEW

Keith Williams
Interim Executive Chair

ROYAL MAIL (UKPIL)

Our UK business has faced significant challenges for some years. Our heritage as a letters-focused business means we are not as well positioned as we would like to adapt to changing structural trends – fewer letters and more parcels. We have not always responded as quickly as we might have to these trends. Along with cost increases, this combination of factors drives financial pressures.

COVID-19 presents new, fundamental, challenges to our business model – and to those of our customers. Securing a sustainable future and a contemporary USO requires us to respond to this unprecedented global crisis as we adapt to the changing realities of the marketplace.

We have a plan to ensure Royal Mail remains a key part of our economy, a good employer, and the UK's delivery partner of choice. Delivering it requires a step change in the number of major initiatives we can successfully deliver in a short period of time.

Firstly, we will continue to address key challenges posed by COVID-19. We are implementing a range of immediate cost control activities and reviewing capital investment. But, to ensure our long-term success, we must do more.

So, we are accelerating the delivery of our transformation plan to address the longstanding challenges we face, created by fundamental shifts in the way we communicate (fewer letters) and shop (more B2C parcels). Now, more than ever, we need to change.

Finally, we are working with our unions, Government and the Regulator to ensure the USO is financially underpinned, in a sustainable way, and future-proofed to reflect changing customer needs and preferences. This will include working with stakeholders on the shape of a national USO for the 21st Century.

GLS

At GLS, our strategy is about capitalising on growth opportunities in key markets, while continuing to improve performance in some of the countries in which we operate. The trend towards B2C parcel deliveries in some markets offers opportunities, as we maintain margins through focused yield management. We will focus investment on growing markets, strengthen our last mile delivery network and broaden alternative delivery options as appropriate.

Together, these changes will add to the good cash generation which GLS has today. Our priority over the short term is to focus on these improvements, while looking at the longer-term opportunities for the business.

OUR GROUP

Royal Mail and GLS are two different businesses, with two different strategies. At Royal Mail, our focus is on transformation; at GLS we aim to optimise and continue to grow. In both cases, we are committed to fixing or exiting underperforming businesses. We have put in place a new management structure, where senior Royal Mail and GLS executives report directly to the Group Board. This is all about greater focus and accountability, given our strategic imperatives,

In the short term, there are few synergies available between the two companies. In the medium term, an international presence is clearly important; the opportunity remains to create more value, and sustainable profits for shareholders.

For more detail, see the interim Executive Chair's Statement (pages 15-16) and the Business Review (pages 19-25).

Keith Williams
Interim Executive Chair

READER'S NOTE – IMPACT OF COVID-19 PANDEMIC

We are committed to providing thorough, appropriate updates about how this unprecedented crisis is impacting our business.

This Report reviews the year to 29 March 2020. Reflecting FRC guidelines, we deferred publication of our Full Year Results until 25 June 2020. We have issued two trading updates since year end. In this Report, we also provide an update on trading for the first two months of the financial year. We have suspended guidance for 2020-21 and beyond.

This Report focuses on: i) 2019-20 performance against our strategic ambitions – management's priority for the overwhelming majority of the year; ii) the impact of the pandemic since it was declared in mid-March 2020; and iii) how COVID-19 affects our view of our business model and future performance.

Our transformation

We are transforming from a UK-focused letters business that delivers parcels, to a parcels-led, international business, delivering letters in the UK. We operate across 40 countries and nation states worldwide, including 36 in Europe. We are a modern, digitally innovative brand, connecting customers, companies and countries.

In common with many other companies, COVID-19 presents new, fundamental challenges to our business model – and to those of our customers. A key focus for us is a speedy and effective response to the challenges posed by the pandemic. But, this will only take us so far. It may not be enough.

Alongside these immediate actions, we must also continue to change, to build a business that better reflects structural shifts in the delivery market and the evolving demands of our customers. We want to work with our unions on these necessary changes, and with Government and the Regulator on a future-proofed and sustainable Universal Service.

Our ambition and purpose

Our ambition is to build a parcels-led, more balanced, and more diversified, international business. Our purpose is to connect customers, companies and countries. We have real strengths: our brands; our heritage; our reach; and our people. We are transforming to leverage them and become the pre-eminent delivery company in all our key markets.

Our people

We employ around 160,000 people across our Group, of which over 140,000 are in the UK.

We are one of the largest employers in the UK, providing one in every 194 jobs[1]. Our 'feet on the street' network of around 90,000 postmen and women are part of local communities. Thanks to them, Royal Mail is the UK's most trusted and preferred delivery company[2].

COVID-19

During the coronavirus crisis, our employees' health and wellbeing is our first priority. We have committed around £40 million to date to buying equipment such as hand sanitiser, disposable gloves and other additional protective measures to keep our people safe. To support UK employees who should not be attending work, we have temporarily changed sick pay for those with less than a year's service. Where the absence is related to coronavirus, these employees will receive the same sick pay as employees with over a year's service.

We are the best employer in the UK delivery sector by some margin. Our frontline employees have the best pay and terms and conditions in our industry. We have one of the largest apprenticeship schemes in the country. At 6.7 per cent, our annual staff turnover is well below the 21 per cent UK average.

GLS employs around 19,000 people worldwide. It aims to continue being a reliable and responsible employer, whilst offering an optimum working environment. During the year, GLS Denmark won a CSR People award on account of its inclusive approach. GLS Germany won a 'Best Recruiter' award, ranking fourth out of the top 100 companies in Germany.

Our customers

As the UK's sole designated Universal Service Provider[3], we deliver a 'one-price-goes-anywhere' service on a range of letters and parcels to nearly 31 million addresses across the country. We also provide a range of commercial services to consumers, sole traders, SMEs, large businesses and retailers, and other postal operators via our downstream network.

GLS provides a whole range of B2B and B2C services across Europe and North America. B2B contributes just over half of total volume. GLS is strengthening its B2C position across Europe; for example in Denmark, Italy and Central and Eastern Europe. Thanks to its extensive network, GLS is well positioned to participate in cross-border parcel traffic growth.

Our shareholders

Royal Mail is one of the most widely held stocks in the UK. One in four of our shares are in the hands of colleagues (who own around eight per cent of our shares as Free Shares) and retail investors. UK institutions represent 69 per cent of the register. We have a proactive engagement programme, which includes institutional investors in the UK and overseas and retail shareholder associations.

We have a comprehensive, rolling programme of investor relations events and encourage open, two-way communication. Monthly reports are submitted to the Board, alongside analyst notes and summaries of market feedback. You can find out more on page 105.

Our stakeholders

Due to our unique role in UK life, and our geographic diversification, we have many diverse stakeholders. Royal Mail has an active outreach programme to help us understand their concerns, and at the same time share the challenges we face as we transform from a UK-focused letters business that delivers parcels, to a parcels-led, international business that delivers letters in the UK.

1 CEBR research, conducted for Royal Mail in May 2020.
2 Watermelon Research, 2019-20 Consumer Research Tracker.
3 Under the Postal Services Act 2011 (the Act), Ofcom is the regulator for postal services in the UK. Ofcom's primary regulatory duty for postal services is to secure the provision of the Universal Postal Service. Ofcom has designated Royal Mail as the Universal Service Provider.

WHO WE ARE

Royal Mail Group consists of two principal subsidiaries. Around two thirds of our business comes from our domestic operation, Royal Mail (UKPIL), and a third from our international operations, GLS.

In the short term, there are limited synergies between the two companies. We have restructured our management to focus on improving the position of each business, recognising their different market positions and strategies.

ROYAL MAIL (UKPIL)

Royal Mail (UKPIL) comprises our UK and international parcels and letters delivery businesses under the 'Royal Mail' and 'Parcelforce Worldwide' brands. Royal Mail's combined letter and parcel delivery network supports the collection, sorting and delivery of parcels and letters. This includes services Royal Mail provides as the UK's designated Universal Service Provider. Parcelforce Worldwide is a leading express parcel delivery provider.

We are the UK's pre-eminent delivery company. This year, we handled and delivered around 13 billion letters, and around 1.3 billion parcels.

Our contribution to the UK economy, including through employment and procurement, totalled £10.6 billion[1] last year in terms of value added. We made the seventh largest contribution to the UK economy of all UK corporations[1].

Employees
141,500

Vehicles (including 2,900 trailers)
c.48,500

Mail Centres
37

Local Collect network
c.11,200

1 CEBR research, conducted for Royal Mail in May 2020, comprising direct and indirect contributions.

GENERAL LOGISTICS SYSTEMS (GLS)

GLS is one of the largest ground-based, deferred parcel delivery networks in Europe. Its network covers 36 countries and nation states in Europe. It operates in eight states in the Western US and Canada. This is through a combination of wholly-owned companies and partner companies.

This year, GLS delivered 667 million parcels for its wide customer base. Traditionally a business to business (B2B) focused network, GLS is growing its business to consumer (B2C) position, in line with its strategy. We have seen a significant increase in B2C activity in many of our markets in recent months as a result of COVID-19. Almost half the items GLS delivers today are B2C. We expect B2C volumes to grow to account for 58 per cent of overall GLS volumes in 2020-21.

A long-term international presence is important to us. GLS offers us product and geographical diversification. It is at the forefront of some key environmental initiatives. See page 82 for more information.

Employees
19,000

Depots (including agencies)
c.1,400

Clients
240,000

Network hubs
c.70

ParcelShops
c.25,000

INTERNATIONAL PRESENCE

GERMANY

GLS Germany is our most established business. It has a strong market presence and a well-known brand. GLS Germany is one of the leading parcel delivery companies in Germany.

Around two thirds of GLS Germany volumes are currently B2B. The Company intends to take advantage of growth in the B2C market over the coming years.

ITALY

Over the last 15 years, Italy has grown to become one of GLS' largest markets. Together, Germany, France and Italy represent 55 per cent of GLS revenue.

Italy has been one of the European countries most affected by the COVID-19 outbreak, with more than 60 million citizens required to stay at home from March to May. Across its operations, in Italy and beyond, GLS provided equipment such as masks, gloves and disinfectants to protect its people. In Naples, GLS Italy supported the community by delivering medical equipment to hospitals. In the town of Marche, GLS delivered face masks hand-sewn by local tailors.

SPAIN

Following the acquisitions of ASM in June 2016 and Redyser in February 2018, the integration of both companies has now been completed.

Through these acquisitions, GLS Spain has become one of the country's biggest express parcel delivery networks. GLS Spain has connected around 450 independent agents. These are injecting volume into the network, as well as delivering parcels for it. Due to this infrastructure, GLS Spain is supporting its strong B2C capability – with B2C representing the vast majority of its parcel volumes.

CENTRAL AND EASTERN EUROPE

We have a fast-growing presence in Central and Eastern Europe (Croatia, Czech Republic, Hungary, Romania, Slovakia and Slovenia). GLS Croatia and Slovakia achieved the strongest revenue and profit growth in the region.

In these regions, GLS tends to operate more in the B2C space than its more established European peers.

FRANCE

GLS France continues to be integral to the GLS network by supporting exports from other markets into France and allowing GLS to provide a comprehensive service across Europe. GLS France offers shippers and recipients the benefits of a high-density network and a wide range of delivery services.

NORTH AMERICA

GLS US has 1,600 employees, 47 depots, three hubs, and a customer service centre to support more than 20,000 customers. It operates in the states of California, Arizona, Nevada, New Mexico, Oregon, Washington, Idaho and Utah.

Golden State Overnight and Postal Express have been fully integrated into GLS US and transitioned into our proven sub-contractor business model.

During the year, we acquired Mountain Valley Express, a family owned business based in California that provides freight transportation services to a broad range of customers.

Dicom, GLS' Canadian arm, operates 25 depots and three hubs in eastern Canada; a relatively densely populated part of the country. In cooperation with partners, GLS offers pan-Canadian logistics services across six time zones. This includes integrated freight and logistics services.

GLS in North America now accounts for around 10 per cent of GLS revenue. See page 23 for more information.

FINANCIAL AND OPERATIONAL HIGHLIGHTS 2019-20

REPORTED GROUP FINANCIAL SUMMARY[1,2]

Reported results (£m)	52 weeks March 2020	53 weeks March 2019
Revenue	**10,840**	10,581
Operating profit before specific items	**217**	341
Profit before tax	**180**	241
Basic earnings per share (pence)	**16.1**	17.5
Dividend per share (pence)	**7.5**	25.0

- Group revenue increased by £259 million, or £396 million after adjusting for the 53rd week in 2018-19.
- Reported operating profit before specific items down £124 million, driven by lower UKPIL profitability.
- Dividend per share of 7.5p reflects Board decision not to recommend final dividend for 2019-20.
- Total liquidity (including undrawn committed facilities) of around £1.9 billion. Includes £925 million syndicated bank loan facility of which £225 million is undrawn.
- Operating specific items charge of £162 million, down £19 million. Includes £91 million non-cash impairment with respect to Parcelforce Worldwide.

ADJUSTED GROUP FINANCIAL SUMMARY[1,2]

Adjusted results (£m)	52 weeks March 2020	53 weeks March 2019	52 weeks March 2019	Change[3]
Revenue	**10,840**	10,581	10,444	3.8%
Operating profit	**325**	411	376	(13.6%)
Margin	***3.0%***	*3.9%*	*3.6%*	*(60 bps)*
Profit before tax	**275**	398		
Basic earnings per share (pence)	**19.6**	30.5		
In-year trading cash flow[4]	**556**	117		
Net debt	**(1,132)***	(300)**		
Net debt (excluding IFRS 16 impacts)	**(46)***	(300)**		

*As at 29 March 2020; **As at 31 March 2019.

GROUP

- Adjusted operating profit of £325 million, down 13.6 per cent. £312 million excluding impact of IFRS 16, within forecast range of £300-340 million.
- Adjusted margin down 60 basis points, due primarily to significant cost headwinds in UKPIL.
- In-year trading cash flow of £556 million, due to positive impact of IFRS 16 (£141 million), working capital inflow and lower capital expenditure.
- Net debt increased to £1,132 million, mainly due to IFRS 16.

BUSINESS UNITS[1,2]

£m	Revenue			Adjusted operating profit		
	52 weeks March 2020	52 weeks March 2019	Change[3]	52 weeks March 2020	52 weeks March 2019	Change[3]
Royal Mail (UKPIL)	**7,720**	7,595	1.6%	117	199	(41.2%)
GLS	**3,161**	2,888	9.5%	208	177	17.5%
Intragroup	**(41)**	(39)	5.1%	–	–	–
Group	**10,840**	10,444	3.8%	325	376	(13.6%)

ROYAL MAIL (UKPIL)

- Parcel volumes up 2 per cent, lower than expected, due to threat of industrial action (Q3) and impact of COVID-19 on international import volumes (Q4). Parcel revenue up 4.6 per cent, due to targeted pricing actions.
- Addressed letter volumes (excluding election mailings) down eight per cent, in line with guidance provided in Q3 trading update. Total letter revenue down 0.9 per cent, benefitting from two elections in the period and targeted prices increases.
- £188 million of costs avoided, in line with guidance of £150-200 million.
- Productivity improvement of 1.0 per cent, below our original target of over 2 per cent. Due to necessary additional investment to protect quality in Q3 and COVID-19.
- Adjusted operating costs up 2.8 per cent, driven by increased distribution and conveyance and people costs, including service quality measures.
- Adjusted operating profit margin of 1.5 per cent (down 110 basis points) reflects lower UKPIL profitability.

GLS

- Volumes up 4 per cent excluding acquisitions, or 5 per cent including acquisitions. Revenue grew 6.3 per cent excluding acquisitions, or 9.5 per cent including acquisitions.
- Adjusted operating profit including acquisitions of £208 million, up 17.5 per cent. Up 13.5 per cent excluding acquisitions.
- Adjusted operating profit margin of 6.6 per cent, up 50 basis points compared with prior period. In line with 6-7 per cent annual target range.

1 Reported results are in accordance with International Financial Reporting Standards (IFRS). Adjusted results exclude the pension charge to cash difference adjustment (2019-20: £108 million; 2018-19: £70 million) and specific items (2019-20: £13 million credit; 2018-19: £87 million charge), consistent with the way financial performance is measured by Management and reported to the Board.

2 For further details of reported results, adjusted and Alternative Performance Measures (APMs) used in the Financial Review for the full year ended 29 March 2020, including reconciliations to the closest IFRS measures where appropriate, see the section entitled 'Presentation of results and Alternative Performance Measures' on page 54.

3 Comparisons with the prior year are against the adjusted 52 week results and are no longer presented on an underlying basis. All percentage changes represent the movement between the results as presented. Any factors having a material impact on year on year comparisons are highlighted in the narrative to the results.

4 In-year trading cash flow reflects the cash generated from the trading activities of the Group. It is based on reported net cash inflow from operating activities, adjusted to exclude other working capital movements and the cash cost of operating specific items and to include the cash cost of property, plant and equipment and intangible asset acquisitions and net finance payments.

CURRENT TRADING (FIRST TWO MONTHS OF 2020-21)

ROYAL MAIL (UKPIL)

- Revenue down £29 million, year on year. Excluding impact of European Parliamentary Elections in prior year, revenue broadly flat.
- Addressed letter revenue down 23 per cent (excluding elections); volumes (excluding elections) down 33 per cent. Advertising mail volumes down 63 per cent, significantly impacted by COVID-19. Business mail volumes more resilient; down 19 per cent.
- Parcel volume and revenue growth of 37 per cent and 28 per cent, respectively.
- UK domestic account volumes (excluding Amazon) up 65 per cent. Cumulative growth in tracked products, mainly consisting of Tracked 24®/48® and Tracked Returns®, of 76 per cent.
- Total costs up £80 million, driven by overtime and agency resource costs due to high levels of absence, social distancing measures, protective equipment and parcel related volume costs.
- Operating profit down £108 million, year on year (including benefit of May 2019 election).

UK INITIATIVES

- Taking action on two initiatives (management restructure and non-people costs) to deliver annual operating profit benefit in 2021-22 of £330 million.
- Management restructure, subject to consultation, targeting a reduction of c.2,000 roles out of a total population of c.9,700. Largest reductions in senior executive roles and non-operational functions. Expected to cost around £150 million, targeting annual benefit of £130 million in 2021-22.
- Targeting flat non-people costs, excluding depreciation, in 2021-22 versus 2019-20, with £200 million annual savings in 2021-22 offset by increases in parcel volume related costs.
- We are seeking to open talks with CWU on the need for change, future pay, and to address the issues raised in the ongoing industrial dispute. We expect that any pay inflation will be funded from productivity improvement cumulatively to March 2022.
- Capital expenditure review and reprioritisation: £250 million reduction across 2020-21 and 2021-22. Investment continues at higher than historical levels, including in parcel automation and hubs.
- Following the impairment of Parcelforce Worldwide assets, we expect depreciation charges in the UK to be broadly flat in 2020-21 versus 2019-20.
- No annual bonus for Executive Directors and Royal Mail executives in 2019-20.

GLS

- Increased volatility – B2C volumes have grown in most markets following onset of COVID-19. B2B volumes negatively impacted.
- Revenue up 15 per cent including acquisitions, driven by growth in B2C.
- Operating profit margin improvement of 1.4 per cent.

GLS INITIATIVES

- Shift from B2B to B2C brings cost pressures – adopting a local market by market approach
- Implemented various measures to support network stability and quality. Focus on pricing, productivity and digital tools.
- Reviewing improvement plans for key focus markets.

OUTLOOK 2020-21 AND BEYOND

FINANCIAL OUTLOOK AND SCENARIOS

- Unprecedented nature of pandemic means outlook is challenging and volatile.
- Continue to expect Royal Mail (UKPIL) to be materially loss-making in 2020-21. GLS profitability may potentially be reduced.
- Two scenarios for 2020-21 set out how the businesses could perform under certain sets of assumptions, but these are not guidance or forecasts.
- Scenario 1: assumes a UK GDP decline of 10 per cent for 2020-21 and COVID-19 restrictions continue to ease post June. Royal Mail (UKPIL) revenue £200 to £250 million lower year on year, with £140 million of additional costs related to COVID-19 and £110 million due to higher parcel volumes. GLS revenue growth 5-7 per cent, operating margin of around 6 per cent.
- Scenario 2: assumes a deeper recession, with a UK GDP decline of 15 per cent for 2020-21. Royal Mail (UKPIL) revenue £500 to £600 million lower year on year, with £155 million of additional COVID-19 related costs and £100 million of costs associated with higher parcel volumes. GLS revenue growth of 0-2 per cent, operating margin of around 5 per cent.

DIVIDEND AND BALANCE SHEET

- No final dividend recommended for 2019-20.
- No dividend expected to be paid in respect of 2020-21. Ambition to re-commence dividend payments in 2021-22, supported by GLS.
- Strong balance sheet: total liquidity, including undrawn committed facilities, around £1.9 billion. Under both scenarios above, balance sheet and liquidity would be robust, with access to sufficient cash and unutilised facilities.
- The Group will provide a further update at its AGM on 8 September 2020.

UK MANAGEMENT INITIATIVES

We have a plan to ensure Royal Mail remains a key part of our economy, a good employer, and the UK's delivery partner of choice. Delivering it requires a step change in the number of major initiatives we can successfully deliver in a short period of time.

Our plan consists of three main strands:

- Continuing to address the key challenges posed by COVID-19;
- Accelerating the pace of change in the UK, working closely with our unions; and
- Working with Ofcom and Government to ensure a financially-sustainable USO for the 21st Century.

In this section, we address the first strand, which is about tackling the impact of COVID-19.

CONTINUING TO ADDRESS THE KEY CHALLENGES POSED BY COVID-19

We have already announced steps to underpin our financial position. We have not recommended a final dividend for 2019-20. No dividend is expected to be paid in respect of 2020-21. We are not paying annual bonuses to Executive Directors and Royal Mail executives for 2019-20.

We have also announced two new initiatives we expect to collectively deliver an annual operating profit benefit in 2021-22 of £330 million. They are: i) a proposed UK management restructure; and ii) a target of flat non-people costs, excluding depreciation, in 2021-22 versus 2019-20. A review of capital expenditure has resulted in a reduction in Royal Mail (UKPIL) planned expenditure of around £250 million across 2020-21 and 2021-22.

i) Management restructure

We have taken the difficult decision to consult Unite/CMA on a proposal to reduce, on a phased basis, the number of UK management roles by around 2,000 this financial year. As part of this, around half of Royal Mail's senior leaders and most senior managers are expected to leave the Company in the next few months. The majority of overall impacted roles are expected to be in central and support areas, rather than in our field operations. We were already talking informally to Unite/CMA about these changes and will now start formal consultation.

This necessary change is about making us a leaner, more focused company. But, that does not detract from the fact that many hard working, highly valued colleagues are expected to leave our business. We are committed to conducting the consultation process carefully and sensitively, working closely with our people and their representatives. We will provide those leaving the business with a package of support to help them transition to the next stage in their career, including life beyond Royal Mail. This will include outplacement services such as CV writing, interview preparation, career choices and clarity on personal ambitions.

This proposal is expected to cost £150 million. Subject to consultation, we expect to deliver annual benefits of £130 million in 2021-22.

ii) Flat non-people costs

We are targeting flat non-people costs, excluding depreciation, in 2021-22 versus 2019-20, with £200 million annual savings in 2021-22 offset by increases in parcel volume related costs. This will be achieved through a number of activities, focused on procurement, administrative costs and demand management.

iii) Capital expenditure review

A comprehensive review of UK capital expenditure means we will reduce spend in this area by around £250 million across 2020-21 and 2021-22. This will be through a combination of cancelling some projects, and deferring others.

We remain committed to our UK transformation programme and a substantial level of capital expenditure required to achieve it. Alongside our continued focus on rolling out parcel automation, we expect two new dedicated parcel hubs to service some of our traffic. We will keep under review when we will need a third hub.

SCENARIOS ASSESSING THE POTENTIAL IMPACTS OF COVID-19 ON TRADING FOR THE YEAR ENDING 28 MARCH 2021

Towards the end of 2019-20, COVID-19 meant we saw strong UK parcel e-commerce volumes, offset by significant reductions in letter volumes, especially advertising mail. Imports were heavily impacted in our International parcels business. In addition, we incurred costs in relation to overtime, social distancing and protective equipment.

We have evaluated the possible implications for Royal Mail (UKPIL) and GLS resulting from COVID-19 for the financial year ending 28 March 2021. Since the crisis started, there have been material changes in the volume trends for both letters and parcels in the UK, and for parcels in GLS. Additionally, we now expect a deep recession in the UK and internationally during 2020.

Given the unprecedented level of uncertainty, we are unable to provide specific guidance for 2020-21. Instead, we have summarised the impacts of COVID-19 on our business during the two-month period to the end of May 2020, and we have quantified two future scenarios for the financial year 2020-21 to illustrate a range of potential impacts COVID-19 may have on our trading performance. These scenarios do not represent Management's view or outlook and are only provided for illustrative purposes.

1. IMPACTS OF COVID-19 FROM 29 MARCH 2020 TO END OF MAY 2020

ROYAL MAIL (UKPIL)

In the UK, the country went into lockdown on 23 March 2020, one week before our year end. The impacts on our business resulting from COVID-19 are therefore most material in the period following the year end date.

Laid out below are the principal impacts on our UKPIL trading performance in April and May 2020, during lockdown.

	2019-20 trend (%)	April 2020 (%)	May 2020 (%)	2 months to end May 2020 (%)
Addressed letter volume decline (excluding elections)	(8)	(33)	(33)	(33)
Parcel volume growth	+2	+31	+44	+37

Below summarises the key income statement impacts of COVID-19

	April 2020 (£m)	May 2020 (£m)	2 months to end May 2020 (£m)
Year on year UKPIL revenue change	(22)	(7)*	(29)*
Incremental overtime/agency costs, including social distancing costs	(25)	(15)	(40)
Incremental protective equipment costs	(8)	(5)	(13)
UKPIL year on year operating profit deterioration	(60)	(48)*	(108)*

*May 2019 included the revenue and profits associated with the European elections, and this has contributed to the year on year impact. This is not adjusted in the figures reported above.

We exceeded our regulatory Quality of Service target for Second Class mail in the 2019-20 financial year, but we missed our target for First Class mail. Until 15 March 2020, we believe we were meeting our First Class target, with a performance of 93.0 per cent. During the fourth quarter of the financial year, our First Class performance was 93.2 per cent, excluding COVID-19. However, including the impact of COVID-19 it was 91.6 per cent. We have been unable to measure our Quality of Service since lockdown began in the UK.

GLS

In GLS, B2C volumes have grown materially in most markets following the onset of COVID-19, whilst B2B volumes have been negatively impacted as businesses were forced to close. Overall, revenue and volume performance has remained good, and margins have improved versus prior year. In the near term, a combination of the recessionary environment and the higher unit costs of delivery associated with B2C parcels may have negative implications for margins.

Below summarises GLS trading performance in April and May 2020.

	April 2020 (%)	May 2020 (%)	2 months to end May 2020 (%)
Year on year GLS revenue change	+14	+16	+15
Year on year GLS operating profit margin improvement	+1.2	+1.5	+1.4

2. 2020-21 SCENARIOS

We have evaluated the impacts that COVID-19 may have on 2020-21 trading under two scenarios.

Scenario 1: Lockdown in the UK continues to ease, with the progressive re-opening of businesses, leisure activities and schools in line with Government guidance. A material recession results in GDP declining by 10 per cent for the financial year 2020-21, which disproportionately impacts advertising mail. In GLS, parcel volume and revenue growth remains good, with impact to margins effectively managed as the mix moves to a higher proportion of B2C.

Scenario 2: Lockdown in the UK continues to ease, with the progressive re-opening of businesses, leisure activities and schools. A deeper, more protracted recession hits the global economy (resulting in a GDP decline of 15 per cent in the UK in the 2020-21 financial year). A further lockdown is assumed during the autumn/winter in the UK. Letter volumes are severely impacted throughout the year, and whilst parcel volumes benefit from a second lockdown period, the benefit is restricted due to network capacity over the peak trading period and as a result of reduced consumer spending power. In GLS, whilst revenue and volume performance remains good, margins are impacted by a stepped increase in B2C parcels, which carry a higher unit cost of delivery.

Scenario 2 is consistent with the stress test applied in assessing viability for the business, although the full viability assessment also contemplated the impacts of industrial action in the UK.

In assessing the financial impact of the scenarios, we have made assumptions with respect to how the revenue trends and incremental costs associated with COVID-19 may be impacted throughout the year.

ROYAL MAIL (UKPIL)

SCENARIO 1

	HY1	HY2	2020-21
Letter revenue decline	**(22%)**	**(11%)**	**(16%)**
Parcel revenue growth	**20%**	**5%**	**12%**
Domestic parcels revenue	*24%*	*8%*	*15%*
International parcels revenue	*2%*	*(7%)*	*(3%)*
UKPIL revenue decline*			**(£200-250m)**
Net costs of mix change from letters to parcels	(£70m)	(£40m)	(£110m)
Incremental costs of absence, social distancing, protective equipment and other COVID-19 costs	(£80m)	(£60m)	(£140m)

*Not adjusted for the impact of elections in 2019-20.

Full year letter revenue decline of 16 per cent, with the weighting of volume loss towards lower average unit revenue advertising mail services. Letter volumes slowly recover through the year, following the easing of lockdown. But the recession that follows, coupled with some customer behavioural change, means that the decline rate remains significantly higher than the norm.

Parcel revenue growth of 12 per cent, with the weighting of volume growth towards lower average unit revenue account parcels. The high account parcel growth experienced during lockdown reduces through the year as high street retailers re-open, although volume growth remains higher than normal as social distancing and consumer nervousness remain, with some permanent behavioural change as online retail penetration accelerates. Total parcel revenue growth rate is negatively impacted by revenue declines in International parcels, as the impacts of material price increases on international delivery and increased friction following Brexit reduce traffic.

The accelerated growth in parcel volumes requires investment in additional manual sortation resource and incremental logistics costs.

The 'one off' impacts of COVID-19, including higher than usual absence levels, the provision of protective equipment, the higher costs associated with the deployment of social distancing measures, together with increasing provision for bad debts, increases operational costs in the year.

ROYAL MAIL (UKPIL) CONTINUED

SCENARIO 2

	HY1	HY2	2020-21
Letter revenue decline	**(22%)**	**(22%)**	**(22%)**
Parcel revenue growth	**17%**	**4%**	**10%**
Domestic parcels revenue	*22%*	*9%*	*15%*
International parcels revenue	*1%*	*(11%)*	*(6%)*
UKPIL revenue decline*			**(£500-600m)**
Net cost of mix change from letters to parcels	(£65m)	(£35m)	(£100m)
Incremental costs of absence, social distancing, protective equipment and other COVID-19 costs	(£85m)	(£70m)	(£155m)

*Not adjusted for the impact of elections in 2019-20.

Letter revenue decline of 22 per cent, with the weighting of volume loss is towards lower average unit revenue advertising mail services. The combination of a severe recession and the impacts of a second lockdown in the autumn/winter mean that letter volumes remain materially impacted across the year.

Parcel revenue growth of 10 per cent, due to weighting of volume growth towards lower average unit revenue account parcels. The high account parcel growth experienced during lockdown reduces as high street retailers re-open. A further lockdown in the autumn/winter does not drive the same growth in volumes, as network capacity is restricted in our busiest trading period. Volume growth remains higher than normal as social distancing and consumer nervousness remain, with some permanent behavioural change as online retail penetration accelerates. Total parcel volume growth rate is negatively impacted by volume declines in International parcels, as the impacts of material price increases on international delivery and increased friction following Brexit reduce traffic.

The accelerated growth in parcels volumes requires investment in additional manual sortation resource and incremental logistics costs.

The 'one off' impacts of COVID-19, including higher than usual absence levels, the provision of protective equipment and the higher costs associated with the deployment of social distancing measures, increases the operational costs in the year.

GLS

SCENARIO 1

	HY1	HY2	2020-21
Revenue growth rate	8% to 12%	Flat to 2%	5% to 7%
Margin			**c. 6%**

The business is able to successfully respond to the swing in mix towards B2C and preserve margins of around 6%.

SCENARIO 2

	HY1	HY2	2020-21
Revenue change	7% to 9%	Flat to (5%)	Flat to 2%
Margin			**c.5%**

A more significant impact driven by stronger volume decline, leading to higher cost and price pressure.

MITIGATING ACTIONS

In order to preserve cash, a number of short term mitigating actions have already been taken in response to the COVID-19 crisis.

	Expected saving in 2020-21 (£m)
No dividend paid in 2020-21	150
Capital programmes ceased or paused	c.175
Bonus cancelled for senior managers and reduced for other managers	30

At the same time, we have concluded talks with our banks which have agreed to relax the covenant restriction on our loan facility. The previous covenants have been removed for the next three testing dates (September 2020 and 2021, and March 2021) and replaced with a basic liquidity covenant. The viability assessment and statement has been made in the light of this amendment.

The cash which has been preserved will, subject to satisfactory business performance in the coming period, be diverted into investment in restructuring initiatives.

INTERIM EXECUTIVE CHAIR'S STATEMENT

Keith Williams
Interim
Executive Chair

READER'S NOTE

On 15 May 2020, Keith Williams assumed the role of interim Executive Chair, Royal Mail Group. This section deals with the strategic challenges the Group is seeking to address. It also covers the governance, market and societal changes that impacted the Group during 2019-20. An update on our commercial, operating and financial performance can be found in the Business review 2019-20.

Introduction

These are extraordinary times.

When I became Chair in May 2019, who could have predicted the COVID-19 pandemic, which has impacted the markets in which we operate, and countless people, communities and countries across the globe, in such a short time? I would like to take this opportunity, on behalf of the Board, to express our deepest condolences to the families of those who have lost their lives to COVID-19, including the families of some of our own employees.

In recent weeks, we have also announced Executive changes, including the departure of Group CEO, Rico Back. We have restructured our management to improve the position of our two main businesses – Royal Mail and GLS – recognising their different market positions and strategies. This includes the appointment of Stuart Simpson as interim CEO of Royal Mail. I have assumed the role of interim Executive Chair to lead discussions with stakeholders about an accelerated pace of change across the business. I stepped down from our Remuneration Committee when I took on this interim role.

We have announced that Martin Seidenberg has been appointed CEO of GLS, with immediate effect. Martin joined GLS in 2015 as CEO of GLS Germany. He became GLS Group Area Managing Director, GLS Germany and Parcelforce Worldwide, in 2018. Prior to joining the Group, Martin spent 15 years at Deutsche Post DHL, where he held a variety of logistics and parcel business related roles.

Martin will report directly to me in my role as interim Executive Chair. To ensure greater focus, he will report directly to the Board once I return to the Chair's role.

James Rietkerk has stepped down as GLS Chief Executive Officer. James has served as GLS Chief Executive Officer since June 2018. Prior to that, he was GLS Chief Financial Officer since April 2001. James has made a significant contribution to Royal Mail over his 19 years with us. He has been instrumental in growing and building GLS into the business that it is today. He leaves GLS in excellent shape, having delivered record results in 2019-20, and a strong start to 2020-21. On behalf of the Board, I would like to extend my thanks to James and wish him well in the future.

The Board and I are cognisant of the requirements of the UK Corporate Governance Code with respect to my current role. It is an interim appointment, for a short time only. I expect to remain in the Executive Chair role until a permanent CEO of Royal Mail is appointed. And, of course, in the interim, Royal Mail Group is my single biggest commitment.

Thank you

In a moment, I will deal with our key strategic themes. Before I do, I want to say thank you to our stakeholders, during what has been the most significant disruption to our lives, businesses and the financial markets since the Second World War.

First and foremost, I want to offer my profound thanks to all my colleagues across the Group. Our UK postmen and women are playing a crucial role in mitigating the impact of the pandemic. They are key workers on the frontline. Our GLS colleagues have also gone the extra mile in the many countries in which they operate to support their customers and communities.

Simply put, the efforts of our people across the Group are humbling. On behalf of the Board, I want to say thank you to each and every one of them.

Strategic themes

As we have previously announced, we continue to expect Royal Mail (UKPIL) to be materially loss-making in 2020-21. GLS profitability may potentially be reduced in 2020-21.

Royal Mail (UKPIL)

In reality, our UK business has been facing significant headwinds for some years. We have not always been as agile as we might have liked when responding to change in the marketplace and customer needs. Operationally, our heritage as a letters-focused business means we are not as well positioned as we would like to handle fewer letters and more parcels. These factors, alongside cost increases, are driving significant financial pressures.

The COVID-19 pandemic presents new, fundamental, challenges to our business model – and to those of our customers. Ensuring a sustainable, contemporary Universal Service requires us to respond to this unprecedented global crisis, as well as adapting to the changing realities of our marketplace.

Clearly, the unprecedented nature of the COVID-19 pandemic means the outlook is difficult and volatile. To assist our stakeholders, we have introduced a scenario-based stress test. This is about outlining what our business performance might look like against certain base-case assumptions at a particular point in time. We hope this is helpful; although it is not, of course, either a specific forecast or guidance in its own right.

In response to the scenarios, we have a plan to ensure Royal Mail remains a key part of the UK economy, a good employer, and the nation's delivery partner of choice. Delivering it requires a step change in the number of major initiatives we can successfully deliver in a short period of time.

Firstly, we are going to continue to tackle the challenges posed by COVID-19. We are implementing a range of immediate cost control activities and reducing capital expenditure in a measured way. Regrettably, one of these measures could see around 2,000 of our managers leave our business. This is subject to consultation with Unite/CMA. Change of this nature is never easy. But, we have a good track record of managing these programmes carefully and sensitively. We will provide anyone leaving the business with a support package to help them transition to the next stage in their career, including life beyond Royal Mail.

Secondly, we are accelerating the pace of change in the UK to address the longstanding challenges we face, created by fundamental shifts in the way we communicate (fewer letters) and shop (more B2C parcels).

At the heart of this plan is our intention to move from being a UK-focused letters business that also delivers parcels to an international parcels business that delivers letters in the UK. The rationale underpinning our strategy is, in fact, even more compelling now that we are dealing with the consequences of COVID-19. We believe it is very important to work with our unions to bring about the urgent change needed to deliver our UK strategy. We welcomed and appreciated CWU's statement that the COVID-19 crisis was not the time to take industrial action. We signed a joint statement with the CWU on 15 May in which we awarded a £200 payment to our frontline employees to recognise their hard work to keep services running throughout the current COVID-19 pandemic. We continue to engage, on a regular basis and at a senior level, with CWU and Unite/CMA on our plans for change. Our engagement with CWU follows our recent Joint Statement with the union whereby both parties committed to work on setting up a joint framework for talks to seek to resolve our dispute.

Finally, we do not believe that the COVID-19 mitigation measures and the delivery of our transformation plan will be enough, in themselves, to ensure a sustainable future.

We are also working with the Regulator and Government on a review of the USO. This is all about ensuring it is financially underpinned, in a sustainable way, and future-proofed to reflect changing customer needs and preferences. As Ofcom continues its User Needs Review about the Universal Service, we will engage with many stakeholders on the shape of a national USO for the 21st Century. We look forward to the debate and engagement to come.

GLS

Turning to GLS, COVID-19 also presents significant challenges. B2B volumes have been adversely impacted; companies have scaled down their commercial activities. Conversely, we have seen a significant increase in B2C activity. Almost half of GLS' volumes (48 per cent) are now accounted for by B2C; we expect that to grow to around 58 per cent by the end of 2020-21.

Fundamentally, our GLS strategy is about capitalising on growth opportunities in its key markets, while continuing to improve performance in some of the countries in which we operate. This includes France, Spain and the United States, markets where progress is taking longer to realise than initially anticipated. Our aim is to fix performance issues. But, we will consider all options, including exit, for underperforming businesses. The trend towards B2C parcel deliveries in some markets offers us opportunities, as we maintain margins through focused yield management. We will focus investment on growing markets, strengthen our last mile delivery network and broaden alternative delivery options as appropriate.

If we can do all this, we will add to the good cash generation GLS has today. We are focusing on these short term improvements, while looking at longer-term opportunities for the business.

Dividend and balance sheet strength

As previously announced, the Board has decided not to recommend a final dividend for 2019-20.

Royal Mail is one of the most widely-held stocks in the FTSE, with a quarter of our shares owned by retail shareholders, or our colleagues. We recognise many shareholders rely on the income from their shareholdings. We have taken this necessary action in the interests of the longer-term sustainability of our business.

Taking into account the very challenging external environment, the Board has confirmed that we do not expect dividends to be paid in respect of 2020-21. Our ambition is to re-commence dividend payments in 2021-22, supported by GLS.

We have also publicly announced that, as part of a series of measures to maintain our strong financial position, the Board has decided not to award an annual bonus to Executive Directors and Royal Mail executives for 2019-20. In recognition of the role played by our UK frontline staff, around £25 million has been set aside to be paid as a cash bonus. Eligible colleagues received a cash recognition award of up to £200 in June.

We believe the Group has a strong balance sheet and high levels of liquidity. Our total liquidity, including undrawn committed facilities, stands at around £1.9 billion. This includes a £925 million syndicated bank loan facility. Our existing covenants have been waived until March 2022 and replaced with a basic liquidity covenant. Under both our stress test scenarios, our balance sheet and liquidity would be robust, with access to sufficient cash and unutilised facilities. We also have the ability to access the UK Government's COVID-19 Corporate Financing Facility if required.

Board changes

In May, we announced that the Board and Rico Back had agreed he would step down as Group CEO and from the Board with immediate effect, leaving Royal Mail on 15 August 2020. Prior to his appointment as Group CEO, Rico was a senior Group Executive and led the development and growth of GLS. On behalf of the Board, I would like to again thank Rico for his contribution to our business.

As previously noted, Stuart Simpson has been appointed interim CEO of Royal Mail. Stuart has spent over a decade at Royal Mail, including three years as Chief Finance Officer and a Board member. We will conduct a comprehensive internal and external search for a permanent CEO of Royal Mail.

We have refreshed and strengthened the Board. Baroness Sarah Hogg joined us in October 2019 as a Non-Executive Director and Senior Independent Director. Sarah brings with her a wealth of experience from the private and public sectors, including strategy, public policy and governance. She is currently Senior Independent Non-Executive Director of the Financial Conduct Authority, having been Chair of 3i Group plc and a Non-Executive Director of other companies, including BG Group Plc and GKN Plc.

Lynne Peacock joined us in November as a Non-Executive Director and Chair of the Remuneration Committee, taking over from Simon Thompson, who had assumed this role on an interim basis. Lynne has had a distinguished career, including in regulated industries undergoing extensive transformation. Lynne is currently a Non-Executive Director of TSB Banking Group plc and a Non-Executive Director of Serco Group plc, where she chairs the Remuneration Committee.

Having joined us in May 2019, Michael Findlay and Maria da Cunha's experience have already benefitted the Board during a busy and challenging time for the Company.

Finally, I want to pass on my thanks to Les Owen, who stepped down as Chairman on 22 May 2019. Les stepped into the role at a difficult time, showing integrity and leadership, and generously sharing his knowledge and experience. He leaves with my thanks for his considerable contribution; not just to the Board but to Royal Mail as a whole, over many years.

Returning to my comments earlier, in relation to COVID-19, on behalf of the Board, I would like to reiterate my profound thanks to everyone at Royal Mail.

Their dedication, fortitude, and, most of all, their commitment to delivering a little cheer alongside the daily post, has reminded the public of the crucial role we play in a digital world.

Keith Williams
Interim Executive Chair

24 June 2020

SECTION 172 STATEMENT

The following disclosure is made in line with the Companies (Miscellaneous Reporting) Regulations 2018.
The Board of Directors of Royal Mail plc consider, both individually and together, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole (having regard to the stakeholders and matters set out in Section 172 of the Companies Act 2006) in the decisions taken during the year ended 29 March 2020.

The detailed information regarding our engagement with stakeholders provided on pages 104-109 and the discussion of the Board's consideration of the Company's stakeholders during the COVID-19 outbreak on pages 110-111 describe how the directors have had regard to stakeholders' interests when discharging the directors' duties, and are incorporated by reference in this Section 172 Statement.

Duty to promote the success of the Company
A director of a Company must act in the way he/she considers, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

The likely consequences of any decision in the long term
The decisions we make have an impact on the long-term success of the Company. It is important that the likely consequences and the impact these decisions have on our stakeholders are considered.

The interests of the Company's employees
Our people play a key role in helping us achieve our strategic priorities. Engaged, committed employees are crucial to our success.

The need to foster the company's business relationships with suppliers, customers and others
We play a crucial role in connecting customers, communities and companies and strong working relationships are key to this.

The impact of the company's operations on the community and the environment
Stakeholders rank our community and environmental impact as one of the most important issues. We are committed to reducing our emissions and improving air quality for communities in which we operate.

The desirability of the company maintaining a reputation for high standards of business conduct
Our impact extends beyond our direct business operations. We expect high standards of business conduct from our suppliers. We have the ability to be a force for change in raising standards of social, environmental and ethical conduct.

The need to act fairly between members of the company
It is important our members are treated fairly and that we build open and constructive relationships across our investor base.

The discussion of our environment commitments on pages 81-85 in our Corporate Responsibility section, including in particular our decision for GLS Germany to become carbon neutral on page 82, and to launch initiatives to reduce our fleet and building emissions on pages 82-83 are examples as to how we have regard to our impact on the community and environment.

The discussion of our transformation strategy on pages 19-25 provides examples of decisions taken in the long-term interests of the Company, such as the decision to move ahead with extending our trial of automated clocking in and out for frontline colleagues at a small number of UK sites on page 20, and the decision to start work on the first of our state of the art parcel hubs in Warrington which would handle 40,000 items per hour once fully operational, also on page 20.

The stakeholder engagement analysis and the discussion of decisions taken during the COVID-19 pandemic on pages 110-111 provides examples of how we build and maintain business relationships with suppliers, customers and others and take into account the interest of our colleagues.

DELIVERING THROUGHOUT THE COVID-19 PANDEMIC

The COVID-19 pandemic has been an unprecedented challenge for our customers across the world. The delivery of parcels and letters has been a key way of keeping people connected, and helping many people who have been unable to leave their homes. We have worked hard to deliver the most comprehensive service possible to all our customers.

Now more than ever, the Universal Postal Service has provided a lifeline to businesses and communities across the UK. Many retailers shifted their operations online once their shops closed. Our continued operation has allowed numerous small businesses to stay open throughout the pandemic, with services such as Click & Drop and Parcel Postboxes providing businesses with a simple and easy to use process for sending products to customers no matter where they are.

We have received many messages and pictures from our customers in praise of the lengths our people have gone to during the coronavirus crisis. We have now seen over two million comments, likes and shares from the public as part of our #ThumbsUpForYourPostie campaign in the UK.

Protecting our people and our customers

During the crisis, every decision we have made has put the health of our people and our customers first.

We put in place clear governance processes to ensure that decisions on changing our procedures and policies can be taken quickly, in line with emerging health and safety guidance from government and the health authorities. We have established Gold, Silver and Bronze response teams which have Executive, Director and Senior Management leadership, providing regular reports to the Plc Board.

Working with our unions, we quickly implemented a number of changes to our mail handling procedures to protect our colleagues and our customers. These have included:

- Introducing 'contact free' deliveries in Royal Mail, Parcelforce Worldwide and GLS to enable effective social distancing.
- Implementing a new system in the UK to capture receipt of signatures without requiring customers to touch Postal Delivery Assistants (PDAs), and waiving the requirement for customer signatures in GLS.
- Revising standard ways of working across our sites to ensure that, wherever possible, colleagues stay two metres apart (1.5 metres in certain countries, in line with national government advice). In the UK, this included introducing a 'one person, one van' rule, rearranging indoor and outdoor operations, and staggering shift start times to reduce the number of colleagues on site at once.
- Committing around £40 million to buying equipment such as hand sanitiser, disposable gloves and other additional protective measures to keep our people safe. We have worked in partnership with a range of suppliers across the world to source protective equipment for our people. This has included companies that have switched their production lines to manufacture hand sanitiser, from a gin distillery in Germany to fragrance companies in the UK.
- Encouraging UK customers to arrange free redeliveries rather than visiting our Customer Service Points to collect items. We increased the retention periods for parcels and mail to ensure ample time for customers to arrange redelivery.
- Working quickly to formulate and implement appropriate sick pay and absence policies. Colleagues, including those with less than a year's service, have received Royal Mail sick pay for coronavirus or self-isolation in line with our sick pay policy.
- Providing a substantial contribution to the Rowland Hill Fund to support colleagues who are struggling financially as a result of the pandemic.
- Issuing clear guidance and posters to colleagues across the Royal Mail, Parcelforce Worldwide and GLS networks on effective hygiene and protective equipment.

Supporting the Government's COVID-19 effort

We have been a key partner in the Government's response. We were pleased that the UK Government recognised our people as key workers during the crisis.

We were chosen by the UK Government as a key partner in the delivery and return of testing kits. We are collecting samples from more than 30 regional testing sites at the end of every day and delivering them to designated testing labs first thing the next morning. We are providing home collections of testing kits UK wide, seven days a week. Our people are also delivering prescriptions, hospital appointments and other government communications as a key priority.

We have supported the Government's public information campaign on coronavirus, delivering letters from the Prime Minister to all UK households. In addition, we added a postmark to millions of letters carrying the UK Government's message to "Stay Home, Protect the NHS, Save Lives".

We have engaged with Government, Ofcom and other stakeholders on a constant basis throughout the crisis. Ofcom and Government have acknowledged that COVID-19 is an emergency situation, and that a pragmatic approach has been required in response. This included, but is not limited to, a temporary six week relaxation of letter delivery frequency. Normal services resumed on 13 June 2020.

BUSINESS REVIEW 2019-20

READER'S NOTE

This section reviews our financial, commercial and operating performance for the full year to 29 March 2020. Our reported results are prepared in accordance with International Financial Reporting Standards (IFRS) and are set out in the 'Group Results' section of the Financial Review on pages 43 to 53.

In addition to reported results, the Group's performance is also explained through the use of Alternative Performance Measures that are not defined under IFRS. Management is of the view that these measures provide a meaningful basis on which to analyse business performance.

We also provide updates about the impact of COVID-19 on our business.

Review of 2019-20[1]

Looking back at the key elements of our financial performance over a challenging year, we have achieved adjusted Group operating profit of £325 million. Excluding the impact of IFRS 16, the performance of £312 million was within our target range of £300-340 million.

Group revenue was up 3.8 per cent, driven by: GLS revenue growth of 9.5 per cent; UK parcel revenue growth of 4.6 per cent; and better than expected UK letter revenue, due to targeted price increases and the benefit of two elections.

The revenue performance did not offset other financial pressures. Adjusted UKPIL operating costs were up 2.8 per cent, and the same elections that benefitted letter revenue meant increased quality investment, contributing to a productivity improvement of 1.0 per cent, below our initial target of over two per cent. Adjusted UKPIL operating profit was down 41.2 per cent.

Focused yield management activities at GLS, including positive developments in average pricing, contributed to strong growth in adjusted operating profit to £208 million. But, adjusted Group operating profit declined by 13.6 per cent.

In-year trading cash flow increased £439 million to £556 million, due to the positive impact of IFRS 16 (£141 million), working capital inflow and lower capital expenditure. Including undrawn committed funds, our total liquidity is around £1.9 billion. We have the ability to access the Covid Corporate Financing Fund (CCFF) if required.

Progress against our strategic plan

In May 2019, we announced our plan to build a parcels-led, more balanced, more diversified, international business.

Our plan is comprehensive. It seeks to address our challenges through three strategic priorities:

- "Turnaround and grow" the UK;
- "Scale up and grow" GLS; and
- Enhancing our cross-border proposition.

1. Turnaround and grow the UK

Turnaround and grow the UK is at the heart of our transformation plan. Our intention is to move from being a UK-focused letters business that also delivers parcels, to an international parcels business that delivers letters in the UK. As the interim Executive Chair sets out on page 15, the strategic rationale underpinning our transformation plan is even more compelling now we are dealing with the consequences of COVID-19.

Combined, the impacts on our UK business of the pandemic and changing structural trends – fewer letters; more parcels – mean a step change is required in terms of the number of significant change programmes we can deliver over a short period of time.

In 2019-20, UKPIL revenue increased by 1.6 per cent. This was driven by a good performance in parcels, and lower than expected letter revenue declines due to the benefit of a European Parliamentary Election and a General Election in the period. We have no reason to expect a similar benefit this financial year. More broadly, UKPIL operating profit has fallen by more than 70 per cent since its peak in 2014-15.

We are engaging with our unions on how we might accelerate the pace of change in the UK (see page 22). Over time, the successful delivery of our plan should change the dynamics around the contributions of letters and parcels.

COVID-19 has made this even more pressing. It poses a fundamental challenge to our business model; we are delivering more parcels and fewer letters than ever before. Pursuing our strategy to automate parcel handling and fix our delivery network was already the right thing to do. These developments underline the need to transform the business even more quickly, working, as much as possible, with our key stakeholders.

1 All comparisons with the prior year are against the adjusted 52 week results.

1a) Renewed focus on productivity and operational excellence

In this foundation year of our change programme, we sought to improve efficiency and productivity. Despite increasing UKPIL costs, in part driven by our three-year pay deal with CWU, we achieved costs avoided of £188 million, within our forecast range. Productivity improved by 1.0 per cent, lower than our original target of over two per cent. This reflects necessary additional investment to support quality and delays to local change initiatives due to the industrial relations environment.

We sought to embed a range of digitally-enabled work tools to improve efficiency and productivity. We have completed the deployment of our route optimisation tool. It improves visibility of changes to delivery routes and is used to undertake delivery revisions.

We scaled up the use of PDA Outdoor Actuals. Alongside our Resource Scheduler tool, it draws data from across the operation to enable better alignment of duty sets and rosters to demand.

In January 2020, following the conclusion of our dispute resolution procedures with CWU, we confirmed we were moving ahead with key national and much-needed local change initiatives that had been delayed, in some cases, by up to a year. That included extending our trial of automated clocking in and out for frontline colleagues at a small number of UK sites.

Handwritten signing-on sheets are the norm for most of our UK employees. We want to move to "Automated Hours Data Capture" (AHDC) to ensure that we resource adequately to the workload demand in all our UK sites. The system also provides health and safety and efficiency benefits. As well as rolling out AHDC to further sites, we will be using data from PDA Outdoor Actuals to optimise resource planning across the operation.

Growth of two per cent in UK parcel volumes continues to be driven by online shopping. We are seeking to increase – quickly – the number of parcels we sort automatically. We have installed a further ten parcel machines, meaning we now have 20 machines at 16 Mail Centres. This has driven the percentage of parcels sorted by machine to 33 per cent at year end, close to three times the average number sorted automatically during 2018-19. We want to increase the overall proportion to over 80 per cent by installing automated machines in all Mail Centres and building two dedicated parcel hubs by 2023-24.

The continued structural decline in UK letter volumes is driving the removal of automated letter sorting machines in our Mail Centres, with 79 machines – around 10 per cent of the total – removed or decommissioned during the year.

1b) Network extension

A major part of our plan is the extension of the UK network, specifically to handle larger and Next Day parcels. The structural shift – not only in the UK delivery market, but across the globe – towards Next Day or Same Day delivery means it is expected to be the fastest growing delivery time category.

We began to build out our network during the year. In July 2019, we said we had started work on the first of our state-of-the-art parcel hubs. Located in Warrington, close to major shippers, it will handle 40,000 items per hour when fully operational. We have chosen the supplier for automation and have completed the fit out. In February 2020, we signed a conditional agreement for a lease for our second parcel hub in the Midlands. Once larger and Next Day items have been processed at one of our hubs, they will be transported to a number of our larger Delivery Offices. Some will go out on a second daily van delivery.

In January 2020, we launched a van-based trial to test a separate daily delivery of larger parcels and Next Day items. The trial began in Swindon and was expanded to a small number of additional sites. These trials are ongoing. Once they are complete, we will work through the outcomes with our people and their unions.

Our enhanced network will usher in a major increase in delivery frequency for consumers and SMEs. There will potentially be two deliveries a day in many parts of the country from 2023 onwards. Firstly, the usual combined delivery of letters and small parcels. Secondly, the later daily delivery of large parcels that have been ordered online, including in many instances the night before.

Turnaround and grow: our progress

Renewed focus on productivity:

- Put in place 73 delivery revisions. Well-developed plans for three more waves, completing an additional 300 during 2020-21.
- 1.4 per cent reduction in core network hours.
- Productivity improvement of 1.0 per cent, reflecting investment to support quality.

Transform our network:

- Linehaul arrangements being updated and data shared with Mail Centres for improvement opportunities.
- 11 Mail Centre layouts – optimising flow and processing – approved.

1c) Letters and parcels

i. Parcels performance

Our performance in 2019-20 reflects the fundamental shift in the way consumers and companies use delivery companies. Account parcel volumes were up, with Tracked 24®/48® and Tracked Returns® – our key e-commerce products – delivering double-digit growth for the 12th consecutive year. We processed 2.6 million Tracked parcels on our busiest day. This growth has been supported by the introduction of our Age and ID Verification products, together with successful propositions focused on the faster growing sectors and customers.

We continued to improve customer convenience and flexibility with a series of product and service enhancements. In April 2019, we launched earlier customer notifications. They advise recipients the day before of their delivery day and give an estimated delivery time. Over time, customers will receive shorter estimated delivery windows. Around a third (33 per cent) of online shoppers want to receive information about their parcel the day before delivery, according to Royal Mail's own research. Many competitor networks only predict delivery times on the morning of delivery.

We rolled out a range of new features on our mobile app to help senders and recipients manage their deliveries more effectively. Senders can now check a price and buy one-off postage directly through the app. Our UK "industry first" Augmented Reality Parcel Sizer enables customers to work out the right postage. It will also keep customers updated with automatic notifications as their parcel moves through Royal Mail's network, so there is no need for them to check for information and updates.

In June 2019, Parcelforce Worldwide launched a new Tariff Code look up tool. Tariff Codes are an internationally recognised standard which enable the easy identification of items by customs authorities, regardless of language barriers. The tool enables customers to easily and quickly search for the right product Tariff Codes for the item they wish to send. In September 2019, the Parcelforce App was updated to include new and improved tracking functionality, with the added ability to select a preferred Post Office using a look up map tool and address option. In addition, in August 2019, Parcelforce Worldwide launched its new age verification service. 'Challenge 25' ensures its catering supply customers can continue to deliver bladed items, in preparation for the pending legislation on the delivery of restricted items.

In October 2019, we completed the roll out of 1,400 Parcel Postboxes, enabling 24-hour access for customers sending or returning parcels. This is the first UK-wide network of parcel posting boxes, and the biggest change to the postbox in its 160-year history.

We informed our colleagues in June 2020 that we are integrating Parcelforce Worldwide and Royal Mail International more closely into Royal Mail (UKPIL). Parcelforce Worldwide will retain its brand identity and network. These changes will ensure that we have one integrated domestic and international parcels strategy that best serves the changing needs of the market and customers. We will use our assets in a more integrated and efficient way.

Parcelforce Worldwide saw increased costs pressures last year, as a result of: product mix; inflation and lower productivity; and, in the fourth quarter, the impact of COVID-19. This has triggered an impairment review of Parcelforce Worldwide assets, and consequently a non cash impairment charge of £91 million in respect of certain assets. For more detail see Note 6.

ii. Letters performance

Addressed letter volumes (excluding election mailings) declined eight per cent, within our expected revised range. Total letter revenue was down 0.9 per cent, benefitting from two election mailings and targeted price increases.

We are optimising our letters product portfolio and pricing strategy. Business mail makes up the majority (c. 64 per cent) of addressed mail volumes (excluding International and elections). Advertising mail is around 27 per cent. Our range of products, incentives and offers are designed to demonstrate how mail can help their businesses. One example is our new Partially Addressed product. Aimed at advertisers targeting new customers, it allows them to reach recipients without using personal data. Customers can access strictly non-personalised geo-demographic data, from fully consented individuals. Another product, Late Bookings, for unaddressed mail, enables customers to access additional postcode sectors at a significant discount.

Sustainability is an increasingly important issue for our customers. Organisations are beginning to replace plastic magazine wrappings with biodegradable starch ones. Over time, we have invested in upgrading our large letter sorting machines to enable processing of unwrapped items. We are also working with a number of customers and mail producers to test biodegradable wraps.

COVID-19 update: Letters and parcels

During the pandemic, and the associated lockdown period, we have seen very strong growth in B2C UK parcels. Domestic account volumes (excluding Amazon) were up 65 per cent in the first two months of 2020-21. Our tracked products – mainly Tracked 24®/48® and Tracked Returns® parcels, our key online retail products – are up 76 per cent. International import volumes improved during April and May.

Addressed letter volumes (excluding the impact of elections) have fallen 33 per cent as a consequence of the COVID-19 pandemic. Advertising mail volumes are down 63 per cent, as businesses' mailings are postponed or cancelled. Business mail has been more resilient, declining by 19 per cent.

Our people

i. Our managers

The contribution and dedication of our managers is central to the performance of our business. In October 2019, we were pleased to confirm that managers who are members of Unite/CMA voted in favour of a pay agreement recommended by the union. Managers received a pay increase of 2.6 per cent, backdated to 1 September 2019, and will receive a pay increase of 2.7 per cent from 1 September 2020. They received an Annual Bonus advance in December 2019. In recognition of their continued contribution, we are paying a flat rate bonus payment to all our managers (except our senior leaders) for the entire year, adjusted for the December advance.

ii. Frontline colleagues

Our ongoing dispute with CWU has been one of the defining issues of 2019-20. In May 2019, CWU informed us it considered that we were not honouring and deploying our 2018 Agreement.

We have honoured all our Agreements – including the 2018 Agreement – to the letter. We have awarded two pay increases (five per cent in 2017 and two per cent in April 2019). We implemented the first hour's reduction of the Shorter Working Week, although we did not obtain all the cost saving measures to pay for it. This amounted to a pay increase of 10 per cent in two years. We have worked closely with CWU, and continue to do so, to lobby Government to enable Collective Defined Contribution (CDC) pension schemes under UK law, for the first time in the UK.

But, an analysis of the productivity and efficiency opportunities in our Agreement found that, to fund it, there needed to be a step change in the pace and focus of the initiatives within it, and a greater focus on day-to-day operational excellence.

Industrial relations

Ballots for industrial action

Our Agreements are designed to support industrial stability. Yet, in 2019-20, we saw six national ballots (Royal Mail and Parcelforce Worldwide) for industrial action. On 15 October 2019, CWU announced a vote in favour of industrial action amongst its Royal Mail members. On 13 November 2019, the High Court granted an interim injunction against this ballot. The Court of Appeal upheld this decision, following a CWU challenge.

Employees within Parcelforce Worldwide are the subject of separate ballot notices. We note that CWU did not achieve the 50 per cent turnout threshold with respect to its first Parcelforce Worldwide ballot, which relates to honouring our Agreements with CWU. The second ballot, which received a vote in favour of industrial action, relates to our proposal to transfer Parcelforce Worldwide into a new legal entity and TUPE Parcelforce Worldwide's 6,500 colleagues into the new company.

We never wanted to take legal action. We wrote to CWU setting out the information on which our case was based. We asked CWU to confirm it would refrain from taking industrial action, due to clear evidence it had interfered with the ballot process. CWU declined to do so.

We welcomed the High Court's decision, and the subsequent support of that judgment by the Court of Appeal. Trade union legislation is designed to safeguard democratic integrity by ensuring union members can vote in the privacy of their own homes, rather than in any public process. As is the case with any electoral process, it is vital our colleagues can vote without any constraint imposed on them by any other party.

We are disappointed with the outcome of CWU's subsequent ballot for national industrial action. In February 2020, we offered a six per cent, three-year pay proposal for our CWU-grade people at Royal Mail. CWU did not accept this offer.

We welcomed and appreciated CWU's statement that the COVID-19 crisis was not the time to take industrial action. We signed a joint statement with the CWU on 15 May in which we awarded a £200 payment to our frontline employees to recognise their hard work to keep services running throughout the current COVID-19 pandemic. We continue to engage, on a regular basis and at a senior level, with CWU and Unite/CMA on our plans for change. Our engagement with CWU follows our recent Joint Statement with the union whereby both parties committed to work on setting up a joint framework for talks to seek to resolve our dispute

COVID-19 update: Our people

Our people's dedication, fortitude, and commitment has reminded the public of the crucial role we play in a digital world. Our UK postmen and women play a crucial role in mitigating the impact of the pandemic. Our GLS colleagues have also gone the extra mile in the many countries in which they operate to support their customers and communities.

Protecting our people and the communities we serve has been our top priority. We were one of the first delivery companies to introduce contact free delivery. We changed standard ways of working to ensure, wherever possible, colleagues stay two metres apart. That includes a new rule so that only one person is in a Royal Mail delivery vehicle at any one time.

In recognition of their contribution as designated key workers, around £25 million has been set aside as a cash bonus for UK frontline colleagues. Those who, since March, have been at work throughout the crisis will receive a cash recognition award of up to £200 each.

2. Scale up and grow GLS

GLS's 'scale up and grow' strategy to strengthen its position in its core markets and build its business in higher growth areas is helping increase our capacity, reach and expertise across our Group. We are investing in our networks to take advantage of the growth in the B2C market. We have increased the number of parcel shops to support online shopping and customer convenience.

Revenue growth was achieved in the majority of GLS' developed European markets. GLS Germany remains the largest GLS market by revenue. Its revenue grew by 9.7 per cent, driven by higher volumes and improved pricing. The German logistics market remains highly competitive, including from Amazon rolling out its own delivery service in most areas of the country.

There was continued strong volume and revenue growth in Europe East as we continue to drive higher B2C volumes. Croatia and Slovakia achieved the strongest revenue and profit growth in Central and Eastern Europe. GLS Hungary also delivered a strong performance, with double-digit revenue growth. Following the expansion of capacity in its Budapest hub in 2018-19, GLS Hungary has continued to expand its customer base.

GLS' presence in the Western United States allows it to offer shorter ground delivery times than its competitors. This, in turn, is enabling it to win more business and benefit from growth in interstate deliveries. Our programme to integrate Postal Express and Golden State Overnight, and move to GLS' proven sub-contractor model, has been completed. Losses have reduced during the period.

During the year, we acquired Mountain Valley Express, a family owned business that provides freight transportation services to a broad range of customers across the Western United States. Dicom, our Canadian business and one of our largest acquisitions in recent years, performed in line with expectations for the year.

Following the acquisitions of Redyser and ASM in 2018 and 2016 respectively, we have now completed the integration of both companies in GLS Spain. Efficiency will be further improved by the rationalisation of a small number of network overlaps. Performance in France remains behind plan. In September 2019, GLS France announced the appointment of a new Managing Director and a refreshed management team. Together, they are leading improvement plans that focus on quality and targeting profitable segments.

Across the GLS network, a number of initiatives are being introduced with customer convenience in mind. In the Netherlands, GLS introduced a Saturday Service, to support B2C customers. In Italy, GLS launched a returns service for easier customer returns. ReturnService streamlines the returns process, giving the recipient a link to a dedicated web page where they can organise their return. The customer can then opt for home collection, drop-off elsewhere, or delivery to one of over 150 GLS depots or to a GLS Shop.

To deal with growing parcel volumes across the network, GLS has invested in a number of new hubs and depots across Europe. In Amsterdam, GLS has constructed a new depot, which doubles its capacity for parcel processing. The new depot is also environmentally efficient, with solar panels on the roof, supplying the depot with electricity and heat pump heating to reduce consumption and CO_2 emissions. There are also charging stations for electric vehicles. We are, similarly, enhancing depots and hubs across Europe to enhance the GLS network and optimise the parcel handling process.

Scale up and grow GLS: our progress

Customer-focused service improvements:

- GLS Denmark extended ParcelShops service to receive parcels six days a week.
- GLS Netherlands SaturdayService for online shoppers, for goods ordered on a Friday.
- GLS Ireland customers will be able to post, collect or return GLS parcels at c.400 service points in future.

New depots to increase capacity:

- Styria, Austria: increasing handling capacity by 70% – handling 29,000 parcels a day.
- Amsterdam: facility allows twice the number of parcels to be handled compared with previous facility.
- Essen, Germany: due to open Autumn 2020, depot will act as regional distribution hub for other sites in the area, as well as a European hub.
- Horsens, Denmark: taking total number of facilities in the country to nine. The 3,200 sq m facility can handle 25,000 parcels a day, with room for further expansion.

COVID-19 update: GLS

Many GLS countries have been affected by the pandemic, due to factors including increased sickness absence, declining B2B volumes and high B2C share. B2B volumes have been impacted by COVID-19, as companies have scaled down their commercial activities. Conversely, we have seen a significant increase in B2C activity in many of our markets. Almost half of GLS' volumes are now accounted for by B2C and we expect that to grow to around 58 per cent in 2020-21.

3. Enhancing our cross-border proposition

The large, and growing, cross-border market represents a growth opportunity, predominantly centred on Europe, North America and Asia. Revenue growth was achieved despite challenging trading conditions.

The majority of cross-border volumes are deferred parcels (including small parcels). While there are limited synergies to be had in the short term, Royal Mail provides GLS with access to the lightweight small parcel segment, where national postal operators usually have a cost advantage, due to their final mile networks. By combining the Royal Mail International and GLS network propositions, we also aim to build our presence in the larger export parcel market (above 2kg) – another growth area.

In July 2019, in collaboration with China Post, we launched a new tracked and signed service to China. Customers can now track their package, from arrival in a UK Mail Centre to arrival in China, via Royal Mail. China is already the world's largest online market with ecommerce experiencing exceptional year on year growth. According to our Delivery Matters research, 90 per cent of online shoppers in China would make purchases online more if there were a wider range of delivery and tracking options.

Key external issues

i. Regulatory environment

There have been significant changes to how universal service operators across the world charge each other for postal activity under the auspices of the Universal Postal Union (UPU). These changes were driven at the governmental level, and have considerable relevance to US arrangements in particular. In essence, the US will now be charging (with effect from 1 July 2020) other countries a great deal more for delivery.

Royal Mail, unfortunately, will have to pass on these costs to its customers, but will not profit in doing so. It is with regret that we are making these USO parcel pricing changes. In doing so, we have sought to minimise the impact on consumers and small businesses sending parcels to the United States. In addition, COVID-19 has meant we have had to use air freight rather than scheduled, commercial, flights to ship mail to the US. This is considerably more expensive, and for some months we have borne the cost ourselves for most customers. From July, we will need to also pass on this increased cost to all our customers.

Quality of Service is a key priority for us; we know how much this matters to our customers. We devote significant resources to delivering a high quality of service. We published our 2019-20 Quality of Service results in May 2020. We exceeded our annual regulatory target of 98.5 per cent for Second Class mail, delivering 98.7 per cent within three working days. We missed our annual regulatory target for First Class mail, delivering 92.6 per cent the next working day, against a target of 93.0 per cent. The full year outcome for First Class mail was significantly impacted by COVID-19. This led to high levels of coronavirus-related absences during the tail end of the 2019-20 financial year. Up until 15 March 2020, we were meeting our First Class target with a performance of 93.0 per cent. We believe, if the 2019-20 performance was adjusted to take into account the impact of coronavirus, we would have achieved our First Class target. We are asking Ofcom to take these issues into consideration.

In May 2019, Ofcom announced the conclusion of its investigation into our Quality of Service performance for 2017-18. It confirmed that – in this specific circumstance – a financial penalty is not appropriate. We welcome this decision. At the same time, it announced that Ofcom had opened two further investigations in relation to Royal Mail.

The first relates to our Quality of Service performance in 2018-19, in connection with First Class mail. We are disappointed that our regulatory First Class Quality of Service performance for 2018-19 was 91.5 per cent, below the target to deliver 93 per cent of this mail the next working day. Second Class Quality of Service met the regulatory target. We delivered 98.6 per cent of this mail within three working days, against a target of 98.5 per cent. We take our commitment to delivering a high-quality service very seriously.

The second investigation relates to the regulated Second Class Safeguard Cap. We confirmed in February 2019 that, due to an error on our part, our new Second Class stamp price of 61 pence was one penny above the existing regulatory safeguard cap for seven days. We apologised for this mistake as soon as we realised we had made it. We sought to put it right by donating the revenue that we expected to collect from the error – around £60,000 – to our Charity of the Year, Action for Children.

On 14 August 2018, Ofcom published its decision following its investigation into whether Royal Mail had breached competition law. The investigation was launched in February 2014, following a complaint brought by TNT Post UK (now Whistl). Ofcom found that Royal Mail had abused its dominant position in the market for bulk mail delivery services in the United Kingdom by issuing Contract Change Notices on 10 January 2014 which introduced discriminatory prices. It fined Royal Mail £50 million.

Royal Mail lodged an appeal with the Competition Appeal Tribunal (CAT) on 12 October 2018 to have both Ofcom's decision and fine overturned. On 12 November 2019, the CAT issued its judgment, which upheld Ofcom's decision and fine (which is now payable). In January 2020, Royal Mail requested permission to appeal the CAT's judgment to the Court of Appeal (CoA). On 30 March 2020, the CoA granted Royal Mail permission and indicated that a hearing would be held over one to two days in mid-2021.

In October 2018, Whistl filed a damages claim against Royal Mail at the High Court relating to Ofcom's decision. Whistl's High Court claim is on hold until after the completion of the appeal process. Royal Mail believes Whistl's claim is without merit and will defend it robustly if Whistl decides to pursue it.

ii. COVID-19 update

COVID-19 has generated a range of major challenges in relation to the provision of regulated postal services. Understandably, our UK absence level increased significantly and, while it has now moderated, it remains much higher than normal. At the same time, the Company has, rightly, put in place a number of important social distancing measures (e.g. one person per van, etc.). These actions are vital to protect the safety of our colleagues. But, they do impact, in a material way, our ability to deliver to the requisite regulatory requirements.

At the beginning of the pandemic, we clearly communicated to customers that service disruption was, despite our best efforts, likely. We subsequently announced a six-week temporary relaxation of delivery frequency arrangements in relation to letters. This means that, for the six weeks to 13 June 2020, letters were delivered five days a week; we continued to deliver most parcels on a six days a week basis.

It is clear that it will take some time now for the UK to return to "normal". Accordingly, we expect that a range of social distancing measures could remain in place, in one shape or another, for some time. This may have a significant impact on our operations even as we have also increased our investment in quality measures. We are actively engaging with Ofcom on these issues.

iii. USO sustainability

The postal USO is a highly specified, longstanding UK Universal Service. As the physical delivery arm of e-commerce in the UK, it is a key part of the country's broadband economy. COVID-19 has again demonstrated the key role that the USO is playing in connecting companies, customers and communities across the nation. The postal USO is also the Post Office's main customer and is therefore key to ensuring its sustainability as well.

The unique structural circumstances relating to the USO, however, remain very much in place. Ongoing, and significant, structural decline in letters is coupled with intense competition in parcels. The USO operates in a fragile ecosystem. There are significant, and growing, risks to it, particularly in relation to its financial sustainability. Royal Mail has noted these risks before in a number of submissions to the Regulator and the Government.

Providing the Universal Service means being able to deliver to nearly 31 million addresses, six days a week. This requires high volumes – and revenues – to fund doing so. But, given the decline in letters, in the last ten years or so, the average number of items per address has almost halved from two to nearly one. At the same time, the ability of the regulated business to make profits to sustain itself – the USO is entirely market funded, with no Government funding – is coming under significant strain. In the last five years, the profits made by the Reported Business have fallen by about 95 per cent[1]. It is expected to be loss making in 2020-21.

Ofcom is continuing its User Needs Review about the Universal Service. We believe that many of the key USO features are valued by consumers and SMEs. They include uniformity, universality, affordability and measurability. But, they all have to be paid for at a time when COVID-19 has exacerbated the underlying problems facing the USO. For example, since the beginning of this financial year (2020-21) letter volumes have declined about 33%, around four times the decline rate we saw in 2019-20.

For its part, Royal Mail has a stretching self-help programme in place. This involves significant investment in the Universal Service when our finances are under challenge; we expect to be materially loss-making in the UK this year. In addition, we plan to address the very specific challenges presented by COVID-19. We do not believe, however, that successful delivery of our transformation and COVID-19 mitigation plans will be enough in themselves to underpin the long-term stability of the USO.

That is why, alongside engaging with our unions on our own plans to put Royal Mail in a better position, we are working with the Regulator and Government on the Universal Service. This is all about ensuring it is financially underpinned, in a sustainable way, and future-proofed to meet customers' changing priorities. Ofcom will embark on a public consultation on the USO, and Royal Mail will engage, at the same time, with many stakeholders on a USO for the 21st century. From its own, detailed research, the Company anticipates that many of the current features of the USO should remain in place, subject to regulatory and Government approval. We look forward to the debate and engagement to come, including ensuring the Universal Service has the requisite financial resources to sustain itself.

1 The Reported Business is the regulated entity, defined by Ofcom, which delivers the USO. 2019-20 Reported Business EBIT financeability margin is still subject to the Regulatory Audit process.

MARKET OVERVIEW

In the short time since the COVID-19 pandemic was declared in March 2020, it has caused severe disruption to retail and supply chains around the world. In the postal industry, the crisis has augmented and accelerated underlying structural trends in letters and parcels, specifically letters decline and B2C parcels growth. Consumers' consumption habits have changed due to the spread of the virus and stay-at-home measures implemented in many countries. Businesses have responded by implementing cost-cutting programmes or prioritising spend on essential/strategically important initiatives. It is not yet clear to what extent these changes will persist once the COVID-19 crisis has abated.

	Digital disruption	Quality and value matter
UK parcels 47.9% of UKPIL revenue	UK e-commerce growth is outpacing the wider retail market, primarily driven by younger 'digital native' consumers. Retailer investments in technology including visual search, voice search and augmented reality are supporting the switch from physical to online shopping	Consumers have come to expect free delivery, at a defined time and location to suit them, and more control over deliveries. Subscription boxes are increasing in popularity, driving customer loyalty, order frequency and value
Fast facts:	**UK e-commerce sales are estimated to have grown by 13% in 2019, to account for just under a fifth of all retail sales**	**34% of UK consumers belong to a subscription or delivery pass scheme**
UK letters 52.1% of UKPIL revenue	Letter volume decline in the UK has accelerated as companies increasingly look to reduce spending and switch to digital forms of communication. Technology, automation and advanced analytics are enabling greater personalisation and effectiveness of marketing communications	70% of people say mail, rather than email, makes them feel valued and gives them a better impression of the company that sent it
Fast facts:	**Addressed letter volumes in the UK have fallen more than 50% since 2004**	**49% of adults prefer to receive bills and statements in the post**
International 9.2% UKPIL revenue from international parcels to and from UK	Data and technology are enabling more frictionless trade, speeding up the cross-border delivery process	UK consumers are very price sensitive when shopping cross-border, with over half of UK cross-border purchases for items valued at below £20
Fast facts:	**Just two marketplace platforms account for 70% of UK cross-border purchases**	**Almost two thirds of UK consumers received free shipping on their most recent cross-border online purchase**
European parcels 26.3% Group revenue from European parcels	Parcel operators are investing in automated processing and building capacity to meet increased demand for e-commerce parcels. They are building out parcel locker networks for convenient contact free B2C deliveries and returns	The increasing power of parcel shippers is driving improvements in service levels, whilst keeping prices low
Fast facts:	**Investment is increasing in new technologies and processes to improve efficiency and reduce final mile delivery costs**	**Shippers' most valued criteria for choosing parcel operators are price and reliability**

Demand for faster services	Environmental concerns	COVID-19
The rollout of 5G and superfast broadband is supporting the growth in online shopping, at all times and in all places. Fast, convenient returns services have become essential to enable stock recirculation and quicker reimbursement to shoppers	With environmental concerns growing in importance, consumers are increasingly looking for more sustainable deliveries, including zero emissions. Retailers and parcel operators are setting up city logistics hubs to shorten final mile deliveries	With non-essential retailers closed during the early stages of the pandemic, e-commerce growth has been exceptionally strong, with several weeks of significantly higher parcel volumes than usual. Online retail adoption has increased, even among those who have traditionally been ' digitally resistant'
Although speed of delivery is important, 83% of UK consumers prefer the retailer they're buying from to provide a range of delivery speeds	**Online shoppers are prepared to opt for slower delivery if it means a reduction in emissions**	**Two in five people say they will shop online more frequently, even after many UK shops reopen after lockdown**
Digital advertising has grown such that it now makes up 60% of the total UK advertising market. With ever-increasing fixed and mobile broadband speeds, digital advertising is only likely to grow further, providing more immersive, personalised and local advertising experiences	Pressure is increasing to reduce or eliminate plastic packaging, including for magazines sent by mail	UK letters were already impacted by lower business confidence due to Brexit uncertainty, driving addressed letter volume declines above our medium-term forecasts. With many businesses closed and advertisers cutting spend due to the pandemic, we have seen an accelerated decline in recent months
Direct mail remains the third largest advertising medium in UK, behind digital and TV, but its share of the total advertising market has fallen from c.11% in 2010 to c.5% in 2019	**Collectively, 19 postal operators have reduced CO_2 emissions by around 30% and electricity use by 24% over 10 years**	**UK direct mail advertising spend is expected to fall 21% in 2020. Addressed letter volumes (excluding election mailings) declined 33% in first two months of 2020-21**
Retailers and marketplaces are opening fulfilment centres closer to their international customers to shorten supply chains. Geographic strategic partnerships are improving speed of delivery for shippers and consumers	Cross-border online shoppers increasingly expect transparency of information on sustainability of products they are purchasing	With air freight significantly constrained, increased border controls and customs regulations, cross-border shipments were significantly disrupted during the early stages of the pandemic
35% of cross-border online shoppers say that fast delivery is very important	**51% of UK cross-border consumers would like the packaging of their parcels to be recyclable**	**The Universal Postal Union reported a record 21% drop in global postal volumes between 23 January and 14 May 2020**
Large online marketplaces are establishing their own delivery operations, getting closer to customers and cutting delivery lead times	Parcel operators are committing to reduce carbon emissions, investing in electric/ renewable fuel vehicles and technology-led delivery solutions. B2C urban delivery solutions are being deployed to reduce pollution and traffic congestion	Post and parcel operators have reported significantly increased B2C parcel volumes, particularly in high growth regions such as Eastern Europe. B2B volumes have been negatively impacted, especially in the early weeks of the crisis
Fast and flexible deliveries have become standard in mature European e-commerce markets	**The EU is aiming to be carbon neutral by 2050. Some European countries are adopting earlier Net Zero targets**	**Due to the restrictions to personal movement in many markets, demand for home delivery – already the most popular delivery option in many markets – has been very strong**

BUSINESS MODEL

Our business model faced significant challenges prior to COVID-19. In addition, we expect the pandemic will have a profound impact on our business model and those of our customers and competitors. It continues to be too early to calibrate the precise impact of the pandemic. We believe, however, there will be an acceleration in the number of B2C parcels ordered online, both in the UK and in our main overseas markets. At the same time, we are currently experiencing a very significant decline in UK letter volumes. These trends underline the need to accelerate the pace of change in the UK. The uncertainty around our key UK volumes means we have set out, elsewhere in this Report, a number of potential scenarios, as part of a stress test we have published. As we refine our understanding over time, we will update the business model accordingly.

Business area / Market context

UKPIL (Royal Mail, Parcelforce Worldwide)

Addressed letter volume declines accelerating, due to COVID-19

B2C parcels growing even more

International parcel volumes impacted by COVID-19 pandemic

GLS

B2B activity has declined, due to COVID-19

B2C volumes increasing. Expected to grow at accelerated rate due to COVID-19

ALL MARKETS (Royal Mail, Parcelforce Worldwide, GLS)

Parcel markets highly competitive in most places we operate. Expect this to continue

Increasing labour costs, reflecting increasing sick absence, overtime and agency resource

Inputs

Network

Our combined parcels and letters network delivers the UK's Universal Service with a leading offering on service and price. Through c. 1,200 Customer Service Points, c.115,000 postboxes and over 11,600 Post Office branches across the country, we are the UK's most accessible delivery operator.

As one of Europe's largest ground based, deferred parcel networks, GLS operates in 36 countries and nation states across Europe.

Together, Royal Mail International and GLS have relationships with postal and other partners around the world.

People

With over 140,000 UK colleagues, we deliver c. 13bn letters and c. 1.3bn parcels a year We provide the best terms and conditions of employment in our industry in the UK.

We offer 19,000 GLS employees secure, fairly-paid employment with long-term prospects and career development. GLS promotes a culture of openness and transparency.

Technology

We have a strong technology infrastructure in all our businesses. In the UK, we securely handle over 1.4bn data points daily. We innovate to deliver improved products and services for customers and transform our operations to deliver efficiency gains. For example, new digital work tools like Automated Hours Data Capture, Resource Scheduler and PDA Outdoor Actuals will deliver better alignment of resources to workload and a data driven approach to people management.

Investment

Since privatisation, we have invested heavily in our UK business.

Our investment also supports targeted and focused investment in GLS, as we seek to grow organically and inorganically. Overall investment will be reduced due to COVID-19 pressures. It will remain sufficient to drive our UK transformation and relevant GLS activity.

Brands

COVID-19 has underlined the key role we play delivering items at a time of crisis in many countries.

Royal Mail's postmen and women, our red vans and our postboxes are part of the fabric of the UK. Havas Media's 2019 survey rated Royal Mail one of the UK's top three 'meaningful' brands. GLS is a highly respected brand, with a leading position in the majority of its European markets.

Strategic priority and initiatives

▲ Turnaround and grow in the UK

- UK transformation even more important due to COVID-19.
- Renewed focus on productivity: operational excellence and key work tools.
- Extending our UK network to:
  a) deliver a reduction in the unit cost of handling larger and small parcels; and
  b) secure productivity gains.
- Market leading terms and conditions, a major UK geographical presence and enhanced customer service.
- UK Parcels and Letters: becoming a parcels-led business; letters remain important.

Read more – pages 19-22

▲ Scale up and grow GLS

- Targeting revenue growth.
- Stabilise and improve profit margins.
- Continue to invest in profitable markets and B2C capabilities.

Read more – page 23

▲ Expand in cross-border parcels

- Leverage Royal Mail International's cross-border expertise and reach.
- Limited synergies to be had between Royal Mail and GLS in the short term. In the medium term, an international presence is clearly important.
- Pan-European solution for Asian imports.

Read more – pages 24-25

The GLS business model is also undergoing significant change. B2C now accounts for almost half its volumes, with accelerated growth to come in the short term, we believe, due to COVID-19. We continue to believe that GLS provides important revenue diversification and cash generation characteristics for the Group. Our strategic priority continues to be to grow GLS, and that an international presence is clearly important, albeit there are limited synergies between Royal Mail and GLS to be had in the short term.

Our KPIs

Scorecard group operating profit

2018-19	536
2019-20	353

£353 MILLION

Scorecard UKPIL costs

2018-19	7,365
2019-20	7,574

£7,574 MILLION

Scorecard group revenue

2018-19	10,481
2019-20	10,800

£10,800 MILLION

First Class Retail Quality of Service

2018-19	91.8
2019-20	92.8

92.8%

Lost time accidents

2018-19	-9.2
2019-20	-22

-22%

Value created

Adjusted Group operating profit

£325 MILLION

Dividends paid

£244 MILLION

UK economy contributor

7TH LARGEST

Capital expenditure across Royal Mail and GLS

£342 MILLION

Reductions in CO_2 emissions since 2004-5

31.9%

Value shared

Investors

We are one of the most widely held stocks in the FTSE 250. Through our comprehensive shareholder engagement programme – from our largest investors to associations representing retail shareholders – we are building open and constructive relationships across our investor base.

The Board is not recommending a final dividend, due to the significant and not yet fully understood financial implications of the COVID-19 pandemic. No dividend is expected to be paid in respect of 2020-21. Ambition to re-commence dividend payments in 2021-22, supported by GLS.

Employees

As the UK's Universal Service Provider, we are proud to be a critical part of the UK's infrastructure. Our "feet on the street" network is providing a vital lifeline to the communities we serve – especially during the COVID-19 crisis. We are proud to have provided continued employment for our over 140,000 colleagues, on enhanced sick absence terms.

GLS provides employment to approximately 19,000 colleagues across 40 markets, including continental Europe, Canada and the Western United States.

Customers

We touch the lives of tens of millions of people every year. As the UK's Universal Service Provider, we can connect nearly 31 million householders and businesses every day. GLS serves over 240,000 clients across its markets, with an increasing proportion of B2C customers.

Thanks to our scale and reach, we are proud to play a crucial role in connecting customers, communities and companies and supporting the democratic process through the delivery of election mailings.

Regulatory and political stakeholders

Although we are strictly politically neutral, we engage with Governments of all the markets we operate in, at all levels. By constantly reinventing the role postal services play in modern life, we seek to remain a relevant partner to companies and consumers in an increasingly digital economy.

Ofcom is conducting a User Needs Review around the USO. We believe that many of key USO features are valued by consumers and SMEs. We look forward to the debate and engagement to come, including ensuring the Universal Service has the requisite financial resources to sustain itself.

Unions

We value the input of the CWU and Unite/CMA, and the role they play in representing the interests of our workforce. We are committed to open and constructive engagement with them about all issues that affect our colleagues and their workplaces.

Local communities

We are creating long-term benefits for the communities we serve, through our social and economic impact, and our community investments. Stakeholders rank community impact as a key issue for our business. They expect us to operate responsibly and maintain our presence in local communities.

Suppliers

We engage with our suppliers through fair contracting processes, and efficient ordering and payment. We proactively engage with our suppliers to promote awareness of our policies and monitor compliance with our Responsible Procurement Code. It sets out the rigorous standards of ethical, social and environmental conduct we expect.

MEASURING OUR PERFORMANCE

The 2019-20 Corporate Balanced Scorecard was refreshed and approved by our shareholders as part of our remuneration policy at our 2019 Annual General Meeting. This reflected shareholders' feedback as we prepared our remuneration policy. They requested a simplification of our annual bonus measures, with more weight on the financial metrics.

The Board has determined that no bonuses will be paid for 2019-20 to Executive Directors or Royal Mail Executives.

KPI and strategic link(s) measured by[1]

Scorecard group operating profit[2,3,4]

£353M
(2018-19: £536M)

17-18	£685m
18-19	£536m
19-20	£353m

A gateway level of performance must be achieved for any award under the Annual Bonus Scheme.

Measured in the year 2019-20 including the impact of adopting IFRS 16, after transformation costs but before voluntary redundancy charges. Adjusted for budgeted foreign exchange rates.

- Adjusted Group operating profit decreased to £353 million.
- Largely due to the lower level of profitability in UKPIL and a change in definition (prior year numbers were exclusive of transformation costs; current year includes transformation costs, but does not include voluntary redundancy charges).

Scorecard UKPIL costs[3]

£7,574M
(2018-19: £7,365M)

17-18	£7,112m
18-19	£7,365m
19-20	£7,574m

To improve efficiency and drive operating costs to a lower rate (as a function of volume).

Measured in the year 2019-20 as total operating costs including the impact of adopting IFRS 16 for UKPIL. Includes transformation costs but excludes voluntary redundancy charges and GLS costs.

- Adjusted UKPIL costs increased by 2.8 per cent on a like-for-like basis.
- This was largely due to people costs pressures (including frontline staff and managers' overall compensation) which were not fully offset by productivity gains.
- Prior year figures are on a 53 week basis and exclude transformation costs. Current year is on a 52 week basis, including transformation costs but excluding voluntary redundancy charges.

Scorecard group revenue[4]

£10,800M
(2018-19: £10,481)

17-18	£10,051m
18-19	£10,481m
19-20	£10,800m

To incentivise revenue growth, particularly in parcels in the UK and across the GLS countries of operation.

Measured as total revenue for Royal Mail Group, adjusted for the budgeted foreign exchange rate.

- Group revenue was £10,800 million.

Performance against target

Scorecard group operating profit		
2019-20: £353m (above threshold, below target)	2018-19[2]: £536m (below threshold)	2017-18[2]: £685m (above target)

Scorecard UKPIL costs		
2019-20: £7,574m (above threshold, below target)	2018-19: £7,365m (above threshold, below target)	2017-18: £7,112m (above target)

Scorecard group revenue		
2019-20: £10,800m (above target)	2018-19: £10,481m (above threshold)	2017-18: £10,051m (above target)

Link to strategy

Read more – pages 19-25

Read more – pages 19-22

Read more – pages 19-25

As a result, the number of KPIs on the Corporate Balanced Scorecard has been reduced from ten to five, with the three financial measures (Group Operating Profit, UKPIL costs and Group revenue) accounting for up to 85 per cent of the annual bonus opportunity. The Corporate Balanced Scorecard links all managers' remuneration to our performance. Further details relating to the link between our KPIs and Executive Remuneration, and the Corporate Balanced Scorecard for 2019-20, can be found in the Directors' Remuneration Report on page 128. Information on Executive Directors' strategic objectives for 2019-20 can be found in the Directors' Remuneration Report.

First Class Retail Quality of Service[5]

92.8%
(2018-19: 91.8)

17-18	91.7%
18-19	91.8%
19-20	92.8%

Regulated measure ensures we focus on the customer – and that cost containment does not impact service levels.

Measured as percentage of First Class retail products delivered by the next working day, which may be adjusted for force majeure.

- First Class Quality of Service: missed 93.0 per cent target, with performance of 92.8 per cent.
- Achieved 98.5 per cent Second Class mail target, with performance of 98.8 per cent.

2019-20:	2018-19:	2017-18:
92.8% (below target)	91.8% (below target)	91.7% (below target)

Read more – pages 19-22

Reduction in Lost Time Accident Frequency Rate

-22%
(2018-19: -9.2%)

18-19	-9.2%
19-20	-22%

Targets a continually improving safety culture for employees, customers and communities.

Measured as the total number of accidents resulting in an absence on the next day or shift, per 100,000 hours worked.

- Lost Time Accident Frequency Rate of 0.38, down 22 per cent compared with 2018-19.

2019-20:	2018-19:	2017-18:
22% reduction (above target)	9.2% reduction	– Not a KPI

Read more – pages 19-25

Key

- 'Turnaround and grow' in the UK
- 'Scale up and grow' GLS
- Enhancing our cross-border proposition

1 Financial KPIs are calculated using budgeted exchange rates with adjustments made, ie: unbudgeted acquisitions. As a result, the financial KPI figures presented in this section are different to the adjusted figures reported elsewhere.

2 In 2017-18 and 2018-19 we reported Group operating profit before transformation costs.

3 Adjusted to reflect the cash impact of pensions. This metric includes transformation costs but excludes voluntary redundancy charges.

4 Reported results are adjusted to reflect a constant foreign exchange rate of £1/€1.15 in GLS. Adjustments are also made to remove the impact of the first year of the Mountain Valley Express acquisition in 2019-20.

5 The First Class Retail Quality of Service measure comprises First Class stamped and metered mail. First Class Regulatory Quality of Service, referenced on pages 11, 24 and 76 of this report, comprises First Class stamped and metered mail, plus single piece PPIs (Printed Postage Impressions). PPIs enable customers to print postage in-house directly onto labels or envelopes, without the need for franking machines.

FINANCIAL REVIEW

Reported results and Alternative Performance Measures (APMs)

Reported results are prepared in accordance with International Financial Reporting Standards (IFRS) and are set out in the sections entitled 'Presentation of results and Alternative Performance Measures' (APMs), and 'Consolidated financial statements'.

In addition to reported results, the Group's performance in this Financial Review is also explained through the use of APMs that are not defined under IFRS. Management is of the view that these measures provide a more meaningful basis on which to analyse business performance. They are consistent with the way that financial performance is measured by Management and reported to the Board.

The APMs we use are explained in the section entitled 'Alternative Performance Measures' and reconciliations to the closest measure prescribed under IFRS are provided where appropriate.

Group, UKPIL and GLS reporting periods

The Group and UKPIL results are for the 52 week period to 29 March 2020. The GLS financial period is the 12 months to 31 March 2020.

Changes in disclosures and metrics used in external reporting

We have made changes to our financial and non-financial disclosures and metrics used in external reporting. This is to improve transparency, accuracy and understanding and to eliminate 'underlying' movements. All numbers presented in this Financial Review are on the new basis. A summary of the changes are set out below:

1. UK letters and parcels revenue and volumes have been allocated using a new methodology which reduces our reliance on sampling by using Post Office traffic data. This change only impacts the allocation of revenue between stamped letters and parcels and some international export products. Total UKPIL revenue remains unchanged.
2. Transformation costs are now incorporated within their relevant operating cost categories within UKPIL operating costs.
3. Comparisons with the prior year are no longer presented on an 'underlying basis'. From the 2019-20 financial year onwards no underlying adjustments in respect of working days, foreign exchange movements, acquisitions or any one-off items will be made to the prior year. Any factors having a material impact on year on year comparisons are highlighted in the narrative to the results.

The tables below and on the following pages reconcile the 52 weeks 2018-19 adjusted results presented in this Financial Review to the 52 weeks 2018-19 adjusted results published previously. The reconciliation of the 53 weeks 2018-19 adjusted results are shown on page 56.

UKPIL volumes

(m)	52 weeks March 2019 as previously published	Movement	Re-presented 52 weeks March 2019
Parcels			
Royal Mail	1,224	(36)	1,188
Parcelforce	99	–	99
Total parcel volume	**1,323**	**(36)**	**1,287**
Letters			
Addressed	10,266	230	10,496
Unaddressed	2,880	–	2,880
Total letter volume	**13,146**	**230**	**13,376**

For footnotes, see page 35.

UKPIL

(£m)	Adjusted 52 weeks March 2019 as previously published	UK letters and parcels revenue	Transformation costs	Re-presented adjusted 52 weeks March 2019
Revenue				
Letters	3,903	154	–	4,057
Parcels	3,692	(154)	–	3,538
Total revenue	7,595	–	–	7,595
Operating costs				
People costs	(4,975)	–	(87)	(5,062)
People costs	(4,975)	–	(41)	(5,016)
Voluntary redundancy costs[1]	–	–	(46)	(46)
Non-people costs	(2,288)	–	(46)	(2,334)
Distribution and conveyance costs	(827)	–	–	(827)
Infrastructure costs	(819)	–	–	(819)
Other operating costs	(642)	–	(46)	(688)
Total operating costs	(7,263)	–	(133)	(7,396)
Adjusted operating profit before transformation costs	332	–	–	–
Transformation costs	(133)	–	133	–
Adjusted operating profit	**199**	**–**	**–**	**199**

Group

(£m)	Adjusted 52 weeks March 2019 as previously published	Transformation costs	Re-presented adjusted 52 weeks March 2019
Revenue	10,444	–	10,444
Operating costs			
People costs	(5,642)	(87)	(5,729)
People costs	(5,642)	(41)	(5,683)
Voluntary redundancy costs[1]	–	(46)	(46)
Non-people costs	(4,293)	(46)	(4,339)
Distribution and conveyance costs	(2,591)	–	(2,591)
Infrastructure costs	(988)	–	(988)
Other operating costs	(714)	(46)	(760)
Total operating costs	(9,935)	(133)	(10,068)
Adjusted operating profit before transformation costs	509	–	–
Transformation costs	(133)	133	–
Adjusted operating profit	**376**	**–**	**376**

For footnotes, see page 35.

In-year trading cash flow

(£m)	53 weeks March 2019	Transformation costs	Voluntary redundancy charge to cash difference[2]	Re-presented 53 weeks March 2019
Adjusted EBITDA	935	(133)	–	802
Trading working capital movements	(237)	–	10	(227)
Share-based awards (SAYE, LTIP and DSBP) charge adjustment	7	–	–	7
Total investment[3]	(487)	133	(10)	(364)
Income tax paid	(91)	–	–	(91)
Research and development expenditure credit	2	–	–	2
Net finance costs paid	(12)	–	–	(12)
In-year trading cash flow	**117**	**–**	**–**	**117**

For footnotes, see page 35.

Impact of IFRS 16

The Group adopted IFRS 16 which replaced IAS 17 with effect from 1 April 2019. The results for the full year ended 31 March 2019 have not been restated for the impact of IFRS 16.

IFRS 16 has a material impact on the Group as it requires the recognition of assets and liabilities for the majority of leases. Operating lease costs previously recognised in operating costs are replaced by a depreciation charge on the 'right-of-use' assets and finance costs on the lease liabilities. The total cash outflow for lease payments does not change. However, the payments related to the principal liabilities are now presented as cash outflows from financing activities, as opposed to the previous treatment as cash outflows from operating activities. The impact of IFRS 16 on the 2019-20 Full Year results is set out below:

Impact on operating costs

(£m)	UKPIL	GLS	Group
Decrease in distribution and conveyance costs (operating lease costs)	(18)	(11)	(29)
Increase in infrastructure costs	8	8	16
Property (operating lease costs)	(92)	(48)	(140)
Depreciation charge	100	56	156
Net decrease in operating costs	**(10)**	**(3)**	**(13)**
Net increase in operating profit	**10**	**3**	**13**

Impact on in-year trading cash flow

(£m)	Group
Adjusted operating profit	13
Depreciation and amortisation	156
Adjusted EBITDA	169
Net finance costs paid	(28)
Net increase in in-year trading cash flow	**141**

Impact on opening balance sheet

(£m)	Group
Property, plant and equipment	1,045
Trade and other receivables	(20)
Total assets	1,025
Current lease liabilities	(118)
Other current liabilities	5
Non-current lease liabilities	(944)
Other non-current liabilities	33
Total liabilities	(1,024)
Net assets	**1**

Footnotes for Financial Review – Introduction section

1 Voluntary redundancy costs of £46 million were previously included in Transformation costs of £133 million. This is now presented as a separate line.

2 The voluntary redundancy charge to cash difference represents the timing difference between when the voluntary redundancy charge is expensed to the income statement and when the cash payment is made.

3 Re-presented investment of £364 million reflects total gross capital expenditure.

ROYAL MAIL (UKPIL)

Reported results

Summary results

(£m)	Reported 52 weeks March 2020	Re-presented[1] reported 53 weeks March 2019
Revenue	**7,720**	7,732
Operating costs	**(7,711)**	(7,568)
Operating profit before specific items	**9**	164
Operating specific items	**(149)**	(92)
Operating (loss)/profit	**(140)**	72
Operating (loss)/profit margin	***(1.8%)***	*0.9%*

For footnotes, see page 39.

The detailed reported results for UKPIL are set out in the paragraph entitled 'Segmental reported results'. Reported revenue was £12 million lower than the prior year, although the prior year included £137 million of revenue relating to the 53rd week. The current year includes £82 million of revenue from mailings relating to the European Parliamentary election and UK General Election.

Operating profit before specific items decreased to £9 million, driven by increased distribution, conveyance and people costs, including a higher pension charge to cash difference adjustment. Operating specific items were £149 million, largely comprising a £91 million impairment charge relating to Parcelforce Worldwide assets, a provision for a regulatory fine of £50 million and associated interest from Ofcom and the Employee Free Shares Charge of £4 million. Operating specific items in the prior year largely related to the accounting consequences of the purchase of a further insurance policy for the Royal Mail Senior Executives Pension Plan (RMSEPP), which resulted in a charge of £64 million, and the Employee Free Shares charge of £22 million.

UKPIL generated an operating loss of £140 million for the year, compared with an operating profit of £72 million in the prior year, which included £35 million of operating profit in relation to the 53rd week.

Adjusted results

The Group makes adjustments to reported results under IFRS to exclude specific items and the IAS 19 pension charge to cash difference adjustment as set out in the paragraph entitled 'Specific items and pension charge to cash difference adjustment'.

Summary trading results

(£m)	Adjusted 52 weeks March 2020	Re-presented[1] adjusted 53 weeks March 2019	Re-presented[1] adjusted 52 weeks March 2019	Change[2]
Letters	**4,021**	4,136	4,057	(0.9%)
Parcels	**3,699**	3,596	3,538	4.6%
Revenue	**7,720**	7,732	7,595	1.6%
Operating costs	**(7,603)**	(7,498)	(7,396)	2.8%
Operating profit	**117**	234	199	(41.2%)
Operating profit margin	***1.5%***	*3.0%*	*2.6%*	*(110bps)*
Letters volumes (m)				
Addressed letters	**10,047**	10,709	10,496	(4%)
Addressed letters (excluding election mailings)				*(8%)*
Unaddressed letters	**2,603**	2,928	2,880	(10%)
Total letters	**12,650**	13,637	13,376	(5%)
Parcels volumes (m)				
Royal Mail	**1,211**	1,210	1,188	2%
Parcelforce Worldwide	**101**	100	99	2%
Total parcels	**1,312**	1,310	1,287	2%

For footnotes, see page 39.

Total revenue was up 1.6 per cent. Parcel revenue, up 4.6 per cent, more than offset the letter revenue decline of 0.9 per cent. See the Financial Highlights section on pages 6-14 for an update on the first two months of 2020-21.

Total parcel volumes increased by two per cent. Growth in domestic account parcels was partially offset by weaker imports, a result of lower Sterling and in particular the impact of COVID-19 in the fourth quarter. Royal Mail domestic account parcel volumes, excluding Amazon, were up five per cent as we won new customers and gained more traffic from existing customers. In the second half, growth moderated due to the threat of industrial action. Royal Mail Tracked 24®/48® and Tracked Returns® volumes, our key e-commerce products, grew by 18 per cent. This growth has been supported by the introduction of our Age and ID Verification products together with some successful propositions focused on the faster growing sectors and customers. We saw stronger e-commerce volumes in the fourth quarter due to the initial impact of COVID-19. This trend has continued into the new financial year.

Our international parcels business experienced revenue growth in the year despite challenging trading conditions. Contract export volumes have improved in the year, benefitting from significant new customer wins. At the start of the year, weaker Sterling driven by Brexit uncertainty resulted in lower import volumes outside of our cross-border offering and compressed export margins. Trading conditions in the third quarter showed improvements in import volumes with positive growth in cross-border performance. However, the fourth quarter saw the onset of COVID-19 impacts in China and latterly in the US and Europe. Imports saw a significant negative impact due to reduced economic activity and air freight capacity from China. Whilst more recently China import volumes have improved, we have seen further impacts on international volumes due to reduced activity and conveyance availability across Europe and the US.

Parcelforce Worldwide volumes increased by two per cent, compared with one per cent in 2018-19, largely due to growth from our regional small and medium-sized enterprise customers and strong import volumes from GLS.

Total parcel revenue increased by 4.6 per cent reflecting mix, targeted pricing actions, and volume growth.

Total letter volume decline was five per cent. Excluding political parties' election mailings, addressed letter volumes were down eight per cent, in line with revised expectations. Letter volumes were impacted by ongoing structural decline, weak economic activity and ongoing business uncertainty.

In the final weeks of the year, the initial impact of the COVID-19 pandemic resulted in a rapid and significant reduction in advertising mail, as marketing campaigns were either delayed or cancelled. In addition, meter traffic, mainly used by small and medium-sized enterprises, has weakened significantly in the first two months of 2020-21. However, stamp traffic, supported by social customer mailings, and large customer business mailings have been more resilient and impacted to a lesser extent.

Unaddressed letter volumes were down 10 per cent in 2019-20, due to intense competition and high levels of uncertainty. COVID-19 and resulting cancelled mailings have put further significant downward pressure on volumes in the first two months of 2020-21.

Total letter revenue decreased by 0.9 per cent, benefitting from mailings relating to the European Parliamentary election and UK General Election of £82 million, and the introduction of targeted price rises. Advertising letters revenue of £612 million (now comprising only addressed and unaddressed advertising letters products) was down 11.5 per cent reflecting the impact of competition and business uncertainty.

Adjusted operating costs

(£m)	**Adjusted 52 weeks March 2020**	Re-presented[1] adjusted 53 weeks March 2019	Re-presented[1] adjusted 52 weeks March 2019	Change[2]
People costs	**(5,234)**	(5,132)	(5,062)	3.4%
People costs	**(5,206)**	(5,086)	(5,016)	3.8%
Voluntary redundancy costs	**(28)**	(46)	(46)	(39.1%)
Non-people costs	**(2,369)**	(2,366)	(2,334)	1.5%
Distribution and conveyance costs	**(867)**	(842)	(827)	4.8%
Infrastructure costs	**(793)**	(826)	(819)	(3.2%)
Other operating costs	**(709)**	(698)	(688)	3.1%
Total	**(7,603)**	(7,498)	(7,396)	2.8%

For footnotes, see page 39.

Total adjusted operating costs increased by 2.8 per cent. As a result of adopting IFRS 16, there was a reduction in operating lease costs of £110 million and an increase in the depreciation charge of £100 million, i.e. there was a net reduction of £10 million in operating costs attributable to IFRS 16. Excluding this impact, adjusted operating costs increased by 2.9 per cent. The largest contributing factor was people costs pressures (including frontline staff and managers' overall compensation), which were not fully offset by productivity gains.

Parcelforce Worldwide saw increased costs pressures driven by product mix, inflation, lower productivity and in Q4 the impact of COVID-19. This has triggered an impairment review on Parcelforce Worldwide assets, and consequently an impairment charge of £91m has been recognised within specific items in respect of certain assets of Parcelforce Worldwide (for more detail see note 6).

UKPIL adjusted people costs were 3.4 per cent higher, primarily due to frontline staff and managers' overall compensation and the cost of only partially absorbing the one hour reduction in the working week introduced in October 2018. We also made additional investment to underpin our Quality of Service and protect deliveries over the UK General Election and Christmas, as well as to maintain our services during the ongoing COVID-19 pandemic. More recently, we have incurred additional costs, including increased overtime to support services during high absence rates due to the COVID-19 pandemic. Transformation costs of £74 million are included in people costs, comprising £46 million of project costs and £28 million of voluntary redundancy costs.

We saw a 1.0 per cent improvement in productivity in the year, below our expectations, due to the impact of additional investment to protect quality and the impact of COVID-19 in the second half. We achieved a 1.4 per cent reduction in core network hours. There was a net reduction of around 703 full-time equivalent employees (FTE)[3] to around 146,445 (compared with March 2019) as we decreased variable hours. Workload declined by 0.3 per cent as growth in parcel volumes was offset by letter volume decline.

Non-people costs increased by 1.5 per cent (1.9 per cent excluding the positive impact from adopting IFRS 16), reflecting the impact of CPI and costs pressures.

Distribution and conveyance costs increased by 4.8 per cent. This was largely driven by higher terminal dues and fuel costs, partially offset by lower vehicle hire and maintenance costs. Terminal dues were £14 million higher driven by higher export volumes, contracted rate rises and adverse foreign exchange rate movements. Total diesel and jet fuel costs increased to £168 million (2018-19: £156 million). We expect diesel and jet fuel costs to be around £165 million in 2020-21 largely as a result of our hedged position.

Infrastructure costs decreased by 3.2 per cent. Depreciation and amortisation costs were £63 million higher, driven by an increase of £100 million due to adopting IFRS 16. The previous year also included one-off impairment costs. IT costs were also £13 million lower in the year due to a one-off IT project cost in the prior year.

Other operating costs increased by 3.1 per cent. The impact of the UKPIL cost programme has been offset by a £32 million increase in provisions for bad debt as a result of the deteriorating economic environment and £5 million for the purchase of protective equipment to safeguard our frontline employees in response to the COVID-19 outbreak. Transformation project costs of £56 million (2018-19: £46 million) are also included in other operating costs.

Total transformation costs were £130 million in the year (2018-19: £133 million), mainly relating to operations data projects to support future productivity improvements and investment to upgrade our IT and parcel systems.

The UKPIL cost programme delivered £188 million of costs avoided in the year, comprising people costs of £99 million and non-people costs of £89 million. This was largely driven by a reduction in core network hours including the partial absorption of the one hour reduction in the working week, management headcount reduction arising from the organisational structure review at the end of 2018-19, supplier contract renegotiations and the annual linehaul review.

Adjusted operating profit

Adjusted operating profit of £117 million includes a £10 million positive impact from the adoption of IFRS 16. Adjusted operating profit margin was 1.5 per cent, down 110 basis points compared with 2018-19.

Footnotes for Financial Review – UKPIL section

1 2018-19 Full Year results have been re-presented as described in the section entitled 'Changes in disclosures and metrics used in external reporting.

2 Comparisons with the prior year are against the adjusted 52 week results, and are no longer presented on an underlying basis. All percentage changes represent the movement between the results as presented. Any factors having a material impact on year on year comparisons are highlighted in the narrative to the results.

3 FTE numbers relate to the total number of paid hours (including part-time, full-time and agency hours) divided by the standard full-time working hours in the same year. The current year FTE is calculated on a 38 hour week basis.

GENERAL LOGISTICS SYSTEMS (GLS)

Reported results

Summary results

(£m)	Reported March 2020	Reported March 2019
Revenue	**3,161**	2,888
Operating costs	**(2,953)**	(2,711)
Operating profit before specific items	**208**	177
Operating specific items	**(13)**	(89)
Operating profit	**195**	88
Operating profit margin	***6.2%***	*3.0%*

The detailed reported results are set out in the paragraph entitled 'Segmental reported results'. GLS reported revenue grew by £273 million. Operating profit before specific items increased by £31 million. Operating specific items represented a net charge of £13 million, largely due to an £18 million charge for the amortisation of acquired intangible assets, offset by a £5 million provision release that is no longer required. The prior year included a charge of £68 million for the impairment of the Golden State Overnight (GSO) and Postal Express businesses in the US and £19 million for the amortisation of acquired intangible assets. GLS operating profit was £107 million higher than in the prior year.

Both the reported and the adjusted results for the full year 2019-20 include 12 months' contribution from the acquisition of Dicom. The prior year only includes seven months' contribution. The current year also includes six months' contribution from the acquisition of the Mountain Valley Express (MVE) and Mountain Valley Freight Solutions businesses.

Adjusted results

The Group makes adjustments to reported results under IFRS to exclude specific items as set out in the paragraph entitled 'Specific items and pension charge to cash difference adjustment'.

Summary trading results

(£m)	Adjusted March 2020	Adjusted March 2019	Change[1]
Revenue	**3,161**	2,888	9.5%
Operating costs	**(2,953)**	(2,711)	8.9%
Operating profit	**208**	177	17.5%
Operating profit margin	***6.6%***	*6.1%*	*50bps*
(€m)			
Revenue	**3,614**	3,274	10.4%
Operating costs	**(3,376)**	(3,073)	9.9%
Operating profit	**238**	201	18.4%
Volumes (m)	**667**	634	5%

For footnotes, see page 42.

The impact of COVID-19 on revenue and operating profit was not material from an overall GLS perspective. See the Financial Highlights section on pages 6-14 for an update on the first two months of 2020-21.

Volumes were up five per cent. Excluding acquisitions, volumes were up four per cent. Volume growth moderated compared with the prior year, reflecting the competitive environment and yield management activities. We saw growth in both domestic and international volumes in most markets.

More recently, volumes have been above expectation, driven by higher B2C volumes as customers ordered more products online due to the COVID-19 lockdown. It is too early to judge whether this trend will continue for the remainder of the financial year.

In the year, the impact of foreign exchange movements increased revenue by £26 million and operating costs by £24 million. Consequently, there was no material foreign exchange impact on adjusted operating profit in Sterling terms.

Revenue increased by 9.5 per cent. Excluding acquisitions, revenue was up 6.3 per cent driven by a combination of higher volumes, targeted price increases and customer mix effects. Revenue growth was achieved in the majority of markets. The three major markets (Germany, Italy and France) accounted for 54.6 per cent of total GLS revenue (2018-19: 56.8 per cent), with the North America markets contributing 10.0 per cent (2018-19: 7.4 per cent).

Germany

GLS Germany remains the largest GLS market by revenue. Revenue grew by 9.7 per cent, driven by higher international and domestic volumes, and improved pricing. The German logistics market remains highly competitive, with other operators adding capacity to their networks, including Amazon which is rolling out its own delivery service in most areas of Germany. Operating profit margin improved compared with the prior year, benefitting especially from better pricing and good export volume development.

Italy

GLS Italy revenue grew by 2.7 per cent. Weak Italian GDP growth, Amazon expanding its own delivery network, and the competitive environment have impacted growth. The Italian government imposed restrictions due to COVID-19 which also impacted GLS Italy operations in February and March, with parcel flows in and out of the Lombardy and Venice regions particularly affected.

France

GLS France revenue growth slowed to 1.4 per cent due to weak domestic volumes. Operating losses in the year were €21 million, €3 million higher than the prior year.

A new management team is in place to lead the turnaround. Turnaround plans in France are focused on improving quality to secure new customers in more profitable segments. Despite the challenges in the domestic market, GLS France continues to be integral to the GLS network by supporting exports from other markets into France, and allowing GLS to provide a comprehensive service across Europe.

Spain

GLS Spain revenue declined by 1.7 per cent in the year. Yield management activities to exit low margin customers have impacted growth. Profitability was above break even in 2019-20, which represented an improvement from the €3 million loss reported in the prior year. The integration of Redyser has been completed, with the focus now on optimising the operations and growing volumes to further improve margin.

North America

The GLS US business plan, initiated last year, is progressing well. Revenue grew by 5.5 per cent excluding the impact of acquisitions, driven by a combination of yield management activities and cost optimisation measures.

We secured additional capability to offer less-than-truckload (LTL) services in the states of California, Arizona and Nevada through the acquisition of the Mountain Valley Express (MVE) and Mountain Valley Freight Solutions businesses on 30 September 2019. LTL services are provided successfully by our Dicom business in Canada. We plan to augment our product offering in the US with a similar LTL capability. Operational synergies between MVE and the existing GLS US businesses are expected to support the GLS business plan.

Dicom's performance has been in line with our expectations with revenue growth of 9.2 per cent on a like-for-like basis. We are investing in the business to provide a platform for future growth. Canada represents an attractive market and also provides geographic diversification for the Group.

Other developed European markets (including Austria, Belgium, Denmark, Ireland, Netherlands and Portugal)

Revenue growth was achieved in the majority of GLS' other developed European markets. In particular, there was good volume and revenue growth in Denmark and Belgium. In Denmark, higher B2C volumes supported by investment in ParcelShops is facilitating the growth.

Other developing/emerging European markets (including Croatia, Czech Republic, Hungary, Poland, Romania, Slovakia and Slovenia)

We saw strong, double digit revenue growth in all developing/emerging European markets. We continue to invest in our network in these countries to take advantage of their growing parcel markets.

Adjusted operating costs

(£m)	Adjusted March 2020	Adjusted March 2019	Change[1]
People costs	**(722)**	(667)	8.2%
Non-people costs	**(2,231)**	(2,044)	9.1%
Distribution and conveyance costs	**(1,960)**	(1,803)	8.7%
Infrastructure costs	**(198)**	(169)	17.2%
Other operating costs	**(73)**	(72)	1.4%
Total	**(2,953)**	(2,711)	8.9%

For footnotes, see page 42.

Total adjusted operating costs increased by 8.9 per cent, or 5.8 per cent excluding acquisitions.

As a result of adopting IFRS 16, there was a reduction in operating lease costs of £59 million and an increase in the depreciation charge of £56 million, resulting in a net reduction of £3 million in operating costs.

People costs increased by 8.2 per cent, or 4.0 per cent excluding acquisitions. This was due to wage inflation in most markets and higher semi-variable costs linked to volume growth.

Non-people costs increased by 9.1 per cent, or 6.5 per cent excluding acquisitions. Distribution and conveyance costs increased by 8.7 per cent, driven by volume growth and higher subcontractor rates resulting from tight labour markets. Infrastructure costs increased by 17.2 per cent. Higher property-related costs (such as rent and rates, repairs and maintenance and utilities), together with increased IT costs, were the principal drivers of the increase. Other operating costs increased by 1.4 per cent, broadly in line with the prior year.

Adjusted operating profit

Adjusted operating profit of £208 million includes a £3 million positive impact from the adoption of IFRS 16. There was no material foreign exchange impact on operating profit in Sterling terms. COVID-19 also did not have a material impact on operating profits.

Adjusted operating profit margin of 6.6 per cent was 50 basis points higher than the prior year.

Footnotes for Financial Review – GLS section

1 Comparisons with the prior year are no longer presented on an underlying basis. All percentage changes represent the movement between the results as presented. Any factors having a material impact on year on year comparisons are highlighted in the narrative to the results.

GROUP RESULTS

Reported results

Summary results

(£m)	Reported 52 weeks March 2020	Re-presented[1] reported 53 weeks March 2019
Revenue	**10,840**	10,581
Operating costs	**(10,623)**	(10,240)
Operating profit before specific items	**217**	341
Operating specific items	**(162)**	(181)
Operating profit	**55**	160
Non-operating specific items	**89**	15
Net finance costs	**(50)**	(13)
Net pension interest (non-operating specific item)	**86**	79
Profit before tax	**180**	241
Earnings per share (basic)	**16.1p**	17.5p

For footnotes, see page 53.

Group revenue increased by £259 million, or £396 million after adjusting for the 53rd week in 2018-19. This was largely due to higher parcel revenue in GLS and UKPIL, which more than offset the decline in UKPIL letters revenue. GLS acquisitions have also contributed to the revenue increase. Group operating profit before specific items decreased by £124 million. This was primarily due to higher operating costs. Operating specific items of £162 million largely comprised a £91 million impairment charge relating to Parcelforce Worldwide assets, a provision for a regulatory fine of £50 million and associated interest from Ofcom and a £19 million charge for the amortisation of acquired intangible assets. The prior year included a £68 million impairment relating to the GSO and Postal Express businesses in GLS, a £64 million charge for the purchase of a further insurance policy for the RMSEPP, a £22 million charge for the Employee Free Shares and a £20 million charge for the amortisation of acquired intangible assets. Non-operating specific items of £89 million largely relate to the sale of Plots B and D and Plot C of Nine Elms in the year.

Profit before tax decreased to £180 million, of which UKPIL accounted for £nil (2018-19: £160 million) and GLS accounted for £180 million (2018-19: £81 million). Basic earnings per share decreased to 16.1 pence. A full reconciliation of reported to adjusted results is set out in the section entitled 'Presentation of results'.

Adjusted results

Group revenue

(£m)	Adjusted 52 weeks March 2020	Adjusted 53 weeks March 2019	Adjusted 52 weeks March 2019	Change[2]
UKPIL	**7,720**	7,732	7,595	1.6%
GLS	**3,161**	2,888	2,888	9.5%
Intragroup revenue	**(41)**	(39)	(39)	5.1%
Total	**10,840**	10,581	10,444	3.8%

For footnotes, see page 53.

Intragroup revenue represents revenue from trading between UKPIL and GLS principally due to Parcelforce Worldwide operating as GLS' partner in the UK.

Group revenue growth of 3.8 per cent was driven by parcel growth in GLS and UKPIL, which more than offset the decline in UKPIL letters revenue. Total parcel revenue continued to grow as a percentage of Group revenue, accounting for 62.9 per cent (2018-19: 61.2[3] per cent). The main factors impacting revenue are described in the sections entitled 'UK Parcels, International & Letters (UKPIL)' and 'General Logistics Systems (GLS)'.

Group operating costs

(£m)	Adjusted 52 weeks March 2020	Re-presented[1] adjusted 53 weeks March 2019	Re-presented[1] adjusted 52 weeks March 2019	Change[2]
People costs	**(5,956)**	(5,799)	(5,729)	4.0%
People costs	**(5,928)**	(5,753)	(5,683)	4.3%
Voluntary redundancy costs	**(28)**	(46)	(46)	(39.1%)
Non-people costs	**(4,559)**	(4,371)	(4,339)	5.1%
Distribution and conveyance costs	**(2,786)**	(2,606)	(2,591)	7.5%
Infrastructure costs	**(991)**	(995)	(988)	0.3%
Other operating costs	**(782)**	(770)	(760)	2.9%
Total	**(10,515)**	(10,170)	(10,068)	4.4%

For footnotes, see page 53.

Group operating costs increased by 4.4 per cent. As a result of adopting IFRS 16, there was a reduction in operating lease costs of £169 million and an increase in the depreciation charge of £156 million. Overall, there was a net reduction of £13 million in operating costs as a result of IFRS 16. Excluding this impact, adjusted operating costs increased by 4.6 per cent. The increase in Group operating costs was largely due to an increase in people costs, as people cost pressures (including frontline staff and managers' overall compensation) in the UK were not fully offset by productivity gains. Distribution and conveyance costs were also higher due to the impact of CPI, higher parcel volumes and the acquisitions in GLS. The main factors impacting operating costs in the year are described in the sections entitled 'UK Parcels, International & Letters (UKPIL)' and 'General Logistics Systems (GLS)'.

Distribution and conveyance costs include £41 million (2018-19: £39 million) of intragroup costs from the trading between UKPIL and GLS principally due to Parcelforce Worldwide operating as GLS' partner in the UK.

Group operating profit

(£m)	Adjusted 52 weeks March 2020	Adjusted 53 weeks March 2019	Adjusted 52 weeks March 2019
UKPIL	**117**	234	199
GLS	**208**	177	177
Total	**325**	411	376
Operating profit margin	***3.0%***	*3.9%*	*3.6%*

Group operating profit margin was down 60 basis points, driven by the lower level of profitability in UKPIL.

Specific items and pension charge to cash difference adjustment

(£m)	52 weeks March 2020	53 weeks March 2019
Pension charge to cash difference adjustment (within people costs)	**(108)**	(70)
Operating specific items		
Regulatory fine	**(51)**	–
Impairment of assets	**(91)**	(68)
Accounting impact of RMSEPP settlement	**–**	(64)
Employee Free Shares charge	**(4)**	(22)
Amortisation of acquired intangible assets	**(19)**	(20)
Legacy/other credits/(costs)	**3**	(7)
Industrial diseases claim cost	**(2)**	–
Release of property tax provision	**5**	–
Other	**–**	(7)
Total operating specific items	**(162)**	(181)
Non-operating specific items		
Profit on disposal of property, plant and equipment	**89**	15
Net pension interest	**86**	79
Total non-operating specific items	**175**	94
Total specific items and pensions adjustment before tax	**(95)**	(157)
Total tax credit on specific items and pensions adjustment	**60**	27

The difference between the pension charge and cash cost (pension charge to cash difference adjustment) largely comprises the difference between the IAS 19 income statement pension charge rate of 20.8 per cent of pensionable pay for the Defined Benefit Cash Balance Scheme (DBCBS) from 1 April 2019 and the actual employer cash payments agreed with the Trustee of 15.6 per cent.

The pension charge to cash difference adjustment was £108 million in the year, £38 million higher than in 2018-19. This was largely due to an increase in the pension charge rate for the DBCBS from 18.9 per cent in 2018-19, to 20.8 per cent in 2019-20. The rate is higher than the expected rate of 19.6 per cent for 2019-20 as a result of a change in how the estimated mean term of the DBCBS has been derived.

Following the Competition Appeal Tribunal judgment of 12 November 2019, a provision has been made for a fine of £50 million and associated interest. Please see the "Principal Risks and Uncertainties" section for further details.

Following an impairment review of the Parcelforce Worldwide CGU it was identified that the carrying value of the assets exceeded their value in use. This has resulted in a £91 million impairment recorded within specific items. The prior year impairment charge related to goodwill and assets from the acquisition of the GSO and Postal Express businesses by GLS.

Operating specific items also include the Employee Free Shares charge of £4 million (2018-19: £22 million). This was lower than in the prior year because of the vesting of the SIP 2015 scheme in the prior year. The charge for Employee Free Shares is not expected to be material in the future.

Amortisation of acquired intangible assets of £19 million (2018-19: £20 million) largely relates to acquisitions in GLS.

Operating specific items in the prior year included a £64 million charge in relation to the purchase of a further insurance policy for the RMSEPP.

Non-operating specific items include the net pension interest credit of £86 million (2018-19: £79 million), which was higher than the prior year due to higher pension surplus position.

The profit on disposal of property, plant and equipment of £89 million (2018-19: £15 million) largely relates to the completion of the sale of Plots B and D and Plot C of Nine Elms. The proceeds from the sale of Plots B and D were received in June 2019 and Plot C in July 2019.

The tax credit on specific items related largely to deferred tax movements in relation to certain specific items.

Net finance costs

Reported net finance costs of £50 million (2018-19: £13 million) largely comprised interest on the €500 million bond of £11 million (2018-19: £11 million), interest on the €550 million bond of £3 million (2018-19: £nil) and interest on leases of £30 million (2018-19: £3 million). Interest on leases increased as a result of leases capitalised under IFRS 16. The syndicated bank loan facility was amended in September 2019 and its maturity date extended to September 2024 with options to extend for a further two years.

Facility	Rate	Facility (£m)	Drawn (£m)	Facility end date
€500 million bond	2.5%	**446**	**446**	**2024**
€550 million bond	2.7%	**489**	**489**	**2026**
Syndicated bank loan facility	LIBOR+0.70%	**925**	**700**	**2024**
Total		**1,860**	**1,635**	

On 8 October 2019, Royal Mail plc issued a €550 million bond with a coupon of 1.25 per cent and maturity date of 8 October 2026. The foreign exchange risk associated with this bond has been hedged using a cross currency swap. The combined interest rate of the coupon and the cross currency swap is 2.7 per cent.

The interest rate on the syndicated bank loan facility is LIBOR + 0.70 per cent. This consists of a margin of 0.4 per cent and a utilisation fee of 0.30 per cent as the facility was over two thirds drawn at 29 March 2020. The utilisation fee is 0.075 per cent when the facility is under one third drawn.

The blended interest rate on gross debt, including leases for 2019-20, was approximately 3 per cent. The retranslation impact of the €500 million and €550 million bonds is accounted for in equity.

Taxation

	52 weeks March 2020			53 weeks March 2019		
(£m)	UK	GLS	Group	UK	GLS	Group
Reported						
Profit before tax	**–**	**180**	**180**	160	81	241
Tax (charge)/credit	**31**	**50**	**(19)**	(23)	(43)	(66)
Effective tax rate	***n/a***	***27.8%***	***10.6%***	*14.4%*	*53.1%*	*27.4%*
Adjusted						
Profit before tax	**83**	**192**	**275**	229	169	398
Tax charge	**(26)**	**(53)**	**(79)**	(40)	(53)	(93)
Effective tax rate	***31.3%***	***27.6%***	***28.7%***	*17.5%*	*31.4%*	*23.4%*

The UK adjusted effective tax rate of 31.3 per cent (2018-19: 17.5 per cent) is higher than the prior year mainly due to an increase in contingency provision against patent box claims. This effective tax rate is higher than the UK statutory rate of 19 per cent mainly as a result of the increase in contingency provision described above and non-deductible expenditure, partially offset by a one-off, first time recognition of a deferred tax asset on non-trading tax losses. The impact of these items is exaggerated this year due to a lower adjusted UK profit before tax than in prior years.

The GLS adjusted effective tax rate of 27.6 per cent (2018-19: 31.4 per cent) is lower than the prior year mainly because 2018-19 included the derecognition of deferred tax assets in GLS US.

The Group reported effective tax rate is 10.6 per cent (2018-19: 27.4 per cent). This effective rate is significantly impacted by the UK reported tax credit of £31 million (2018-19: £23 million charge) on a UK reported profit of £nil (2018-19: £160 million). The main drivers of this tax credit include the net pension interest credit, on which there is no tax charge, profits made on operational property disposals which are offset by reinvestment relief, an increased recognition of a deferred tax asset on the industrial disease provision, and the effect of recalculating the deferred tax asset in the UK to 19 per cent. The impact of these items on the effective tax rate was partially offset by the Regulatory fine for which there is no tax credit.

Adjusted earnings per share (EPS)

Adjusted basic EPS was 19.6 pence compared with 30.5 pence in the prior year reflecting the trading performance of the Group.

In-year trading cash flow

(£m)	52 weeks March 2020	Re-presented[1] 53 weeks March 2019
Adjusted operating profit	**325**	411
Depreciation and amortisation	**516**	391
Adjusted EBITDA	**841**	802
Trading working capital movements	**155**	(227)
Share-based awards (LTIP and DSBP) charge adjustment	**4**	7
Gross capital expenditure	**(342)**	(364)
Net finance costs paid	**(47)**	(12)
Research and development expenditure credit	**14**	2
Income tax paid	**(69)**	(91)
In-year trading cash flow	**556**	117

For footnotes, see page 53.

In-year trading cash inflow was £556 million, compared with £117 million in the prior year. This was mainly due to trading working capital inflow, lower capital expenditure, lower income tax paid and the impact of adopting IFRS 16. Including the impact of IFRS 16, the capital elements of lease payments of £141 million, in-year trading cash inflow was £415 million.

Under IFRS 16, operating lease costs previously recognised in operating costs are replaced by a depreciation charge on the assets and finance charge on the liabilities. As a result of adopting IFRS 16, adjusted operating profit increased by £13 million. The depreciation charge also increased by £156 million, resulting in a £169 million increase in adjusted EBITDA. Net finance costs increased by £28 million, reflecting the finance charge on liabilities. The net impact of IFRS 16 on in-year trading cash flow is an increase of £141 million. The £141 million outflow appears in 'Payment of capital element of obligations under lease contracts' in the consolidated statement of cash flows. As such, there is no impact on overall cash flow from IFRS 16.

Trading working capital inflow of £155 million was £382 million higher than the prior year. The prior year included a 53rd week. Payroll and VAT payments of £47 million and £17 million respectively were made in that week, which were not made in the current year. There was no bonus payment for managers in 2019-20, as we missed our threshold profitability level for 2018-19. 2018-19 also included a £101 million payment in relation to the 2017-18 frontline pay award.

Income tax paid decreased by £22 million largely because tax paid in 2018-19 was higher than normal as there was no tax relief in 2018-19 on payments made to the pension escrow in 2017-18. The increase in net finance costs paid of £35 million largely comprised interest on leases capitalised under IFRS 16 and a £7 million loss in the market value of the RMPP pensions escrow investments.

Gross capital expenditure

(£m)	52 weeks March 2020	53 weeks March 2019
Growth capital expenditure	**(209)**	(224)
Replacement capital expenditure	**(133)**	(140)
Total	**(342)**	(364)

Total gross capital expenditure was £342 million, of which GLS spend was £120 million. Growth capital expenditure in GLS was £7 million higher than the prior year. This is offset by lower growth capital expenditure in UKPIL, reflecting delays to the delivery of our transformation plan. Replacement capital expenditure was broadly in line with prior year. We continue to invest in strategic projects in UKPIL and GLS, including expanding the GLS network, IT systems, activities supporting data projects, and building our automated parcel hubs.

Net debt

A reconciliation of net debt is set out below.

(£m)	52 weeks March 2020	53 weeks March 2019
Net (debt)/cash brought forward at 1 April 2019 and 26 March 2018	**(300)**	14
Capitalisation of leases under IFRS 16	**(1,062)**	–
Free cash flow	**653**	(71)
In-year trading cash flow	**556**	117
Other working capital movements	**7**	6
Cash cost of operating specific items	**(2)**	(6)
Proceeds from disposal of property (excluding London Development Portfolio), plant and equipment	**12**	25
Acquisition of business interests	**(17)**	(220)
Cash flows relating to London Development Portfolio	**97**	7
Purchase of own shares	**(3)**	(10)
Employee exercise of SAYE options	**–**	5
New lease obligation under IFRS 16 (non-cash)	**(156)**	–
Foreign currency exchange impact	**(20)**	4
Dividends paid to equity holders of the Parent Company	**(244)**	(242)
Net (debt) carried forward	**(1,132)**	(300)

For footnotes, see page 53.

Movements in GLS client cash are included within other working capital. The amount held at 29 March 2020 was £21 million (2018-19: £20 million). The cash cost of operating specific items was an outflow of £2 million mainly consisting of industrial disease settlements.

Proceeds from disposal of property (excluding the London Development Portfolio), plant and equipment of £12 million relate to the sale of the Plymouth MDEC site, Basildon Delivery Office, Inverness Mail Centre, vehicle disposals and other small property disposals.

Cash inflow relating to the London Development Portfolio was £97 million. Receipts of £123 million in relation to the Nine Elms site and £21 million in relation to the Mount Pleasant site were offset by infrastructure and enabling works costs of £47 million.

Acquisition of business interests in the year largely related to the acquisition of the Mountain Valley Express (MVE) and Mountain Valley Freight Solutions businesses, and deferred consideration on prior year acquisitions. The acquisition of business interests in the prior year related to the acquisition of Dicom by GLS.

Purchase of own shares relates to the Group purchasing its own shares to meet Long-Term Incentive Plan (LTIP) requirements.

New lease obligations under IFRS 16 of £156 million is a result of adopting IFRS 16, and it relates to additional operating lease commitments that were entered into during the year.

Net debt excluding the impact of IFRS 16 is £46 million.

2019-20 approach to capital management

The Group had four key objectives for capital management during 2019-20. Management proposes actions which reflect the Group's investment plans and risk characteristics as well as the macro-economic conditions in which we operate. The Board keeps this policy under constant review to ensure that capital is allocated to achieve our stated objective of delivering sustainable shareholder value.

OBJECTIVES	ENABLERS	2019-20 UPDATE
Meet the Group's obligations as they fall due	Maintaining sufficient cash reserves and committed facilities to: – meet all obligations, including pensions; and – manage future risks, including those set out in the Principal Risks section	At 29 March 2020, the Group had available resources of £1,874 million (2018-19[4]: £1,266 million), made up of cash and cash equivalents of £1,619 million (2018-19[4]: £216 million), current asset investments of £30 million (2018-19: £nil), and undrawn committed syndicated bank loan facilities of £225 million (2018-19: £1,050 million). At 29 March 2020, the Group met the loan covenants and other obligations for its syndicated bank loan facility and €500 million and €550 million bonds. Existing covenants have been waived until March 2022, and replaced with a basic liquidity covenant. As a result, the Directors have a reasonable expectation that the Group will continue to meet its obligations as they fall due.
Support a progressive dividend policy	Generate sufficient in-year trading cash flow to cover the ordinary dividend. Maintain sufficient distributable reserves to sustain the Group's dividend policy	In the light of the current economic uncertainty, the Board believes it is prudent not to recommend a final dividend for the financial year 2019-20 and to suspend the 2020-21 dividend. The dividend policy will be kept under review and appropriate dividend payments reinstated as soon as economic conditions allow. Our ambition is to re-commence dividend payments in 2021-22, supported by GLS.
Reduce the cost of capital for the Group	Target investment grade standard credit metrics i.e. no lower than BBB- under Standard & Poor's rating methodology	During the year, the Group maintained a credit rating of BBB with a stable outlook from Standard & Poor's.
Retain sufficient flexibility to invest in the future of the business	Funded by retained cash flows and manageable levels of debt consistent with our target credit rating	During the year, the Group made total gross capital investments of £342 million (2018-19: £364 million) and acquisition of business interests of £17 million (2018-19: £220 million) while retaining sufficient capital headroom.

Future approach to capital management

Our objective is to maintain a prudent financial policy. We believe we need to retain prudent levels of financial gearing given the high operational gearing inherent in our business. Balanced against this is the imperative to invest in the long-term sustainability of the Group. Our strategic plan requires a step up in investment, predominantly in the UK, over the next five years. This is a priority in our approach to capital management.

In the light of the current economic uncertainty, the Board believes it is prudent not to recommend a final dividend for the financial year 2019-20 and to suspend the 2020-21 dividend. The dividend policy will be kept under review and appropriate dividend payments reinstated as soon as economic conditions allow. Our ambition is to re-commence dividend payments in 2021-22, supported by GLS.

Pensions

A summary of the plans operated by Royal Mail plc and the timelines in context of this Financial Review are as follows:

- Closed in December 2012
  - Royal Mail Senior Executives Pension Plan (RMSEPP)
- To 31 March 2018
  - Royal Mail Pension Plan (RMPP)
  - Royal Mail Defined Contribution Plan (RMDCP)
- 1 April 2018 to 29 March 2020
  - Defined Benefit Cash Balance Scheme (DBCBS)
  - Enhanced Royal Mail Defined Contribution Plan (RMDCP)
- Proposed future scheme
  - Collective Defined Contribution (CDC) together with a Defined Benefit Lump Sum Scheme (DBLSS)

The RMPP closed to future accrual in its previous form from 31 March 2018. The Group put in place transitional arrangements from 1 April 2018. It also implemented a new DBCBS within the RMPP and improved the RMDCP.

Details of each of the plans operated by Royal Mail plc are set out below.

Defined Benefit Cash Balance Scheme (DBCBS)

RMPP members automatically started building up DBCBS benefits from 1 April 2018 (unless they opted to join the improved RMDCP instead) together with eligible RMDCP members who opted to join.

The DBCBS guarantees members a minimum lump sum at age 65. It is therefore being accounted for as a defined benefit scheme in a similar way to the RMPP. The DBCBS will aim to provide increases to the lump sum each year, depending on investment performance. An IAS 19 deficit of £177 million (2018-19: £72 million) is shown on the balance sheet. The scheme is not in funding deficit and it is not anticipated that deficit payments will be required. The DBCBS will be subject to triennial valuations from 2021.

An IAS 19 pension service charge of 20.8 per cent (2018-19: 18.9 per cent), equivalent to £388 million (2018-19: £362 million), has been charged to the income statement for the DBCBS scheme. The pension charge is greater than the cash contribution rate as the assumed rate of future increases in benefits (3.8 per cent) is greater than the assumed discount rate (2.2 per cent).

The Group has made contributions at 15.6 per cent (2019-20: £288 million; 2018-19: £297 million) of DBCBS pensionable pay in respect of the scheme. Members contribute six per cent (including Pension Salary Exchange).

The IAS 19 pension service charge to cash difference adjustment for 2019-20 was £108 million (2018-19: £70 million). Pension interest for 2020-21, calculated on the assets and liabilities as at 29 March 2020, will be a charge of £5 million.

Royal Mail Defined Contribution Plan (RMDCP)

Under the RMDCP, current and future RMDCP members in the standard section will contribute at the highest contribution tier (employee: six per cent; employer: ten per cent) unless they opt to contribute at a lower level. The contribution rate for members not in the standard section is employee: five per cent; employer: three per cent.

Royal Mail Pension Plan (RMPP)

The RMPP closed to future accrual in its previous form from 31 March 2018. The pre-withholding tax accounting surplus of the RMPP at 29 March 2020 was £5,550 million (31 March 2019: £3,696 million), comprising assets of £11,683 million (31 March 2019: £10,458 million) and liabilities of £6,133 million (31 March 2019: £6,762 million). The pre-withholding tax accounting surplus has increased by £1,854 million (31 March 2019: £434 million) in the period, as the increase in the 'real' discount rate since the prior year (the difference between RPI and the discount rate based on corporate bond yields) has resulted in a lower value being placed on scheme liabilities, whilst gilt yields have decreased in the period, increasing the value of scheme assets. The scheme's hedging arrangements are designed to reduce volatility in the actuarial funding valuation, rather than in the accounting valuation. After the withholding tax adjustment, the accounting surplus of the RMPP was £3,608 million at 29 March 2020 (31 March 2019: £2,402 million). This is an accounting adjustment with no cash benefit to the Group. For 2020-21, the pension interest will be a credit of £122 million.

The triennial valuation of the RMPP at 31 March 2018 was agreed on 19 July 2019. Based on this set of assumptions rolled forwards, the RMPP actuarial surplus at 29 March 2020 was estimated to be around £575 million (31 March 2019: £50 million).

Royal Mail Senior Executives Pension Plan (RMSEPP)

The RMSEPP closed in December 2012 to future accrual and the Group makes no regular service contributions.

Following the purchase of an additional insurance policy in September 2018 in respect of all remaining pensioners and deferred members it was decided to proceed to buy-out and wind-up of the Plan. As a result the purchase of the insurance policy was treated as a settlement in the 2018-19 financial statements. The difference between the IAS 19 surplus before and after the transaction resulted in £64 million being charged to the income statement as an operating specific item. Further progress towards buy-out and winding-up of the Plan has been made in the current year, and the target is to have the process completed in 2021. There is no charge in the current year.

All benefit payments due from the RMSEPP remain unchanged. The insurance policies held by the RMSEPP exactly match the value and timing of the benefits payable to individual members and the fair value of those policies are deemed to be the present value of the related obligations. Further details can be found in the paragraph entitled 'Royal Mail Senior Executives Pension Plan (RMSEPP)' in Note 11 in the notes to the consolidated financial statements.

Based on the rolled forward assumptions used for the RMSEPP triennial valuation as at 31 March 2018 completed in the prior year, the RMSEPP actuarial surplus at 31 March 2020 was estimated to be £9 million (31 March 2019: £10 million).

In accordance with the updated Schedule of Contributions agreed as part of that valuation, a final deficit payment of £1 million was paid in 2018-19, together with £1 million in respect of death-in-service lump sum benefits and administration expenses. In accordance with the Schedule of Contributions signed on 25 March 2019, £500,000 has been paid in 2019-20 and is due to be paid per annum for the period 1 April 2020 to 31 March 2025.

Pension schemes are now under an obligation to address the issue of unequal Guaranteed Minimum Pensions (GMP). From the Group's perspective, the transfer of the RMPP's historical pension liabilities to HM Government in 2012, in accordance with the Postal Services Act 2011, included all of the plan's GMP liabilities. The requirement to remove the inequality in former RMPP benefits deriving from GMPs therefore rests with Government.

The RMSEPP, however, does still hold its GMP liabilities and will be required to take action to equalise benefits. The Trustees are considering the approach to be taken to address the issue of unequal GMPs in respect of the RMSEPP scheme but estimate that the cost of this will not be material.

Collective Defined Contribution (CDC) scheme and Defined Benefit Lump Sum Scheme (DBLSS)

We have, for some time, been working closely with the CWU and other stakeholders to make CDC a reality for Royal Mail and its people.

The Pension Schemes Bill, which will enable CDC pension schemes for the first time under UK law, is now currently progressing through Parliament. Once complete, and after any further legislative and regulatory changes have been made, Royal Mail aims to set up the first scheme of this kind in the UK.

Based on current expectations, the CDC scheme will be accounted for as a defined contribution scheme. The DBLSS will be accounted for as a defined benefit scheme with the accounting treatment expected to be similar to the transitional DBCBS. The new arrangements will have fixed employer contributions of 13.6 per cent and employee contributions of six per cent.

In 2020-21, the employer and employee contributions are expected to be around £400 million in respect of all UK pension schemes.

Financial risks and related hedging

The Group is exposed to commodity price and currency risk. The Group operates hedging policies which are stated in the Notes to the Annual Report and Financial Statements 2019-20. The forecast diesel and jet commodity exposures in UKPIL are set out below together with the sensitivity of 2020-21 operating profit to changes in commodity prices and fuel duty.

2020-21 exposure	Forecast total cost £m	Fuel duty/ other costs (incl irrecoverable VAT) – not hedged 2020-21 £m	Underlying commodity exposure (incl irrecoverable VAT) 2020-21 £m	Underlying commodity volume hedged %	Residual unhedged underlying commodity exposure (incl irrecoverable VAT) £m	Impact on 2020-21 operating profit of a further 10% increase in commodity price £m	Impact on 2020-21 operating profit of a further 10% increase in fuel duty/other cost £m
Diesel	156	100	56	88	4	–	10
Jet fuel	9	2	7	82	1	–	–
Total	**165**	**102**	**63**	**87**	**5**	**–**	**10**

For footnotes, see page 53.

As a result of hedging, it is anticipated that the diesel and jet fuel commodity cost for 2020-21 will be similar to 2019-20. Without hedging, the associated cost would be around £23 million lower (based upon closing fuel prices at 29 March 2020).

The Group is exposed to foreign currency exchange risk in relation to interest payments on the €500 million bond, certain obligations under Euro denominated finance leases, trading with overseas postal administrations and various purchase contracts denominated in foreign currency. GLS' functional currency is the Euro which results in translational foreign currency exchange risk to revenue, costs and operating profit. The €550 million bond issued in October 2019 is fully hedged by a cross currency swap with no residual exposure to foreign currency or interest rate risk.

The average exchange rate between Sterling and the Euro was £1:€1.14 (2018-19: £1:€1.13). The impact of exchange rates on GLS' reported operating profit before tax in 2019-20 was not material. The impact of foreign exchange transactions in the UK was not material in 2019-20. The net impact on Group operating profit before tax was not material.

The Group manages its interest rate risk through a combination of fixed rate loans and leasing, floating rate loans/facilities and floating rate financial investments. At 29 March 2020, all the gross debt of £2,823 million was at fixed rates.

Property

We invested a total of £47 million in the year on works to separate the retained operational sites from the development plots at Mount Pleasant and infrastructure works at Nine Elms.

Mount Pleasant

In the year, we received £21 million cash proceeds. Further cash proceeds are to be paid in contractually agreed staged payments in 2020-21, with the final balance of consideration to be paid in 2024. All proceeds received up to 2020-21, in aggregate, are expected to cover Royal Mail's outgoings on the separation and enabling works up to that point.

Nine Elms

In the year, we received £101 million (2018-19: £nil) cash proceeds on formal completion of the sale of Plots B and D on Nine Elms. We have committed to reinvesting around £30 million for infrastructure works associated with these plots.

We have also received £22 million cash proceeds on formal completion of the sale of Plot C at the Nine Elms site to Galliard Homes.

Further investment will be required in relation to the infrastructure and Linear Park for the remaining plots when sold.

Dividends

The final dividend of 17.0 pence per share in respect of the 2018-19 financial year was paid on 4 September 2019, following shareholder approval.

The interim dividend of 7.5 pence per share in respect of the 2019-20 financial year was paid on 15 January 2020, following shareholder approval, to shareholders on the register at the close of business on 6 December 2019.

Dividend in respect of 2019-20

In the light of the current economic uncertainty, the Board believes it is prudent not to recommend a final dividend for the financial year 2019-20. The dividend policy will be kept under review and appropriate dividend payments reinstated as soon as economic conditions allow. Our ambition is to re-commence dividend payments in 2021-22, supported by GLS.

Footnotes for Financial Review – Group section

1 2018-19 full year results have been re-presented as described in the section entitled 'Changes in disclosures and metrics used in external reporting'.

2 Comparisons with the prior year are against the adjusted 52 week results, and are no longer presented on an underlying basis. All percentage changes represent the movement between the results as presented. Any factors having a material impact on year on year comparisons are highlighted in the narrative to the results.

3 On a 52 week basis and reflects the new revenue allocation methodology as described in the section entitled 'Changes in disclosures and metrics used in external reporting'.

4 Re-presented to exclude GLS client cash of £20 million.

PRESENTATION OF RESULTS AND ALTERNATIVE PERFORMANCE MEASURES (APMS)

The Group uses certain Alternative Performance Measures (APMs) in its financial reporting that are not defined under International Financial Reporting Standards (IFRS), the Generally Accepted Accounting Principles (GAAP) under which the Group produces its statutory financial information. These APMs are not a substitute, or superior to, any IFRS measures of performance. They are used by Management, who considers them to be an important means of comparing performance year-on-year, and are key measures used within the business for assessing performance.

APMs should not be considered in isolation from, or as a substitute for, financial information presented in compliance with GAAP. Where appropriate, reconciliations to the nearest GAAP measure have been provided. The APMs used may not be directly comparable with similarly titled APMs used by other companies.

A full list of APMs used is set out in the section entitled 'Alternative Performance Measures (APMs)'.

Reported to adjusted results

The Group makes adjustments to results reported under IFRS to exclude specific items and the IAS 19 pension charge to cash difference adjustment (see definitions in the paragraph entitled 'Alternative performance measures'). Management believes this is a more meaningful basis upon which to analyse the business performance (in particular given the volatile nature of the IAS 19 charge) and is consistent with the way financial performance is reported to the Board.

IFRS can have the impact of causing high levels of volatility in reported earnings which do not relate to changes in the operational performance of the Group. Management has reviewed the long-term differences between reported and adjusted profit after tax. Cumulative reported profit after taxation for the five years ended 29 March 2020 was £1,089 million compared with cumulative adjusted profit after tax of £1,813 million. Annual reported profit after tax showed a range of £161 million to £273 million. The principal cause of the difference and volatility is due to pension-related accounting.

Further details on specific items excluded are included in the paragraph entitled 'Specific items and pension charge to cash difference adjustment'. A reconciliation showing the adjustments made between reported and adjusted Group results can be found in the paragraph entitled 'Consolidated reported and adjusted results reconciliation'.

Presentation of results

Consolidated reported and adjusted results

The following table reconciles the consolidated reported results, prepared in accordance with IFRS, to the consolidated 52 week adjusted results.

	52 weeks March 2020			Re-presented[1] 53 weeks March 2019		
(£m)	Reported	Specific items and pension adjustment[2]	Adjusted	Reported	Specific items and pension adjustment[2]	Adjusted
Revenue	**10,840**	**–**	**10,840**	10,581	–	10,581
Operating costs	**(10,623)**	**(108)**	**(10,515)**	(10,240)	(70)	(10,170)
People costs	**(6,064)**	**(108)**	**(5,956)**	(5,869)	(70)	(5,799)
People costs	**(6,036)**	**(108)**	**(5,928)**	(5,823)	(70)	(5,753)
Voluntary redundancy	**(28)**	**–**	**(28)**	(46)	–	(46)
Non-people costs	**(4,559)**	**–**	**(4,559)**	(4,371)	–	(4,371)
Distribution and conveyance costs	**(2,786)**	**–**	**(2,786)**	(2,606)	–	(2,606)
Infrastructure costs	**(991)**	**–**	**(991)**	(995)	–	(995)
Other operating costs	**(782)**	**–**	**(782)**	(770)	–	(770)
Operating profit before specific items	**217**	**(108)**	**325**	341	(70)	411
Operating specific items:						
Impairment of assets	**(91)**	**(91)**	**–**	(68)	(68)	–
Accounting impact of RMSEPP settlement	**–**	**–**	**–**	(64)	(64)	–
Regulatory fine	**(51)**	**(51)**	**–**	–	–	–
Employee Free Shares charge	**(4)**	**(4)**	**–**	(22)	(22)	–
Amortisation of intangible assets in acquisitions	**(19)**	**(19)**	**–**	(20)	(20)	–
Legacy/other credits/(costs)	**3**	**3**	**–**	(7)	(7)	–
Operating profit/(loss)	**55**	**(270)**	**325**	160	(251)	411
Non-operating specific items:						
Profit on disposal of property, plant and equipment	**89**	**89**	**–**	15	15	–
Earnings before interest and tax	**144**	**(181)**	**325**	175	(236)	411
Finance costs	**(56)**	**–**	**(56)**	(18)	–	(18)
Finance income	**6**	**–**	**6**	5	–	5
Net pension interest (non-operating specific item)	**86**	**86**	**–**	**79**	**79**	**–**
Profit before tax	**180**	**(95)**	**275**	**241**	**(157)**	**398**
Tax (charge)/credit	**(19)**	**60**	**(79)**	**(66)**	**27**	**(93)**
Profit for the period	**161**	**(35)**	**196**	**175**	**(130)**	**305**
Earnings per share						
Basic	**16.1p**	**(3.5p)**	**19.6p**	**17.5p**	**(13.0p)**	**30.5p**
Diluted	**16.1p**	**(3.5p)**	**19.6p**	**17.5p**	**(13.0p)**	**30.5p**

For footnotes, see page 57.

2018-19 adjusted results

2018-19 was a 53 week period. The table below reconciles the 2018-19 consolidated 53 week adjusted results to the 52 week consolidated results as previously reported. The table also reconciles the 2018-19 adjusted 52 week results presented in this Financial Review to the full year 2018-19 adjusted results published previously. More details can be found in the section called "Changes in disclosures and metrics used in external reporting".

(£m)	Adjusted 53 weeks March 2019 as previously published	53rd week revenue and costs	Adjusted 52 weeks March 2019 as previously published	Transformation[1] costs	Re-presented[1] adjusted 52 weeks March 2019
Revenue	10,581	(137)	10,444	–	10,444
Operating costs	(10,037)	102	(9,935)	(133)	(10,068)
People costs	(5,712)	70	(5,642)	(87)	(5,729)
People costs	(5,712)	70	(5,642)	(41)	(5,683)
Voluntary redundancy[2]	–	–	–	(46)	(46)
Non-people costs	(4,325)	32	(4,293)	(46)	(4,339)
Distribution and conveyance costs	(2,606)	15	(2,591)	–	(2,591)
Infrastructure costs	(995)	7	(988)	–	(988)
Other operating costs	(724)	10	(714)	(46)	(760)
Operating profit before transformation costs	544	(35)	509	–	–
Transformation costs	(133)	–	(133)	133	–
Adjusted operating profit	411	(35)	376	–	376

For footnotes, see page 57.

Segmental reported results

The following table presents the segmental reported results, prepared in accordance with IFRS.

(£m)	52 weeks March 2020				Re-presented[1] 53 weeks March 2019			
	UKPIL (UK operations)	GLS (Non-UK operations)	Intragroup eliminations	Group	UKPIL (UK operations)	GLS (Non-UK operations)	Intragroup eliminations	Group
Revenue	**7,720**	**3,161**	**(41)**	**10,840**	7,732	2,888	(39)	10,581
People costs	**(5,342)**	**(722)**	**–**	**(6,064)**	(5,202)	(667)	–	(5,869)
Non-people costs	**(2,369)**	**(2,231)**	**41**	**(4,559)**	(2,366)	(2,044)	39	(4,371)
Operating profit before specific items	**9**	**208**	**–**	**217**	164	177	–	341
Operating specific items	**(149)**	**(13)**	**–**	**(162)**	(92)	(89)	–	(181)
Operating (loss)/profit	**(140)**	**195**	**–**	**55**	72	88	–	160
Non-operating specific items[2]	**88**	**1**	**–**	**89**	14	1	–	15
(Loss)/Earnings before interest and tax	**(52)**	**196**	**–**	**144**	86	89	–	175
Net finance costs	**(34)**	**(16)**	**–**	**(50)**	(5)	(8)	–	(13)
Net pension interest (non-operating specific item)	**86**	**–**	**–**	**86**	79	–	–	79
Profit before tax	**–**	**180**	**–**	**180**	160	81	–	241
Tax credit/(charge)	**31**	**(50)**	**–**	**(19)**	(23)	(43)	–	(66)
Profit for the period	**31**	**130**	**–**	**161**	137	38	–	175

Footnotes for Financial Review – Presentation of Results and Alternative Performance Measures section

1 2018-19 Full Year results have been re-presented as described in the section entitled 'Changes in disclosures and metrics used in external reporting'. The impacts are the same for the 53 weeks March 2019 results.

2 Details of specific items in the pension adjustment can be found under 'Specific items and pension charge to cash difference adjustment' in the Group Results section.

ALTERNATIVE PERFORMANCE MEASURES (APMS)

This section lists the definitions of the various APMs disclosed throughout the Annual Report and Accounts and Financial Review. They are used by Management, who considers them to be an important means of comparing performance year-on-year, and are key measures used within the business for assessing business performance.

Adjusted operating profit

This measure is based on reported operating profit (see above) excluding the pension charge to cash difference adjustment and operating specific items, which Management considers to be key adjustments in understanding the underlying profit of the Group at this level.

These adjusted measures are reconciled to the reported results in the table in the paragraph entitled 'Consolidated reported and adjusted results reconciliation'. Definitions of operating costs, the pension charge to cash difference adjustment, and operating specific items are provided below.

Adjusted operating profit margin

This is a fundamental measure of performance that Management uses to understand the efficiency of the business in generating profit. It calculates 'adjusted operating profit' as a proportion of revenue in percentage terms.

Earnings before interest, tax, depreciation and amortisation (EBITDA) before specific items

EBITDA is reported operating profit before specific items with depreciation and amortisation and share of associate company profits added back.

Adjusted EBITDA is EBITDA before specific items with the pension charge to cash difference adjustment added back.

EBITDA is considered to be a useful measure of operating performance because it approximates the underlying operating cash flow by eliminating depreciation, amortisation and the performance of associate companies.

The following table reconciles adjusted EBITDA to reported operating profit before specific items.

(£m)	52 weeks March 2020	53 weeks March 2019
Reported operating profit before specific items	**217**	341
Depreciation and amortisation	**516**	391
EBITDA	**733**	732
Pension charge to cash difference adjustment	**108**	70
Adjusted EBITDA	**841**	802

Adjusted earnings per share

Adjusted earnings per share is reported basic earnings per share, excluding operating and non-operating specific items and the pension charge to cash difference adjustment. A reconciliation of this number to reported basic earnings per share is included in the adjusted results table in the section entitled 'Presentation of results'.

People costs

These are costs incurred in respect of the Group's employees and comprise wages and salaries, temporary resource, pensions and social security costs. People costs relating to projects and voluntary redundancy costs are also included.

Distribution and conveyance costs

These costs relate to non-people costs incurred in transporting and delivering mail by rail, road, sea and air, together with costs incurred by international mail carriers, Parcelforce Worldwide delivery operators and GLS.

Infrastructure costs

These are costs primarily relating to the day-to-day operation of the delivery network and include depreciation and amortisation, IT and property facilities management costs.

Other operating costs

These are any operating costs which do not fall into the categories of people costs, distribution and conveyance costs or infrastructure costs including, for example, Post Office Limited agency costs, consumables and training. Non-people costs relating to projects are included. Other operating costs exclude operating specific items.

Pension charge to cash difference adjustment

This adjustment represents the difference between the IAS 19 income statement pension charge and the actual cash payments. Management believes this adjustment is appropriate in order to eliminate the volatility of the IAS 19 accounting charge and to include only the true cash cost of the pension plans in the adjusted operating profit of the Group.

For the DBCBS, applicable from 1 April 2019, this represents the difference between the IAS 19 income statement pension charge rate of 20.8 per cent (2018-19: 18.9 per cent) and the actual cash payments of 15.6 per cent.

The prior year adjustment also included an adjustment for one week in respect of the RMPP which closed on 31 March 2018. This represented the difference between the IAS 19 income statement pension charge rate of 41.0 per cent to 31 March 2018 and the actual cash payments agreed with the RMPP Trustee of 17.1 per cent of pensionable pay to 31 March 2018.

Operating specific items

These are recurring or non-recurring items of income or expense of a particular size and/or nature relating to the operations of the business that, in Management's opinion, require separate identification. Management does not consider them to be reflective of year-on-year operating performance. These include items that have resulted from events that are non-recurring in nature, even though related income/expense can be recognised in subsequent periods.

Regulatory fine

Following the Competition Appeal Tribunal judgment of 12 November 2019, a provision has been made for a fine of £50 million and associated interest. Please see the Principal Risks and Uncertainties section for further details.

Employee Free Shares charge

These relate to accounting charges arising from the granting of free shares to employees upon the Government's sales of its stake in the business (SIP 2016), as well as partnership and matching shares, with no direct cash impact on the Group.

Impairment of assets

These costs relate to impairment of: a business or CGU (Parcelforce Worldwide in the reporting year); goodwill (GLS US network in 2018-19); or specific assets.

Accounting impact of RMSEPP settlement

These costs relate to the purchase of insurance policies for the RMSEPP. This involves purchasing an insurance policy that provides cash flows that exactly match the value and timing of the benefits payable to the members it covers. These are accounting adjustments in relation to the write off of the closing surplus as a result of the purchase of the policy and have no cash impact to the Group.

Amortisation of intangible assets in acquisitions

These notional charges, which arise as a direct consequence of IFRS business combination accounting requirements, are separately identified as Management does not consider these costs to be directly related to the trading performance of the Group.

Legacy/other costs/credits

These costs/credits relate either to unavoidable ongoing costs arising from historic events (industrial diseases provision), restructuring costs, or historic provisions not utilised.

Non-operating specific items

These are recurring or non-recurring items of income or expense of a particular size and/or nature which do not form part of the Group's trading activity and in Management's opinion require separate identification.

Profit/loss on disposal of property, plant and equipment (PP&E)

Management separately identifies profit/loss on disposal of PP&E as these disposals are not part of the Group's trading activity and are driven primarily by business strategy.

Free cash flow

Free cash flow (FCF) is calculated as statutory (reported) net cash flow before financing activities, adjusted to include finance costs paid and exclude net cash from the purchase/sale of financial asset investments. FCF represents the cash that the Group generates after spending the money required to maintain or expand its asset base.

In-year trading cash flow

In-year trading cash flow reflects the cash generated from the trading activities of the Group. It is based on reported net cash inflow from operating activities, adjusted to exclude other working capital movements and the cash cost of operating specific items and to include the cash cost of property, plant and equipment and intangible asset acquisitions and net finance payments. Other working capital movements include movements in GLS client cash held and in deferred revenue from stamps purchased in prior years. In-year trading cash flow is used primarily by Management to show cash being generated by operations less cash investment.

The following table reconciles in-year trading cash flow to the nearest IFRS measure 'Net cash inflow from operating activities'.

(£m)	52 weeks March 2020	53 weeks March 2019
Net cash inflow from operating activities	**950**	493
Adjustment for:		
Other working capital movements	**(7)**	(6)
Cash cost of operating specific items	**2**	6
Purchase of property, plant and equipment	**(265)**	(264)
Purchase of intangible assets (software)	**(77)**	(100)
Net finance costs paid	**(47)**	(12)
In-year trading cash flow	**556**	117

Gross capital expenditure

Gross capital expenditure is a measure of the cash utilised by the Group in the year on capital investment activities. It is a measure used by Management to monitor capital investment within the Group. The items making up this balance in the statutory cash flow are indicated in the section 'Consolidated statement of cash flows'.

Net debt

Net debt is calculated by netting the value of financial liabilities (excluding derivatives) against cash and other liquid assets. It is a measure of the Group's net indebtedness that provides an indicator of the overall balance sheet strength. It is also a single measure that can be used to assess the combined impact of the Group's indebtedness and its cash position. The use of the term net debt does not necessarily mean that the cash included in the net debt calculation is available to settle the liabilities included in this measure. Details of the borrowing facilities in place and the amounts drawn can be found in the section titled 'Net finance costs'.

A reconciliation of net debt to reported balance sheet line items is shown below.

(£m)	52 weeks March 2020	53 weeks March 2019
Loans/bonds	**(1,635)**	(431)
Leases	**(1,188)**	(125)
Cash and cash equivalents	**1,619**	216
Investments	**30**	–
Client cash	**21**	20
Pension escrow (RMSEPP)	**21**	20
Net debt	**(1,132)**	(300)

Leases have increased due to the capitalisation of leases as a result of adopting IFRS 16. The Group recognised a 'right of use' asset and a corresponding lease liability based on the leases held on transition. Additions and modifications to leases since transition are also captured within this balance.

Cash and cash equivalents increased by £1,403 million largely as a result of free cash flow of £653 million (2018-19: £71 million outflow), proceeds from the €550 million bond issue of £489 million and drawings of £700 million on the syndicated bank loan facility, offset by dividends paid of £244 million (2018-19: £242 million) and payment of capital element of obligations under lease contracts of £172 million (2018-19: £56 million).

The short-term deposit of £30 million represents a short-term cash deposit with a relationship bank which matures in July 2020.

Net debt excludes £180 million (2018-19: £187 million) related to the RMPP pension scheme of the total £201 million (2018-19: £207 million) pension escrow investments on the balance sheet which is not considered to fall within the definition of net debt.

The RMPP escrow agreement specifies that the funds must be used for the benefit of members, on a basis to be agreed between the Plan Trustee and the Company. The funds are therefore not available to management for corporate purposes (outside of pension arrangements) and so the RMPP escrow is excluded from net debt.

The RMSEPP escrow agreement specifies that the funds will be returned to the Company once they are no longer required for security purposes and therefore the RMSEPP escrow is included within net debt.

Adjusted effective tax rate

The adjusted effective tax rate is the adjusted tax charge or credit for the year expressed as a proportion of adjusted profit before tax. Adjusted effective tax rate is considered to be a useful measure of tax impact for the year. It approximates the tax rate on the underlying trading business through the exclusion of specific items and the pension charge to cash difference adjustment.

PRINCIPAL RISKS AND UNCERTAINTIES

TRANSFORMATION AND THE RISK OF INDUSTRIAL ACTION

There is extensive trade union recognition in respect of our workforce in the UK, with strong and active trade unions. As Royal Mail Group continues to transform in order to remain competitive in the letters and parcels markets, including delivering its 'turnaround and grow' plan in the UK, there remains a risk of industrial action.

INDUSTRIAL ACTION

Principal risk

There is a risk that one or more material disagreements or disputes between the Group and its trade unions could result in widespread localised or national industrial action.

The absence of major industrial action is a key assumption underpinning the 'turnaround and grow' plan in the UK. The plan requires a high level of operational change in an increasingly competitive market. This has already put additional strain on the stability of our industrial relations.

Widespread localised or national industrial action would cause material disruption to our business in the UK. It would likely result in an immediate and potentially ongoing significant loss of revenue for the Group. It may also cause Royal Mail to fail to meet the Quality of Service targets prescribed by Ofcom, which may lead to enforcement action and fines.

Status

During the year, the threat of industrial action has impacted our UK business:

- Our UK 'turnaround and grow' plan is behind schedule, in part due to the industrial relations environment.
- Additional investment was required to protect service quality to manage the impact of the threat of industrial action on Christmas and during the December 2019 UK General Election, which has impacted productivity for 2019-20.
- a small number of customers moved volumes to other carriers due to the threat of industrial action in December 2019.

Following the High Court ruling that the CWU's October 2019 ballot for industrial action was unlawful and void, we approached CWU in January 2020 to offer mutual interest talks. CWU withdrew from those talks.

On 4 February 2020, CWU announced a timeline for a further ballot for industrial action. On 17 March 2020, it confirmed 94.5 per cent of Royal Mail members who voted were in favour of industrial action. CWU has stated its intention to defer industrial action as we prioritise dealing with the COVID-19 pandemic and protecting our people and customers.

When we offered talks at the beginning of the year, we were clear we needed to proceed with key national trials and local operational improvements. All have been delayed by the industrial relations environment, in some cases, by well over a year. Since then, we have made progress with trials of automated clocking in and out and separate van delivery of larger and Next Day parcels. We have also commenced a small number of local change initiatives.

How we are mitigating the risk

We are working with CWU during the COVID-19 pandemic to ensure we achieve our objectives to: i) safeguard the health and wellbeing of our people and the communities we serve; and ii) continue to deliver the best possible service to our customers during this unprecedented crisis. This has led to the temporary introduction of enhanced sick absence terms, and changes to ways of working.

We welcomed and appreciated CWU's statement that the COVID-19 crisis was not the time to take industrial action. We continue to engage, on a regular basis and at a senior level, with CWU and Unite/CMA on our plans for change. Our engagement with CWU follows our recent Joint Statement with the union whereby both parties committed to work on setting up a joint framework for talks to seek to resolve our dispute.

We have honoured all our Agreements with CWU. This includes two pay awards and an hour's reduction in the working week, amounting to an effective pay increase of around 10 per cent over two years. All the appropriate dispute resolution procedures have been followed and completed.

Our Agenda for Growth agreement with CWU provides a joint commitment to improved industrial relations and to resolving disputes at pace in a way that is beneficial to both employees and Royal Mail. There is a prescribed resolution process for disputes. The Agreement has legally binding protections for the workforce in respect of future job security and our employment model. These can be rescinded in certain circumstances, including in the event of national industrial action.

Key

Link to strategy (see page 19)	Relative severity	Change during the year	Speed at which the risk could impact
▲ 'Turnaround and grow' in the UK	● High	Increasing risk	Fast: 6 months
▲ 'Scale up and grow' GLS	● Medium	Decreasing risk	Medium: 6-12 months
▲ Enhancing our cross-border proposition	● Low	Stable	Slow: >12 months
		NEW New	

PENSION ARRANGEMENTS

Principal risk	Status	How we are mitigating the risk
We recognise pension benefits are important. We will continue to provide sustainable and affordable pensions arrangements for our people. There is a risk that we may be unable to obtain the necessary legislative changes to enable us to implement the UK's first Collective Defined Contribution (CDC) pension scheme, as agreed with CWU.	The Royal Mail Pension Plan closed to future accrual in its Defined Benefit form on 31 March 2018. A new Defined Benefit Cash Balance Scheme was put in place from 1 April 2018. The overall ongoing cash cost of the transitional arrangements and the proposed CDC scheme is expected to continue to be around £400 million a year. The Pension Schemes Bill, of which CDC is a part, was tabled on 7 January 2020 and has started its progress through Parliament. The passage of the Bill depends on factors including the amount of parliamentary time made available.	We are continuing to work with CWU and Government to introduce the necessary legislative and regulatory changes so that we can introduce our proposed CDC pension scheme as soon as possible.

EFFICIENCY

Principal risk

Royal Mail must become more efficient and flexible to compete effectively in the parcel and letter markets.

The success of our strategy relies on the effective control of costs across all areas of the business and the delivery of efficiency benefits.

We continue to operate a tight balance between achieving efficiency improvements and delivering high service levels. This requires careful management of efficiency and Quality of Service.

In May 2019, Royal Mail launched its 'turnaround and grow' plan in the UK, with a range of financial and operating ambitions. There is a risk we will not be able to deliver our transformation programme and meet our required cost avoidance and productivity improvement targets during the life of the plan.

COVID-19 has meant we, rightly, have had to introduce a range of social distancing measures in our processing and delivery operations (e.g. changing standard ways of working including one person per van). These arrangements may continue for some time. In turn, they may have an adverse impact on productivity.

Status

UK profits have declined more than 70 per cent since 2014-15, while costs have increased. Prior to COVID-19, the industrial relations environment was slowing the rate of change in the UK operation. Our productivity improvement for the year was 1.0 per cent, lower than our initial forecast of over 2 per cent.

The 'turnaround and grow' plan focuses on efficiency and productivity in our UK network through a range of new, digitally enabled work tools, operational excellence and targeted investments. It maximises the benefits, particularly in delivery and processing, of joint letter and parcel delivery, and facilitates our transition to a parcels-led business where UK letters are important.

Our 'turnaround and grow' plan in the UK is behind schedule. Combined with the impact of the COVID-19 pandemic, we believe it will now take longer to achieve the targets we have set, at a time when we need to be accelerating the pace of change in the UK.

Our UK costs are increasing as we make necessary investment in quality measures and protective equipment for our people. This makes it even more important that we increase our efficiency.

How we are mitigating the risk

Following the onset of the COVID-19 pandemic, we are prioritising the protection of our people and customers, whilst keeping mail and parcels moving. We have already committed around £40 million on buying equipment such as hand sanitiser, disposable gloves and other additional protective measures to keep our people safe.

The outlook for our UK business is challenging. Before the COVID-19 pandemic took hold, our UK transformation was behind schedule. But, we had made progress in key areas relating to improving productivity. This included:

Seeking to embed a range of digitally-enabled work tools to improve efficiency and productivity. We completed the deployment of our route optimisation tool in March 2020, which has improved visibility of changes to delivery routes and this has been used to deliver our first phase of delivery revisions.

We are scaling up trials for Resource Scheduler, which draws together data from across the operation to enable better alignment of duty sets and rosters to demand.

In January 2020, following the conclusion of our dispute resolution procedures with CWU, we confirmed we were moving ahead with key national and much-needed local change initiatives that had been delayed, in some cases, by up to a year. That includes extending our successful trial of automated clocking in and out for frontline colleagues at a small number of UK sites.

We installed a further 10 parcel machines, meaning we now have 20 machines at 16 Mail Centres. This has driven the percentage of parcels sorted by machine to 33 per cent, close to three times the average number sorted automatically during 2018-19. Work has started on the next phase of this automation programme, which will add further machines into parcel sorting operations.

We want to increase the overall proportion to over 80 per cent by installing automated machines in all Mail Centres by 2023-24 and building dedicated parcel hubs.

Work continues on the parcel hubs. We have chosen the supplier for automation and have completed the fit out for the North West hub. We have signed a conditional agreement for a lease for our second parcel hub in the Midlands.

We are implementing a range of immediate cost control activities and reducing capital expenditure in a measured way:

- Management restructure, subject to consultation, targeting a reduction of c.2,000 roles out of a total population of c.9,700.
- £250 million capital expenditure reduction across 2020-21 and 2021-22. Investment continues at higher than historical levels, including in parcel automation and hubs.
- Targeting flat non-people costs, excluding depreciation, in 2021-22 versus 2019-20, with £200 million annual savings in 2021-22 offset by increases in parcel volume related costs.

CUSTOMER EXPECTATIONS AND ROYAL MAIL'S RESPONSIVENESS TO MARKET CHANGES

The industry sectors in which we operate remain highly competitive, with customers demanding more and our competitors responding quickly to these changing demands.

CUSTOMER EXPECTATIONS AND ROYAL MAIL'S RESPONSIVENESS TO MARKET CHANGES

Principal risk	Status	How we are mitigating the risk
Changes in customer expectations, and in the markets in which the Group operates, could impact the demand for products and services. Given the major cultural shift underway in UK society – more e-commerce and therefore fewer letters and more parcels – it is very important Royal Mail changes too. While we expect to handle many more parcels in the years to come, we think UK letter volumes will continue to decline. This structural decline is driven by e-substitution, lower GDP, the impact of GDPR and business uncertainty. We expect it to accelerate this year, due to the impact of COVID-19. There is a high degree of uncertainty about letter volumes due to the effect of COVID-19 and any subsequent economic slowdown. In addition, we may see a paradigm-shift as online retailing activity accelerates, driving more parcel growth. At GLS, B2C volumes have increased significantly in recent years as part of our strategy. The pandemic is accelerating a shift from B2B to B2C, although the relative proportions vary from market to market. Our focus on productivity, through operational excellence and key work tools, is vital to remaining competitive in the UK parcels market – one of the most developed e-commerce markets in the world. So too is our network redesign, which, in combination with productivity gains, should protect UK business, to some extent, from changes in customer demand.	Addressed letter volumes (excluding elections) did not show the expected level of recovery in the second half. Advertising mail in particular has been significantly impacted by COVID-19, as marketing campaigns are delayed or cancelled and moved to digital platforms. While B2C mail volumes have been more resilient, restrictions on individuals and businesses have adversely impacted unsorted and stamped mail. Due to the highly uncertain external environment we are unable to provide specific letter volume market guidance. However, we do expect letter volumes to decline substantially this year. See our stress test scenarios on pages 11-14. The UK domestic and international parcels markets are highly competitive, with innovative delivery solutions including convenient, reliable delivery and return options, and improved tracking services. During the COVID-19 pandemic, UK e-commerce growth has significantly outpaced the wider UK retail market, resulting in very strong B2C volumes; initially we saw the strongest growth in sectors providing goods associated with the lockdown, and while these continue to be strong all other major sectors have now recovered. International import and export parcel traffic had been adversely affected by the COVID-19 pandemic. Our network provides strong economics, particularly in the combined delivery of letters and small parcels. It is not currently optimised for the anticipated increase in Next Day and larger parcels. At GLS, we are focused on delivering a range of consumer-led solutions as we deliver more B2C parcels. At the same time, yield management is a key focus for us, to ensure profitable growth.	We are transforming from a UK-focused letters business that delivers parcels, to a parcels-led, international business. Letters will remain an important part of our business. We will continue to deliver customer focused enhancements enabled by our 'turnaround and grow' plan. This includes leveraging parcel technology investments to bring to market new features to improve convenience and customer control in the UK and internationally, such as in-flight redirections, predicted day of delivery/shorter delivery windows, parcel post-boxes and doorstep collections. We will continue with our UK network transformation and increasing automation to: a) maximise the benefits of delivering letters and small parcels together; and b) handle more Next Day and larger parcels more efficiently. This will facilitate e-commerce growth and increase demand for our services. This year we will focus on winning and retaining as much of the current exceptional parcel growth as possible, with an emphasis on those customers and sectors that represent long-term growth opportunities. We will continue to support this with regular service feature developments and continuous enhancements to our digital access and service channels such as the Royal Mail App. Our range of letter products, incentives and offers are designed to demonstrate how mail can help businesses. We will deploy a range of appropriate incentives to encourage customers to reconnect with using mail. New initiatives will also follow, designed to contemporise key product segments like consumer mail. We will also continue to promote the value of mail, including as and when the lockdown is lifted over time. As announced in June 2020, we are integrating Parcelforce Worldwide and Royal Mail International more closely into Royal Mail. These changes will ensure that we have one integrated domestic and international parcels strategy that best serves the changing needs of the market and customers.

ECONOMIC AND POLITICAL ENVIRONMENT

Principal risk

Historically, there has been a correlation between economic conditions and the level of letter and B2B parcel volumes. Low rates of economic growth could impact our ability to maintain and grow revenue, either by reducing volumes or encouraging customers to adopt cheaper products or formats for sending letters and parcels.

We are entering a period of significant uncertainty. The COVID-19 pandemic is taking us into uncharted territory and the extent to which UK and global economic activity will decline over the next few months is expected to be steeper than the financial crisis of 2008-09. How the economy will fare in three to six months is equally unclear and there is a risk that there may be additional spikes in COVID-19 infection rates. Economic forecasters are divided over how long the crisis will last and what a recovery will look like. These are matters we are unable to predict with any certainty.

In addition, while the UK has left the EU and entered a transition period which runs to 31 December 2020, it is not clear whether this deadline will continue to hold or what the outcome will mean for future UK and EU trading arrangements.

Status

The Board continues to monitor the economic and wider external environment in the UK and our other markets. Specific areas of focus include:

- Business uncertainty, alongside the recent slowdown in economic activity due to the COVID-19 pandemic, which is impacting letter volumes, including business and advertising mail.
- In the UK, B2C parcel volumes have remained strong, supported by an increase in e-commerce as people shop more online. In the UK and some EU markets, international import and export parcel traffic has been adversely affected but is now in recovery.
- In the overseas market in which GLS operates, B2B volumes have fallen whilst B2C volumes have increased.

The extent to which these trends will be sustained depends in part on the evolution of the response to the pandemic in each country.

- For 2020-21, there will almost certainly be a sharp and sustained economic downturn in our core markets. As in the UK, economic growth in the Eurozone is expected to slow down sharply in the short term. The medium-term outlook is highly uncertain.

Royal Mail's letters business performance remains closely aligned to UK economic growth. We therefore expect significant incremental rates of decline in the short term. Thereafter, the outlook for letters will be highly dependent on how the crisis evolves and Government's public policy response.

As previously announced, due to these factors, we expect Royal Mail (UKPIL) to be materially loss-making in 2020-21; while GLS profitability may potentially be reduced.

In addition, over the medium to long term, both our letters and parcels business outlook will be shaped by events relating to the future trading relationship between the UK and the EU, which remains unclear. It is not possible to predict with any degree of accuracy the impact the UK's departure from the EU could have on the Group.

How we are mitigating the risk

Macroeconomic risk assessments are embedded within our letters forecasting processes. In addition, a set of economic scenarios have been constructed to inform a range of scenarios that could be associated with COVID-19. These are being revised regularly as more information is obtained.

The Group has the following strategies in place:

- Maintaining a strong liquidity position, with good levels of cash, limited financial debt and retaining access to a £925 million syndicated bank loan facility.
- Existing covenants have been waived until March 2022, and replaced with a basic liquidity covenant.
- A cost avoidance programme to effectively manage cash and spending.
- Business initiatives to respond to fluid competitive pressures.
- A measured reduction in investment in the short term to underpin our financial position.
- The Group has the ability to access the Covid Corporate Financing Facility (CCFF), if required.

Internal procedures are also in place to monitor and manage ongoing risks associated with the UK leaving the EU. Material risks are reported to and handled through a Brexit steering group comprising senior executives.

We believe the immediate risk to our domestic operations is low. The impact on cross-border parcel volumes will depend on the nature of the UK's future trading relationships, and what the future EU/UK customs and VAT arrangements will be. At the end of the transition period, we expect the rules which apply to non-EU imports to be extended to EU items. Similarly, we would expect the EU to treat UK imports as it does non-EU imports today.

Strategies to address these risks include:

- Accelerating the pace of change in the UK to deliver the requisite efficiency benefits.
- Arrangements are in place to manage the expected impact of changes to customs processing.
- Working closely with Government to put in place systems to ensure the movement of cross-border parcels continues to operate effectively.

Royal Mail regularly engages with politicians and policy makers, and closely monitors the potential impact of political and policy changes on the Company. The Company runs an extensive public affairs programme with politicians and policy makers.

SCALE UP AND GROW GLS

Principal risk	Status	How we are mitigating the risk
Our success in growing in new areas of business is dependent on such factors as our continued ability to identify new profitable and sustainable areas of business, implementing appropriate investments, and having in place suitable structures to support continued transformation of the business.	Royal Mail Group is well positioned to grow through its subsidiary, GLS. It has a replicable and scalable business model founded on the development of strong regional businesses. Our GLS strategy is about growing the business. It remains very well positioned as a deferred delivery business with good market positions in many countries. GLS is an important source of cash flow generation and revenue diversification for Royal Mail Group. In the short term, there are few synergies available between Royal Mail and GLS. In the medium term, an international presence is clearly important. The large, and growing, cross-border market represents a growth opportunity. The majority of cross-border volumes are deferred parcels (including small parcels); express parcels account for less than a quarter of volumes. This is a growth area for the Group.	Our five-year plan aims to build a parcels-led, more balanced, more diversified business. This includes increasing the proportion of Group revenue generated by parcels through our 'scale up and grow' plan for GLS and cross-border parcels. Our strategy is designed to ensure GLS builds on its strong, 30-year track record and makes a major contribution to the Group's product and geographical diversification. The focus will be on profitable revenue growth, including focused yield management. The acceleration of the shift from B2B to B2C will be addressed through initiatives to improve last mile productivity to offset cost pressures. We are conducting a review of recent acquisitions and implementing improvement plans in key markets.

REGULATORY AND LEGISLATIVE ENVIRONMENT, AND OPERATIONAL RISKS

The UK business operates in a regulated environment. GLS entities operate in a number of different jurisdictions and are subject to various national laws and regulations. Changes in legal and regulatory requirements could impact our ability to meet our targets and goals.

OUR UK REGULATORY FRAMEWORK

Principal risk	Status	How we are mitigating the risk
USO finances are fragile. There are significant, and growing, risks to the USO's financial sustainability. Given the continuing structural decline in addressed letter volumes, and broader changes in the parcels market, Ofcom is continuing its monitoring of Royal Mail. It has brought forward some of the work it plans to undertake as part of its next review of the regulation of Royal Mail, which, overall, will be completed in 2022. Ofcom's review of the regulatory framework could lead to further intervention which could undermine the financial sustainability of the Universal Service.	Ofcom will continue to be focused on monitoring Royal Mail's efficiency. It will complete its bottom-up cost model of our operations and a review of our efficiency. It is also conducting research on user needs to assess whether the postal services market is meeting the reasonable needs of postal users. The Universal Service, as we have stressed to Ofcom and Government, needs to meet the 21st century requirements of consumers and SMEs. In short, a contemporary USO is required. We have also noted the importance of considering the revenue pools needed to sustain the Universal Service, alongside the legitimate needs of consumers and SMEs. Given that the USO has high, fixed costs, irrespective of volume, it is also crucial to focus on underpinning USO and non-USO revenue pools to fund it. As a result of the COVID-19 pandemic, we initially indicated that there could be some service disruption across the country. We subsequently announced a six-week temporary relaxation of delivery frequency arrangements in relation to letters. For that period, letters were delivered five days a week; we continued to deliver most parcels on a six days a week basis. Normal services resumed on 13 June 2020. We welcomed Ofcom's statement that it would take a pragmatic approach to any changes to our regulated services during this unprecedented crisis.	A key aim of our 'turnaround and grow' plan for our UK business is to underpin the sustainability of the Universal Service. The plan will be challenging to execute. We will continue to ask Ofcom for its support, wherever possible, to facilitate its delivery. In doing so, we will note that our transformation is designed to help us become even more efficient and better placed to respond to changing customer demands. We will stress the power and economic value of the Universal Service as it makes commerce happen across the UK and connects customers, companies and countries. Ofcom is conducting a User Needs Review about the Universal Service. We believe that many of the key USO features are valued by consumers and SMEs. They include uniformity, universality, affordability and measurability. But, they all have to be paid for at a time when COVID-19 has exacerbated the underlying problems facing the USO. For example, since the beginning of this financial year (2020-21) letter volumes have declined about 33 per cent, around four times the decline rate we saw in 2019-20. For its part, Royal Mail has a stretching self-help programme in place. This involves significant investment in the Universal Service when our finances are under challenge; we expect to be materially loss-making in the UK this year. In addition, we plan to address the very specific challenges presented by COVID-19. We do not believe, however, that successful delivery of our transformation and COVID-19 mitigation plans will be enough in themselves to underpin the long-term stability of the USO. That is why, alongside engaging with our unions on our own plans to put Royal Mail in a better position, we are working with the Regulator and Government on the Universal Service. This is all about ensuring it is financially underpinned, in a sustainable way, and future-proofed to reflect changing consumer and SME needs and preferences. Ofcom will embark on a public consultation on the USO, and Royal Mail will engage, at the same time, with many stakeholders on a USO for the 21st century. From its own, detailed research, the Company anticipates that many of the current features of the USO should remain in place, subject to regulatory and Government approval. We look forward to the debate and engagement to come, including ensuring the Universal Service has the requisite financial resources to sustain itself.

COMPETITION ACT INVESTIGATION

Principal risk

On 14 August 2018, Ofcom published its decision following its investigation into whether Royal Mail had breached competition law. The investigation was launched in February 2014, following a complaint brought by TNT Post UK (now Whistl). Ofcom found that Royal Mail had abused its dominant position in the market for bulk mail delivery services in the United Kingdom by issuing Contract Change Notices on 10 January 2014 which introduced discriminatory prices. It fined Royal Mail £50 million.

In October 2018, Whistl filed a damages claim against Royal Mail at the High Court relating to Ofcom's decision.

Status

The Group robustly defended its conduct in written and oral representations made to Ofcom during the investigation and lodged an appeal with the Competition Appeal Tribunal (CAT) on 12 October 2018 to have both Ofcom's decision and fine overturned.

The main hearing for the appeal to the CAT took place in June and July 2019. On 12 November 2019 the CAT handed down its judgment on RMG's appeal, which upheld Ofcom's decision and the £50 million fine. As a result, Royal Mail has made a provision for the fine, which is now payable to Ofcom.

In January 2020, Royal Mail requested permission to appeal the CAT's judgment to the Court of Appeal (CoA). On 30 March 2020, the CoA granted Royal Mail permission and indicated that a hearing would be held over one to two days in mid-2021.

How we are mitigating the risk

Royal Mail's appeal of the CAT's judgment will be heard by the CoA in mid-2021.

Whistl's High Court claim is on hold until after the completion of the appeal process.

CAPABILITY – TALENT AND STRATEGIC WORKFORCE PLANNING

Principal risk

This risk brings together our risks of "Strategic workforce planning" and "Talent and capability" that were previously presented separately.

Our performance, operating results and future growth depend on our ability to attract and retain talent with the appropriate level of expertise.

The capability, experience and cohesion of senior management are integral to our transformation.

Workforce planning could be adversely impacted by an ageing workforce, and a reduction in available workforce due to the impacts of demographic change, Brexit and increasing automation.

Status

Voluntary turnover in senior management is at similar levels to prior years but remains a business risk.

As our workforce ages, it may be incapable of fulfilling physically demanding roles. We are developing a strategy to attract and retain younger workers, which means we need to review our employment proposition.

Our transformation, including implementation of our Enterprise strategy and increased automation, will change the nature of some roles, requiring new and different skills. We need to be able to upskill our existing workforce to develop these skills and ensure we can attract and retain people with the right skills for our organisation.

The impact of Brexit on the employment market is largely still unknown. It may influence the availability of workers, particularly if freedom of movement is at risk.

The medium and long-term impact of COVID-19 on Royal Mail is unknown. However, the mail mix/profile, and the economy generally, is likely to be quite different coming out of the crisis, for which scenarios are currently being modelled.

How we are mitigating the risk

Executive search activity has continued to bring in external hires with key capabilities. We operate an internal Executive talent review and succession planning process and have in place leadership development programmes.

Leadership initiatives to aid the transformation agenda are in design; along with our approach for increasing diversity across this population, including 2024 targets agreed with the Inclusive Action Steering Group.

Resources, delivery methods and timescales for these and other activities in development are being impacted as a result of COVID-19.

We are monitoring the demographic profile of our workforce and tracking key external metrics such as the employment rate and demographics. We undertake market research and analysis and we perform industry benchmarking.

A Strategic Workforce Plan has been developed during 2019-20 and will be reviewed once the impact of COVID-19 is more clearly understood.

HEALTH, SAFETY AND WELLBEING

Principal risk

The health, safety and wellbeing of our employees, contractors, agency workers and members of the public are of the utmost importance. There is a risk that a health and safety incident or global health crisis could result in the serious injury, ill health or death of employees, contractors, agency workers or members of the public.

An incident may lead to criminal prosecution or fines by the enforcing authority or civil action by the injured party resulting in large financial losses and reputational damage for the Group.

Similarly, failure to manage the health and wellbeing of our employees could also lead to financial losses and reputational damage through increased sickness absence, lower productivity, failure to deliver the USO, civil action or criminal prosecution.

Status

The business has a large number of employees including seasonal staff and agency workers. It also operates a very large fleet, employs a large number of contractors and interacts extensively with members of the public. A large proportion of our employees spend most of their time working outdoors, on foot or driving, where the environment is more difficult to control.

Due to this wide reach and the number of people affected by the business' undertakings, the risk of serious harm to people cannot be totally mitigated. We acknowledge that every health and safety incident has a human impact.

An integrated Safety, Health and Environment Management System (SHEMS) is in place to manage our risks and achieve legal compliance; ongoing maintenance addresses any emerging compliance gaps or risk controls. We continue to identify opportunities for simplification to make the SHEMS more accessible for managers.

The COVID-19 pandemic poses a new and increased risk to public health. Our employees are classified as key workers as we form part of the country's essential infrastructure. We have an important role to play in keeping letters and parcels moving during the pandemic. This means that the effectiveness of our controls and processes to protect our employees is even more important.

How we are mitigating the risk

We will continue to review SHEMS to identify any further opportunities for streamlining and simplification. We are investing in improved technology so risk assessment processes can be completed more easily by managers and better meet business needs.

Operational implementation of SHEMS is monitored via an annual audit programme. A professional and independent SHE function provides advice, support and guidance on the implementation of standards.

There is an annual SHE initiative and communications plan in place. This is informed by a review of compliance data, risk data, KPI performance and legislative requirements.

Employees have access to health and wellbeing assistance through our Feeling First Class website, First Class Support helpline and Occupational Health provision.

SHE performance is discussed and reviewed by the Board. Senior leaders are committed to driving full compliance to SHEMS.

We have taken action to mitigate the risks to our employees and customers posed by the COVID-19 pandemic, including enhancing our sick pay policy and updating our operating procedures to limit contact between colleagues and customers.

We have implemented PHE and WHO instructions and guidance through the development of internal policies, procedures, risk assessments, instructions and guidance. These arrangements have been communicated to employees through a dedicated, comprehensive multi-media communications campaign.

MAJOR BREACH OF INFORMATION SECURITY, DATA PROTECTION REGULATION AND/OR CYBER ATTACK

Principal risk	Status	How we are mitigating the risk
We collect, process and store confidential business and sensitive personal information due to the nature of our operations. As a result, we are subject to a range of laws, regulations and contractual obligations around the governance and protection of various classes of data to protect our customers, suppliers and employees. In common with all major organisations, we are the potential target of cyber-attacks that could threaten the confidentiality, integrity and availability of data and trigger material service and/or operational interruption. A major breach of information security, data protection laws, regulations and/or cyber-attack could adversely impact our reputation, and result in financial loss, regulatory action, business disruption and loss of stakeholder confidence.	Given the evolving nature, sophistication and prevalence of these threats, including those presented by the current COVID-19 pandemic and our – still growing – reliance on technology and data for operational and strategic purposes, this continues to be a principal risk.	As external threats become more sophisticated, and the potential impact of service disruption increases, we continue to invest in security enhancement and data protection in response to the changing threats we face. We continue to support the education of our employees and stress the importance of maintaining vigilance across the business, whilst recognising that we cannot provide absolute mitigation against the risks. This is especially imperative during altered ways of working due to COVID-19. As a result of the pandemic, changes have been required to our operational processes and to working practices, including those of third-party suppliers who process our data.

ENVIRONMENT AND SUSTAINABILITY

Principal risk	Status	How we are mitigating the risk
Climate change and regulatory actions designed to mitigate its impact may have adverse operational, financial and reputational consequences. The cost of operations could increase as a result of actions to mitigate and adapt to climate change. These include the introduction of Clean Air Zones, the future ban of petrol and diesel vehicles, and net-zero emission targets for towns and cities. An increase in the frequency of extreme weather events may result in disruption to our operations. It may also impact our ability to meet USO or other contractual requirements. We may also see price rises as a result of resource scarcity, such as water shortages, and increased costs associated with insurance premiums, investment in equipment to protect the business from extreme weather events, and any associated repairs. In common with all major organisations, there could also be a risk of reputational damage – impacting our 'licence to operate' – if the business is perceived to not be responding appropriately to stakeholder expectations for action on climate change.	With the UK's largest 'feet on the street' network of around 90,000 postmen and women, Royal Mail plays a key role in keeping carbon emissions low. We have a requirement to maintain a large fleet of vehicles. Growth in parcels is also driving up our energy demand. We recognise our responsibility to reduce our environmental impacts. Our environmental programmes have already reduced our UK emissions by 31.9 per cent since 2004-05. The GLS 'ThinkGreen' initiative delivers targeted measures on key environmental issues. These include a reduction in emissions and the responsible handling of resources across areas of transport, buildings and business travel. We continue to invest and implement changes to improve the efficiency of our operations. This includes investment in zero- and low-emission vehicles and the installation of efficient equipment across our property estate. We engage our people in our efforts to become more efficient and reduce our use of natural resources.	We are launching our new environmental strategy in 2020-21. It has three key pillars: emissions reduction, cleaner air, and resource efficiency. Our target is for our operations to be net-zero by 2050. We are increasing the number of electric and alternative fuel vehicles in our fleet to reduce emissions and improve air quality. We are investing in innovative technologies, such as telemetry, and driver training programmes, to reduce the amount of fuel we use. We also continually work to optimise our transport network, to ensure it is as efficient as possible. GLS continues to expand urban logistics projects, such as emission-free delivery cities, and grow its alternative fuel vehicle fleet. We are also taking proactive steps to reduce our energy and water consumption, and reduce the amount of waste we send to landfill. For example, we have invested in new boilers and energy efficient lighting.

BUSINESS CONTINUITY AND CRISIS MANAGEMENT

Principal risk

We have a responsibility to provide sustained and continued postal services under the Universal Service. There is a risk that we may fail to successfully respond to, recover from, or reduce the impact of a major threat or disruptive incident that could cause widespread operational disruption and financial loss to the Group.

Previously this risk was monitored at business unit and functional level but was not considered a principal risk due to the modular and geographically diverse nature of our operations providing natural mitigation. The widespread and enduring nature of the current global pandemic has increased the likelihood of the inherent risk materialising, and as such this is now being recognised as a principal risk to the Group.

Status

NEW

The outbreak of the virus COVID-19 has been declared a pandemic by the World Health Organization and now presents an unprecedented global crisis. Governments worldwide have imposed restrictions on the movement of people and imposed necessary measures which have had, and continue to have, a significant effect on our UK and International businesses. Royal Mail staff are recognised by Government as key workers, essential to keeping the country connected during this time. We are adapting and responding to the rapidly evolving risks accordingly, in line with our already existing Business Continuity Management Framework.

How we are mitigating the risk

Following the onset of the COVID-19 pandemic, we are prioritising the protection of our people, the country and our customers, whilst keeping mail and parcels moving.

We are actively monitoring the rapidly evolving COVID-19 threat and have invoked a comprehensive business continuity and crisis management response across the Group in line with our framework.

We are engaging closely with the Government, public health authorities, Ofcom, and customers to implement necessary changes in response to government, PHE and WHO advice. For example, we are limiting contact between colleagues in our operations, with customers on delivery and at Customer Service Points. Steps have been taken to minimise the impact on services as much as possible.

The pandemic has brought together all functions across the business in a cohesive response. We have established Gold, Silver and Bronze response teams which have Executive, Director and Senior Management leadership, providing regular reports to the Plc Board.

Daily communications are cascaded to all employees to keep them informed of current developments. We are in regular dialogue with Government officials, key stakeholders and suppliers.

VIABILITY STATEMENT

The Directors have assessed the viability of the Group as part of their ongoing risk management and monitoring processes. The Directors have considered their stewardship responsibilities, previous viability statements, the nature of the business and its investment and planning periods when making this assessment.

The key factors affecting the Group's prospects continue to relate to the successful deployment of the key elements of the Journey 2024 plan communicated in May 2019, namely:

- Transforming and growing our UK business;
- Scaling up and growing GLS; and
- Enhancing our cross-border proposition.

Further details on these factors can be found on pages 19-25.

While the Directors have no reason to believe that the Group will not be viable over the longer term, they consider the three financial years to March 2023 to be an appropriate planning time horizon to assess Royal Mail's viability and to determine the probability and impact of our principal risks. This matches our business planning cycle, which allows financial modelling to be supported by the budget and business plan approved by the Board.

Given the recent economic uncertainty arising from COVID-19, we expect to see significant volatility in the short term reducing our expected performance for 2020-21. This includes significant impacts on:

- advertising mail and addressed letter volumes within Letters in the UK;
- Tracked Returns® and Post Office volumes within Parcels in the UK;
- Business to Business volumes in GLS; and
- additional costs of taking necessary measures to protect the health and safety of customers and employees and of temporary resource to cover increased absence levels.

We believe that trading conditions will partially recover as we move through into 2021-22.

The key assumptions within the Group's financial forecasts are as follows:

- A three-month lockdown in the UK, resulting in a GDP decline of 10 per cent in FY21 followed by recovery from FY22 onwards.
- UKPIL Letter revenue to suffer a material decline in FY21 due to adverse impacts in advertising mail and addressed letter volumes, with the decline decelerating in FY22 and FY23
- UKPIL Parcel revenue expected to continue to grow, primarily driven by an upsurge in online shopping.
- GLS parcel volume and revenue growth remains good, with impact to margins effectively managed as the mix moves to a higher proportion of B2C growth.
- People costs reflect an extensive set of operational initiatives with phased implementation.
- COVID-19 related one-off charges of c.£140 million are included within the plan.
- The current Regulatory Framework was extended in March 2017 through to March 2022. It is therefore assumed that there is no change in the Regulatory Framework over this period.

Assessment of Viability

The key assumptions within the projections were stress-tested with reference to risks set out in the Principal Risks section on pages 62-72 but focused on those that could have a plausible and severe financial impact over the plan horizon.

This year, the Directors considered:

(i) a second wave of COVID-19 in the UK resulting in a further three-month lockdown between October and December 2020 (Principal risk: Business continuity and crisis management);
(ii) deteriorating economic and market conditions which could result in letters volume decline greater than our projected range (Principal risk: Economic and political environment);
(iii) the Brexit transition period ending without a trade deal having been reached, which could cause economic conditions to deteriorate further (Principal risk: Economic and Political Environment);
(iv) increased competition in the UK parcels sector (Principal risk: Customer expectations and Royal Mail's responsiveness to market changes);
(v) the potential impact of industrial action (Principal risk: Industrial action); and
(vi) delays to our UKPIL transformation plan (Principal risk: Efficiency).

These risks were quantified to create a downside scenario that took into account the levels of committed capital and expenditure, as well as other short-term cost and cash actions which could mitigate the impact of the risks. Mitigating actions included:

(i) suspending the dividend;
(ii) reducing variable hours and cost of sales;
(iii) removing discretionary pay;
(iv) reducing our internal investment; and
(v) reducing our one-off projects.

Consideration was also given to the large fixed cost base required to deliver the Universal Service Obligation in its current form. The downside scenarios were tested to determine whether the Group would remain solvent.

Unprecedented uncertainty exists in respect of the potential impact of COVID-19 in 2020-21. We have made our assessment based on our best view of the severe but plausible downside scenarios that we might face. If outcomes are significantly worse, the Directors would need to consider what additional mitigating actions were needed, for example assessing the value of our asset base to support liquidity. Consequently, the Directors have concluded that to stress test a level of increased severity (beyond the downside scenario) which may cast doubt about the Group's ability to continue to be viable over the three year assessment period is not currently reasonable.

Viability Statement

Based on the results of their analysis, the Directors have a reasonable expectation that the Group will be able to continue in operation, meet its liabilities as they fall due, retain sufficient available cash and not breach any covenants under any drawn facility over the period to March 2023.

CORPORATE RESPONSIBILITY

1st
SUSTAINABILITY
1st ranked globally in Transportation and Transportation Infrastructure industry, Dow Jones Sustainability Index

£10.6bn
UK ECONOMY
£10.6 billion added to the UK economy in 2019-20[1]

£64m
CHARITABLE CONTRIBUTIONS
£64 million raised through payroll giving since the launch of our scheme in 1989

22%
HEALTH AND SAFETY
22 per cent reduction in Lost Time Accident Frequency rate from 2018-19

32%
REPRESENTATION
32 per cent of senior managers are female

2%
CARBON EMISSIONS
2 per cent reduction in CO_2e this year

14%
DIVERSITY
14 per cent of employees identify themselves as BAME. This is broadly representative of the UK population[2]

Introduction

Our Group purpose – through Royal Mail and GLS – is to '**Connect customers, companies and countries**'.

In the UK we have a specific legal duty to deliver the Universal Service; the one-price-goes-anywhere service on a range of letters and parcels to nearly 31 million addresses across the country, six days a week. This legal corporate purpose makes us very different to other companies.

Our purpose is underpinned by our strategy, values and corporate culture. Our corporate responsibility (CR) strategy, in turn, supports the delivery of our business strategy. It also protects our trusted position in society. Effective management of environment, social and governance (ESG) issues can result in significant benefits and competitive advantage.

Our CR strategy comprises the following six key objectives:

- Delivering economic and social benefit to the communities we serve;
- Managing the environmental impacts of our business operations;
- Driving colleague advocacy for the Group and its role in communities;
- Delivering our transformation responsibly;
- Operating with integrity; and
- Communicating our management of CR openly and transparently.

We report progress against our objectives under the main areas of Customers, People, Community, Environment and Suppliers. Members of the senior leadership team take responsibility for each of these areas.

Determining materiality

We communicate proactively with stakeholders and offer a range of channels for them to engage with us. We seek to understand their perspectives about our business and our responsibilities as an important part of the social and economic infrastructure of the countries in which we operate.

This year, we completed our materiality assessment; we do this every two years. We sought stakeholders' views through one-to-one interviews, surveys and an external stakeholder panel. The assessment identified the following issues as being of most importance to both Royal Mail and our stakeholders:

- Climate change
- Engagement and culture
- Labour standards and human rights
- Customer service
- Health, safety and wellbeing
- Diversity
- Community impacts

We use this feedback to tailor our activity and reporting. For example, in response to feedback, we have provided more information about how we manage environmental issues in this chapter. We will provide a full description of our materiality assessment in our 2019-20 CR Report.

Governance and management

The Board receives regular updates on CR activity. It also reviews and approves our annual CR Report. In 2019-20, we further strengthened our governance with the introduction of a separate Board Committee for CR. Its members include Non-Executive Directors Rita Griffin (Chair), Maria da Cunha and Simon Thompson, our designated Non-Executive Director for engagement with the workforce. The Committee oversees the Company's performance in Environment, Social and Governance matters and ensures we maintain our CR standards.

The Committee met twice during the year. It will meet at least three times a year going forward. Its Chair provides a regular update to the Board on its activities. A full report on its activities during the year can be found on page 126.

Reporting on progress

We are committed to being as open and transparent as possible about our business. We have an extensive suite of policies covering material social, environment and governance matters. These are published on our website: → www.royalmailgroup.com/en/responsibility/policies-and-reports/.

Our CR Report meets the disclosure requirements of the Global Reporting Initiative (GRI) Standards. We report to a 'Comprehensive' level. The full CR Report will be published later this year.

Our reporting meets the requirements of the EU's Non-Financial Reporting Directive. It also meets our reporting obligations as a signatory to the United Nations Global Compact.

We engage PricewaterhouseCoopers to verify reported non-financial performance indicators and related assertions. This assurance includes environmental indicators as well as those indicators used to monitor culture, such as health and safety, diversity and breaches to our Business Standards. Assurance is performed in accordance with two internationally recognised standards: ISAE 3000/3410 and AA100AS. The auditor's statement will be published in our 2019-20 CR Report.

Monitoring and evaluation

Royal Mail occupies a trusted position in society. According to a recent survey, four in five UK consumers have a favourable view of the company. This exceeds the score for a number of British companies. Around 80 per cent agree we play an important role in society, the economy and in local communities[3].

1 CEBR research, conducted for Royal Mail in May 2020, comprising direct and indirect contributions.

2 In 2020 we used an online Employee Engagement Survey for the first time, which replaced the paper-based survey we previously used. The combination of this change, and the onset of the pandemic as the survey launched, meant that response rates were low. This data is from the 2019 Employee Engagement Survey, which remains an accurate representation of our workforce demographic.

3 Watermelon Research, 2019-20 Consumer Research Tracker.

We are also independently rated as a leading responsible business by the most prestigious international benchmarks for sustainability. This is on account of our strong environmental, social and governance performance.

- In 2019, we were named global leader of the Transportation and Transportation Infrastructure industry in the Dow Jones Sustainability Indices for the third consecutive year.
- We rank in the 96th percentile of companies included in the FTSE4Good.
- We are rated AA (Leader) by MSCI.
- We are included in the Vigeo Eiris UK Top 20 Index. We are currently the only Transport & Logistics company to be included in the UK index.
- We respond to the annual CDP Climate Change questionnaire. In 2019, we achieved a B score, ahead of our industry average score of C.

We use the results of these benchmarks to identify areas for improvement in both our management and our reporting of CR issues.

Sustainability risks and opportunities

We assess risks and opportunities arising from social and environmental issues relevant to our business at least once a year. We use our risk management framework to determine the criticality of risks. More information about our approach to risk management can be found on pages 123-125.

Environment and sustainability has been identified as a Principal Risk to the business (see page 71). In line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), we consider both physical and transitional risks posed by climate change. We also work to identify opportunities presented by the effective management of environmental issues. Opportunities can support a competitive advantage, and lead to stakeholder and customer advocacy as well as cost savings. We disclose a detailed assessment of the risks and opportunities related to environmental issues on pages 84-85 of this section. We will aim to support this early assessment of risks and opportunities with a full scenario analysis in 2020-21, as recommended by the TCFD.

Our customers

We are proud of the role we play connecting customers, companies and countries. Our ambition is to build a parcels-led, more balanced, and more diversified, international business. We aim to achieve this through our strategy.

Keeping the country connected

Royal Mail played an important role in the response to the COVID-19 pandemic. In all instances, the health and wellbeing of our people and the communities we serve was our priority. We committed around £40 million to buying equipment such as hand sanitiser, disposable gloves and other additional protective measures to keep our people safe.

Our people worked hard to deliver as comprehensive a service as possible throughout the crisis. We are a lifeline for communities across the country. The delivery of parcels and letters is a way of keeping the country connected, businesses operating, and helping many people who may not have the option to leave their homes.

We supported Government with the delivery and return of coronavirus tests for NHS and social care frontline staff. The initiative enabled NHS staff to receive and complete a coronavirus test at home. Many customers relied on Royal Mail to bring them medication and pharmaceutical supplies, hospital appointments and other crucial communications.

We worked with the CWU to implement measures to protect our people and customers. We adjusted our operational processes for items that could not fit through letterboxes, and those that required a signature. For example, we paused the use of hand-held devices to capture signatures, instead logging the name of the person accepting the item. For customers collecting mail from us, we issued guidance on how to reduce contact and maintain safe distances in our Customer Service Points.

We also supported the UK Government's public information campaign on coronavirus, designed to provide information and guidance to UK households. In addition, we added a coronavirus postmark to millions of mail items during the course of the crisis. The postmark featured the UK Government's message to "Stay Home, Protect the NHS, Save Lives".

Internationally, through GLS, we changed our processes to enable contactless deliveries. We also waived the requirement for customer signatures to confirm delivery. Delivery drivers and warehouse personnel were issued with clear guidance on hygiene and Personal Protective Equipment (PPE). To address supply shortage of hand sanitiser, GLS Germany worked with a local gin distillery which had converted part of its production line to make alcohol based viricidal hand gel.

Our products and services

In an increasingly competitive market, we aim to make our services simple and flexible to meet the changing needs of our customers. We continue to provide a high level of customer service and introduce new and enhanced products and services.

We exceeded our annual regulatory Quality of Service target of 98.5 per cent for Second Class mail, delivering 98.7 per cent of mail within three working days. We missed our annual regulatory target for First Class mail, delivering 92.6 per cent the next working day, against a target of 93.0 per cent. Up until 15 March, Royal Mail was meeting its First Class target with a performance of 93.0 per cent. The full year outcome for First Class mail was significantly impacted by the coronavirus crisis. This led to high levels of coronavirus-related absences during the tail end of the 2019-20 financial year. We believe that, if the 2019-20 performance was adjusted to take into account the impact of COVID-19, we would have achieved our First Class target. We are asking Ofcom to take these issues into consideration.

In 2019-20, our mean business customer satisfaction score improved to 79.3 points. Our consumer sending satisfaction score remained stable at 81. Almost 90 per cent of business customers rated Royal Mail as being 'Easy to Do Business With'[1].

In March 2020, we increased the price of our First and Second Class stamps to 76p and 65p respectively. These changes were necessary to help ensure the sustainability of the one-price-goes-anywhere Universal Service. We understand that many companies and households are finding it hard in the current economic climate. As a result, we considered our pricing changes very carefully. Royal Mail's stamp prices are still amongst the best value in Europe compared with other postal operators.

We also launched earlier customer notifications for parcel customers. Recipients are now advised of the delivery window for their parcel the day before delivery. We are also now able to provide a two-hour delivery window, compared with four hours last year. This forms part of our investment to improve convenience for our customers and their recipients.

In July, GLS Italy launched a new 'ReturnService'. It aims to streamline and simplify the return management process. Customers can generate a link to a dedicated webpage for recipients to organise their return. Recipients can choose from a home pickup or a designated drop-off option. The service also allows the customer to monitor the status of the shipment.

We take complaints very seriously. We aim to resolve customer issues and identify any underlying causes. This year, we received 567,536 complaints, a 2.6 per cent decrease compared with the prior year, despite delivering more parcels[2].

Operating with integrity

Royal Mail's Business Standards describe the behaviours we expect of our people. Broadly, these cover: doing the right thing, following the law, acting honourably and treating others with respect. All new employees are required to complete an e-learning course about our Business Standards when they join the company.

We have a strict zero-tolerance policy towards bribery and corruption. Our dedicated Anti-Bribery and Corruption policy is groupwide: it applies to both Royal Mail and GLS, and anyone performing services on our behalf. It sets out our approach to minimising the risk of bribery and corruption taking place in any part of our business. It is published on our website at the following address: → www.royalmailgroup.com/en/responsibility/policies-and-reports/.

All employees are required to complete an annual anti-bribery and corruption course. New employees are required to undertake this when they join the company. We also deliver face-to-face training for colleagues in high risk roles. We encourage employees to use our confidential whistleblowing helpline, 'Speak up', to report any wrongdoing, suspected or otherwise. It is also available to suppliers, business partners, and their employees. In 2019-20, almost all (99.7 per cent) of Royal Mail managers assigned the annual compliance refresher training completed it. This included attesting that they comply with our Business Standards.

GLS also has a Code of Business Standards that outlines the values and standards of behaviour that it expects from its employees and subsidiary companies. The Code is available in 20 different languages for all GLS employees and business partners. It is supported by a dedicated GLS Whistleblowing policy and helpline. This is for the reporting and investigation of allegations of violation of its Code of Business Standards. GLS encourages employees, business partners and third parties to report, in confidence, any concerns they have.

Human rights

Royal Mail Group is dedicated to protecting human rights throughout our operations. We work to implement the UN Guiding Principles on Business and Human Rights, as well as the UN Declaration of Human Rights and the International Labour Organization Fundamental Conventions. These cover freedom of association, the abolition of forced labour, equality and the elimination of child labour.

We recognise that human rights violations, including forced labour and trafficking, can occur in all sectors and countries. As a responsible business we are committed to playing our part to help eliminate it. Our Modern Slavery Act statement provides details of the approach we take. It sets out the risks we have identified and the steps we have taken to mitigate them. We strive for continuous improvement and welcome feedback from stakeholders. Our full statement is available at the following address: → www.royalmailgroup.com.

Emerging issues

We make a major social and economic contribution through our support for e-commerce. The digital economy is crucial to the UK's economic future. UK residents spend more money per person online than any other major European country[3]. We deliver a significant proportion of physical e-commerce in the UK.

At the same time, the growth of e-commerce has given rise to new CR issues. As provider of the Universal Service, with a trusted position at the heart of UK communities, we have a responsibility to help tackle them.

- **Drugs in the post.** We understand the tremendous harm that illegal drugs cause in the community. We work closely with law enforcement agencies to stop the carriage and delivery of illegal drugs. Border Force postal command personnel are stationed at our major international operations. In addition, we screen suspicious items using X-ray machines and deploy sniffer dogs to help detect them. We received around 1,800 reports of suspicious packages this year which resulted in the seizure of items.
- **Bladed items in the post.** We have reviewed the way we handle bladed items through the post this year. The Offensive Weapons Act 2019 will make it an offence to deliver bladed items to a person under the age of 18. We have launched a new product for business customers where the age of a recipient will be checked before a package is handed over, thereby helping our customers to comply with the legislation.

Fraudulent mail

Royal Mail never knowingly delivers scam mail. We understand the upset and distress that it can cause. We work closely with employees, industry partners and law enforcement agencies to tackle the issue. We championed an industry-wide Code of Practice some years ago. It commits all major UK mail operators to share intelligence that will help to eliminate scam mail from our networks. We have stopped almost 5 million items of scam mail from reaching our customers since 2016. Over time, our combined initiatives have significantly reduced the amount of fraudulent mail scammers attempt to have delivered in the UK.

Our people

We have set out the considerable measures we put in place to protect our colleagues and customers during the COVID-19 pandemic, and to maintain as comprehensive as possible a service during the crisis, on page 18.

1 A change in research partner in 2019-20 means the mean business customer satisfaction and Easy To Do Business With scores are not comparable to previous years.

2 The 2.6 per cent figure is calculated based on a 2018-19 restated figure from 578,614 to 582,984 due to a change in complaints reporting methodology. Note that 2018-19 consisted of 53 weeks and 2019-20 of 52 weeks.

3 E-commerce in Europe, PostNord, 2019.

Working with our unions

A productive and cooperative working relationship with our unions is a core part of our strategy. We recognise two unions: the Communication Workers Union (CWU) and Unite/CMA. Around 89 per cent of our operational and administrative grade employees are members of CWU. Approximately 65 per cent of our managers are members of Unite/CMA[1]. In total, around 98 per cent of our people are covered by agreements with these two unions.

In March 2020, CWU balloted its members on industrial action. We were disappointed that CWU members voted in favour of industrial action. With a 63.4 per cent turnout – and taking into account frontline employees who are not union members – 56.4 per cent backed industrial action.

We welcomed CWU's statement, following the ballot outcome, that now is not the time to take industrial action. We contacted CWU to work together to protect our people, our country and our company.

As the coronavirus crisis has developed, we worked with CWU to formulate and implement the appropriate sick pay and absence policy for our colleagues. Colleagues, including those with less than one year's service, received full pay in relation to any coronavirus illness or self-isolation.

Engagement and culture

Our people play a key role in helping us to achieve our strategic priorities. Engaged, committed employees are crucial to our success.

We measure employee engagement through our annual Employee Engagement Survey. We also use the survey to measure our Culture Index, to help us understand colleagues' alignment to our values and behaviours. This year, our Culture Index scored 57 points. We also monitor employee retention rates and the levels of diversity across the organisation.

Culture and engagement are standing items on the agenda for the new Corporate Responsibility Committee. The Committee will review outcomes of our employee engagement and inclusion activities, such as our Employee Engagement Survey and the Employee Voice Forums, as well as monitoring whistleblowing, and bullying and harassment complaints.

This year, we asked employees to complete our Employee Engagement Survey online, for the first time. This enabled us to access survey results and address them more quickly than in previous years. It also enabled employees to complete the survey in their own time and wherever they chose to do so. Unfortunately, the national lockdown for COVID-19 began in the same week as the survey launch. We consequently saw a significantly reduced response rate. While the survey showed some positive results – including an engagement score of 61 – they are not comparable to prior years due to the sample size of respondents.

In 2019-20, our turnover rate was 6.7 per cent (compared to 7.2 per cent the prior year). This compares well with the average UK turnover rate of 20.9 per cent. The average tenure of colleagues is 17 years.

We involved around 200 colleagues in our quarterly People Panel events in 2019-20. These events create an opportunity for us to listen to colleagues' insights on key initiatives and collaboratively discuss solutions. Outcomes of these events are fed into our business planning processes.

We also held our 'Employee Voice' forums. Simon Thompson hosts these forums, as part of his responsibility as designated Non-Executive Director for engagement with the workforce. They provide a space for informal face-to-face conversation, with a Board member, on topics related to our strategic objectives. We have held two sessions since April 2019. See pages 112-113 for more information.

In February, we launched our 'Ambassador Programme'. This involves over 300 senior Operations leaders briefing colleagues face-to-face about our transformation. It aims to help colleagues understand what the transformation means for them personally and enables them to provide feedback directly to our leadership team.

Our target culture, supported by our values and behaviours, is defined as:

We're proud to work for Royal Mail. What we do matters to people. We listen. We're trusted. Each of us is respected. We go the extra mile for our customer and for each other. Everyone contributes and works together to deliver our promises, finding ways to be more successful – faster and better than before and beating our competition.

SAFETY METRICS

	2019-20	2018-19	2017-18	2016-17
Sick absence (%)	**5.87**	5.41	5.09	4.63
Lost Time Accident Frequency Rate (per 100,000 hours worked)	**0.38**	0.49	0.54	0.49
Reduction in road traffic collisions from previous year (%)*	**2.5**	5.3	9.0	12.3

*Data reported within this table is for UKPIL only.

1 Figure based on latest membership numbers provided by Unite/CMA in 2016.

Health and safety

Ensuring a safe and healthy working environment is a top priority. We include a safety measure in our Corporate Balanced Scorecard. This links managers' remuneration to safety performance improvement.

Our groupwide Health and Safety policy outlines our commitment to our people. It is operationalised through our integrated Safety, Health and Environment (SHE) Management system. This provides the framework for managing risk, improving our safety performance and maintaining a safe, healthy and environmentally responsible workplace.

This year, we launched a new 'Safety Risk Assessment' e-learning training course for managers. We recorded a Lost Time Accident Frequency Rate (LTAFR) of 0.38 per 100,000 hours worked, a decrease of 22 per cent compared with 2018-19.

Our Road Traffic Collision Frequency Rate is another key safety metric. We invest in driver training and road safety campaigns to promote safe behaviours. This year, we reduced our Road Traffic Collision Frequency Rate by 2.5 per cent compared with 2018-19.

Despite our best efforts to reduce road accidents, we regret to report that seven people tragically lost their lives last year in accidents involving our vehicles. We thoroughly investigate all accidents to determine the root cause and identify any lessons to be learned. Our investigations and findings are discussed by the Board.

We also recorded an increase in sick absence this year, from 5.41 per cent in 2018-19 to 5.87 per cent in 2019-20. Musculoskeletal and mental health issues remain the leading long-term causes. Our efforts are focused on addressing these.

We continue to deliver initiatives to support colleagues' mental health. We aim to increase awareness, reduce stigma and provide tools and guidance for better mental health. We currently have 315 health and wellbeing ambassadors, up from 160 last year. They play an important role locally, in promoting mental and physical health and offering peer-to-peer support. Our approach was recognised by a number of high-profile awards during the year.

Diversity and inclusion

Royal Mail believes that diversity involves more than just a workforce with representation from a wide variety of groups. It also involves giving every one of those groups a voice and valuing the contributions from all of our people. We are committed to creating a welcoming and inclusive environment for everyone, placing fairness, diversity and respect at the heart of our business. We aim to create a welcoming and inclusive working environment for all our people. We are a signatory of the Race at Work Charter. We also support Business in the Community's Gender and Race Equality campaigns to understand and follow best practice.

We are proud to have achieved the target set out in the Hampton-Alexander review to have 33 per cent female representation on our Board. As at 24 June 2020, females made up 50 per cent of the Royal Mail plc Board. We understand the importance of diversity at Board level, and throughout our organisation.

We welcome the Parker Review target for all FTSE 250 boards to have at least one director from an ethnic minority background by 2024. Our Nomination Committee has adopted this aspiration in its policy.

We replaced our Diversity Council with an Inclusive Action Steering Group (IASG) this year. The IASG oversees our diversity and inclusion programme and is responsible for driving culture change. Our six diversity network groups will now report to the IASG through a national network group. It is hoped that this structure will bring streams of activity together to maximise impact on shared issues.

GENDER DISTRIBUTION (NUMBER OF PEOPLE)

	Royal Mail (UKPIL)*		GLS		Total	
	Female	Male	Female	Male	Female	Male
Royal Mail plc Board**	4	4			4	4
Senior Management***	748	1,585	41	211	789	1,796
Management	1,577	5,661	2,663	2,822	5,628	9,442
Administration	1,388	959				
Operational	22,873	103,862	3,121	10,448	25,994	114,310
Total****	26,586	112,069	5,825	13,481	32,411	125,550

*Royal Mail (UKPIL) total excludes Property and Facilities Solutions Limited (PFSL). Following the integration of PFSL to the Group, diversity data for this part of the business has not yet been fully incorporated into the UKPIL management systems. It is therefore not possible to report this data for 2019-20. Total 138,655 rather than the c141,500 UKPIL employees.

**Royal Mail plc Board as at 24 June 2020.

***For our Corporate Responsibility reporting, we define senior managers as persons graded in bands 1-6, being employees responsible for planning, directing or controlling the activities of the Company, or a strategically significant part of it. It does not include those members of the Royal Mail plc Board who would otherwise classify as employees within bands 1-6. This definition of senior management is used each year, ensuring alignment with our people management systems and consistent comparison of data year-on-year.

****Number excludes those members of the Royal Mail plc Board who are not also employees.

Royal Mail celebrates diversity and inclusion events throughout the year. Our ongoing inclusion campaign, 'Altogether Different', includes focused national inclusion weeks in September and January.

We continue to take steps to make our recruitment process more inclusive and accessible. We are committed to recruiting diverse talent so that our workforce reflects the communities we serve. Royal Mail is dedicated to supporting disabled applicants from application through to employment. We provide training, career development and promotion opportunities. Royal Mail is proud to have achieved Disability Confident Employer status. We continue to ensure all Operations managers undergo mandatory Disability and Reasonable Adjustments training. This is to ensure they are confident and effective in supporting colleagues with disabilities. We provide support and training as required for colleagues with existing disabilities or for those who have become disabled during their employment, for example in assistive technology and software.

Gender diversity

In 2019-20, in the UK Royal Mail was named as one of The Times Top 50 Employers for Women for the sixth consecutive year[1]. Royal Mail's diversity strategy aims to increase the number of women in management positions. Supporting female colleagues' career development is a key part of this.

Rewarding colleagues fairly for their work is another key priority. Every year, we conduct a company-wide review of pay for men and women in our UK business. This year's review confirmed that average salaries paid to men and women are broadly the same. However, more men are in work that qualifies for allowances, such as shift work during the evening or night. As a result, on a mean basis, women are paid 2.1 per cent less than men. On a median basis, men are paid 3.5 per cent more than women. This compares to a national average gender pay gap on a median basis of 17 per cent across all industries, calculated by the ONS in 2019. We pay bonuses equally to men and women on a median basis. However, on a mean basis, bonuses are higher for women, as there is a higher proportion of women in our management population, compared to the operational population. Our full Gender Pay Report is available at → www.royalmailgroup.com/en/responsibility/our-focus-areas/our-people/.

Rewarding people fairly

We have the best terms and conditions in our industry in the UK. We offer permanent employees a competitive salary, paid holiday and a good pension. Around 99 per cent of our employees are on permanent contracts. Sixty-eight per cent of our employees are full-time, with 32 per cent working part-time, up from 31 per cent the prior year.

Our frontline employees' annual pay has increased by 15.2 per cent since our privatisation in October 2013. Over the same period, UK national average annual earnings have increased 13 per cent[2]. In 2019-20, postmen and women earned 42 per cent more than the National Living Wage. At approximately £393 million per annum, we believe we make one of the largest cash contributions to our employees' pensions of any UK company.

Many of our people are shareholders in the Company. As such, they have a meaningful stake in its success. Around 100 million free shares were gifted to colleagues at privatisation.

Work life balance

We strive to support employees to manage a work life balance. We want to ensure our people have a positive experience at work when they have a family – whether that is supporting them during their pregnancy, parental or adoption leave, or during their return to the workplace. We have formal policies for maternity and adoption leave and offer employees up to 26 weeks' fully paid leave.

Investing in our future

We offer learning and development opportunities to colleagues at all levels of our organisation. This supports the delivery of our business strategy. We aim to provide the tools, knowledge and resources for people to have fulfilling careers at Royal Mail. In 2019-20, we invested nearly £7.4 million in training, equating to around 20,000 training days. This is an increase of £0.5 million since 2018-19.

Apprenticeships and graduate schemes are key to bringing new talent into the organisation. In 2019-20, over 400 people were enrolled in our apprenticeship and graduate schemes. We offered opportunities in technology, logistics management and engineering.

Our communities

We are a valued and trusted part of our communities. We use our core business competencies, people and brand to benefit good causes.

We make the seventh biggest contribution – in terms of gross value added – of any UK company to the UK economy[3]. This is through the employment we provide, the suppliers we work with and the taxes we pay. One in every 194 jobs in the UK is provided by Royal Mail[4]. We provide employment in every community, including in some of the UK's most disadvantaged areas.

In 2019-20, the Company contributed £5.2 million to good causes and charitable schemes. This includes matched giving for colleague fundraising and the cost of our Articles for the Blind service. In addition, our colleagues raised £2.8 million for charity. Over the last 30 years, our people have donated £64 million through payroll giving alone.

Caritas

GLS Germany partners with Caritas. Last year, colleagues volunteered time to visit Caritas sites and spend time with the charity's beneficiaries. Each site received a monetary donation and gift in kind. Gifts ranged from gardening tools to swimming kits for children.

Action for Children

Our people have raised around £1.6 million for Action for Children, including matched giving from Royal Mail, since the launch of our partnership in 2017. We are funding an innovative mental health programme in schools. The 'Blues Programme' helps young people understand situations that can trigger anxiety, fear or depression, and teaches them coping mechanisms.

Almost 3,000 young people participated in the six-week 'Blues' course in 2019-20. Eighty-one per cent of students reported increased confidence. Seventy-two per cent reported improved relationships at school.

The positive impact of the programme has enabled the charity to secure additional funding for it. Three GP practices have purchased the 'Blues course' for their local schools. It will also be part of mental health programmes being delivered by Local Authorities in Derbyshire, Staffordshire and Gwent.

Using our local presence

Our long-standing partnership with the charity Missing People supports the search for vulnerable adults and children. As the eyes and ears of their communities, our postmen and women are uniquely placed to help. We send descriptions of missing people to frontline colleagues' PDAs. We also make office-based colleagues aware through our network of business television screens. Last year, we issued 31 alerts, with 27 people found safe and well.

Our suppliers

Our impact extends beyond our direct business operations. Through our extensive supply chain, we have an opportunity to raise standards of social, environmental and ethical conduct. We also generate significant economic value for communities. This year, we contributed around £2.3 billion in the UK through our procurement of goods and services alone.

Our UK suppliers are required to comply with our Responsible Procurement Code of Conduct. It is based on the Ten Principles of the UN Global Compact. It helps us manage risks in the supply chain and promote responsible practices across human rights, labour rights, environment and anti-corruption. The GLS Supplier Code of Conduct is based on the same UN framework and covers the same subjects. Any perceived violation of the principles and values of the Code would be investigated. Our Responsible Procurement Code is published at the following address: → www.royalmailgroup.com/en/responsibility/policies-and-reports/.

We believe we only engage suppliers that meet our standards in social, environmental and ethical practices. Once engaged, we work with suppliers on an ongoing basis to ensure a high level of conduct. If we find that a supplier is failing to meet our standards, and any remedial action is found to be inadequate, we would terminate our dealings with them.

Our environment

Royal Mail Group is committed to Delivering a Cleaner Future. Environmental considerations are a fundamental part of the way we operate. With the UK's largest 'feet on the street' network of around 90,000 postmen and women, Royal Mail plays a key role in keeping emissions low.

Sustainable management of natural resources is a commercial imperative, as well as an environmental one. Effective management of environmental issues can present a competitive advantage.

We are working to implement the recommendations of the Task Force on Climate-related Financial Disclosures. This means ensuring we have appropriate governance, risk management, strategy and metrics to address the impacts of climate change on our business.

Strategy and metrics

Royal Mail is undergoing a major transformation programme, covering every aspect of our operations, namely: collections, processing, logistics, sorting and delivery. Potential climate change impacts have been considered as part of this programme. For example, we are investing in new zero emissions vehicles to deliver sustainable reductions in emissions, while ensuring that we continue to meet our customers' expectations.

This year, we have developed a new, more stretching environment strategy. Our strategy includes the following targets:

- **Delivering net zero:** we will be a net zero carbon emission business by 2050. This target will be periodically reviewed and brought forward if possible.
- **Clean air:** 100 per cent of our fleet will be powered by alternative fuel by 2050.
- **Responsible consumption:** we will reduce waste generated, and water used, by 25 per cent by 2030.

Our long-term carbon reduction target aligns to the Paris Agreement of the United Nations Convention on Climate Change. This aims to limit global temperature increase to well below 2 degrees Celsius. See pages 82-83 for more information about our strategy to reduce building and fleet emissions, as well as our use of resources.

Governance

The Board oversees the management of climate-related opportunities and risks. It is supported by the Risk Management Committee and the Audit and Risk Committee. The management of climate-related risk is integrated into the Company's overarching risk management framework.

Our Environment Policy is published at → www.royalmailgroup.com/responsibility.

Risk management

'Environment and sustainability' is one of our Principal Risks, given its major significance internally and externally. The underlying Environmental Risk and Opportunity Register is maintained by the Environment Governance Board. In line with TCFD recommendations, we consider both 'physical' climate impacts, such as flooding, and transitional risks, such as regulatory actions designed to limit global warming. We also consider potential opportunities presented by environmental issues such as climate change.

The Risk Management Committee reviews business units' risk registers on a regular basis. It ensures risks on the Company's consolidated Environmental Risk and Opportunity Register are reflected in business units risk registers, as appropriate. Risks may be owned by several different units, depending on their salience. As such, they may appear on multiple units' registers.

1 The 2020 results have been delayed until July 2020, so the results are unknown at this time.
2 Office for National Statistics.
3 CEBR research, conducted for Royal Mail in May 2020, comprising direct and indirect contributions.
4 CEBR research, conducted for Royal Mail in May 2020.

A standard methodology, based on probability and potential impact, is used to rank environmental risks based on their significance and materiality. Where climate-related risks and opportunities are identified, individual business units are required to factor the actual and potential impacts into their strategy and financial planning, and develop mitigation plans as necessary. For example, relevant business units would be required to factor increasing stakeholder expectations for clean delivery methods – and related risks and opportunities – into their strategies.

Royal Mail is on a journey to quantify both its climate risks and opportunities based on our operations, our locations and our legal obligations. In line with the recommendations from the TCFD, we plan to undertake a detailed scenario analysis in 2020-21 to better understand the financial impacts of risks and opportunities facing our business. Our current view of risks and opportunities is set out in the table on pages 84-85.

Carbon emissions performance

In 2019-20, our total UK carbon footprint decreased by two per cent compared with the previous year. On a normalised basis, emissions decreased by two per cent per £1 million of revenue last year. The table below sets out our Group carbon dioxide equivalent (CO_2e) emissions for 2019-20.*

GLS Germany

In October 2019, GLS Germany became carbon neutral. All parcels sent from or within Germany are transported in a carbon-neutral way. GLS invests in projects to support a reduction in emissions and offsets unavoidable emissions through a certified afforestation project in Indonesia. GLS Germany has also purchased 100 per cent renewable electricity for all of its sites.

Fleet emissions

As the Universal Service Provider, we are required to maintain a large fleet of vehicles. Nearly two-thirds of our emissions stem from our vehicles and transport. Improving our fleet fuel efficiency will, therefore, be a key part of delivering our carbon reduction targets. We are committed to taking action to reduce our emissions and improve air quality.

Our vehicle strategy is focused on three areas:

- Improving fuel efficiency, through behaviour and driving styles;
- Investing in alternative fuel vehicles, advanced technology and vehicle types; and
- Ensuring an efficient transport network, using cutting-edge routing technology and maximising capacity in our vehicles.

We continue to trial and deploy technology to reduce our environmental impact. In 2019-20, we successfully introduced new trucks fuelled with Bio-CNG. These offer significant reductions in CO_2e and air emissions when compared with their diesel equivalent.

We use telemetry systems to influence safer and more fuel-efficient driving. In 2019-20, telemetry helped us save approximately 177,000 litres of diesel. This equates to around 459 tonnes of CO_2e. Approximately 61 per cent of our vehicle fleet is fitted with telemetry.

We use a combination of road, rail and air to deliver letters and parcels. We maximise capacity by loading mail items as efficiently as possible. During the year, we added 211 double deck trailers to our fleet. These deliver a four per cent fuel efficiency improvement and greater load capacity. We minimise our use of air transport to reduce CO_2e emissions and costs. We only use airmail to meet our First Class, Special Delivery and priority traffic obligations.

CARBON EMISSIONS PERFORMANCE CO_2e EMISSIONS ('000 TONNES)*

	2019-20			2018-19**		
	Total	**UKPIL**	**GLS**	Total	UKPIL	GLS
Scope 1	**460.2**	**443.8**	**16.4**	459.6	445.4	14.2
Scope 2	**92.1**	**70.6**	**21.5**	100.4	80.1	20.3
Scope 3	**80.5**	**80.5**		80.9	80.9	
Total	**632.8**	**594.9**	**37.9**	640.9	606.4	34.5
Tonnes CO_2e per £1m revenue		**77.1**			78.4	
Scope 2 (market based)	**43.2**	**10.2**	**33.0**	39.4	9.7	29.7
Energy Consumption '000 kWh	**2,337,343**	**2,191,154**	**146,189**	2,316,580	2,188,675	127,905

*We report our carbon emissions in line with the Greenhouse Gas (GHG) Protocol Corporate Standard. The standard classifies a company's GHG emissions into three 'scopes'. Scope 1 emissions are direct emissions from sources that are owned or controlled by Royal Mail, including combustion of fuel and operation of facilities. Scope 2 emissions are indirect emissions from the purchase of electricity, heat, steam and cooling purchased for own use. Scope 3 emissions are all indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions. For Royal Mail, this includes GHGs emitted through the use of third-party road or air freight for the transportation of mail. UK and offshore data is reported within the UKPIL column above. GLS data includes all global emissions and consumption, excluding the UK and offshore, for scopes 1 and 2. Scope 3 data is not included. Annual energy consumption (kWh) is obtained from both actual (invoices) and estimated (modelled) consumption used for our reported scope 1 and 2 carbon footprint. Where conversion of units to kWh is required, the latest conversion factors from the UK Government are used; source www.gov.uk/government/collections/government-conversion-factors-for-company-reporting.

**2018-19 data has been restated for scope 1 emissions following the provision of data which was previously estimated. Scope 2 market based data has been restated following an update to emission factors associated.

The Corriere Espresso
GLS Italy continues to expand its fleet of LNG-powered line vehicles this year. It now has 56 in operation. By the end of 2020, GLS Italy plans to further expand its fleet of LNG trucks.

Buildings emissions

Royal Mail maintains a large property portfolio, ranging in size, age and use. Climate change legislation and uncertain energy prices make energy management a key priority. Energy used by buildings contributed 24 per cent of our carbon footprint last year.

We identified a series of practical, cost effective initiatives, to help reduce our consumption and the associated emissions. These include behavioural change programmes, and the installation of hardware, such as additional roll out of LED lighting and controls. Our Energy Bureau system highlights sites with highest usage or those with abnormal consumption patterns. This enables us to better understand our usage and target energy and cost savings.

The majority of our buildings are heated using gas boilers. During 2019-20, we replaced 112 gas boilers with more efficient systems.

Our total electricity consumption decreased by 0.7 per cent in 2019-20. Our gas consumptions decreased by 6.7 per cent. Overall, emissions arising from our buildings reduced by 8.3 per cent.

In February, GLS Netherlands opened a new depot in Amsterdam. The building uses a geothermal heat pump and solar panels to reduce CO_2e emissions. The roof has been fitted with prismatic domes to capture sunlight to illuminate the distribution hall naturally. Charging stations for electric vehicles are also available.

Focus on air quality

We recognise the impact of poor air quality on some of the communities in which we operate. We understand we have a role to play in improving air quality. This is a key part of our environment strategy. Long-term, our aim is that 100 per cent of our fleet will be powered by renewable energy by 2050.

In 2019-20, we introduced another 193 electric vehicles into our fleet, bringing our current total to 295. At Mount Pleasant, one of our largest Mail Centres, we have 87 electric vehicles in operation. This is helping to reduce emissions from our fleet in central London.

We continue to trial electric vehicles in different class sizes. We are currently working to trial and deploy trikes, micro vehicles and other alternative fuel vehicles such as Bio-CNG trucks. The outcomes of trials inform our forward-planning and vehicle purchase strategy.

GLS operates emission-free deliveries in four Dutch city centres – Apeldoom, The Hague, Utrecht and Zwolle – using E-Vans.

Resource efficiency

In 2019-20, we set new targets for resource efficiency. We aim to reduce the amount of waste generated, and the amount of water consumed, by 25 per cent by 2030, compared with 2018-19 levels. As part of this, we will undertake a full "cradle to grave" review of packaging waste generated by our business.

We manage our waste in accordance with the waste hierarchy. During 2019-20, we generated 38,692 tonnes of waste, an increase of 10 per cent from the prior year. We continue to focus on reducing waste generated, while increasing the amount of materials we reuse, redeploy or recycle. Our 'Green Parts' initiative, for example, extracts parts from vehicles that are due to be decommissioned. We then look to reuse these parts in our fleet. We saved the business over £2.4 million in 2019-20 doing this.

We are committed to reducing our water use. Reducing our water consumption also presents a cost-saving opportunity for Royal Mail. We mainly use water for domestic purposes, such as keeping washroom facilities, vehicles and equipment clean. This year, we undertook a review of our vehicle washing activities. A trial of waterless washing was successfully completed during the year. Following the trial at our Home Counties North Mail Centre, we are looking to use this method of washing for the whole fleet at the site in early 2020-21. We will also assess the suitability of rolling out waterless washing to other UK sites this year. In 2019-20, our water consumption was around 1,419,440 m^3.

Apprentices
In 2019-20 our Apprentices led a project to design and develop new waste signage. They used materials from obsolete High Capacity Trolleys. The signs are now part of a wider project around improving waste management on Royal Mail (UKPIL) sites.

Our taxation strategy

Our taxation strategy is published at
→ www.royalmailgroup.com/en/responsibility/policies-and-reports.

Our strategy sets out our key principles and approach. Royal Mail has a low risk appetite in relation to tax matters. We make decisions with due regard to our reputation, integrity and status as a company listed on the London Stock Exchange. We comply with all applicable tax laws.

Non-financial information statement

The Company has complied with the Non-Financial Reporting Directive in sections 414CA and 414CB of the Companies Act 2006.

The Strategic Report was approved by the Board on 24 June 2020 and signed on its behalf by:

Keith Williams
Interim Executive Chair

24 June 2020

OUR EARLY VIEW FOR KEY CLIMATE CHANGE RISKS AND OPPORTUNITIES

Risk	Activity	How we are mitigating the risk
EXTREME WEATHER EVENTS (P) (R)		
An increase in the frequency and impact of extreme weather events, such as flash flooding, storms and prolonged heatwaves, will result in damage to buildings and equipment, and endanger our people and customers. Extreme weather events may result in disruption to our operations, impacting our ability to meet the USO and/or other contractual obligations. Risk of increased costs associated with insurance premiums, investment in flood defences and storm mitigation, and any associated repairs.	We recognise the increased frequency of weather events and the potential impact this has on our ability to deliver the USO. Records show trends of increasing rainfall on seasonal and annual timescales. For example, since 1998, the UK has seen six of the ten wettest years on record. Rainfall experienced in a single extreme event is made 59 per cent more likely by climate change. Seven of our sites (including parking) have been affected by flooding in the past two years. We are seeing an increase in the number and intensity of storms – including high winds which may impact our ability to deliver the USO and other contractual obligations. We continue to monitor and record delivery routes not completed due to adverse weather.	We undertake an assessment of sites for flood risk as part of our due diligence and business continuity processes, which includes the use of routing tools to divert mail, for example. Implementation of a flood alert system across 700 of our sites. The system strengthens forecast capabilities ensuring business continuity arrangements can be invoked. Ongoing, targeted investment in local flood defences.
IMPACT OF CHANGING CLIMATE ON EMPLOYEE WELLBEING (P) (R)		
Working conditions for employees may change due to more extreme and unpredictable weather patterns. There is a risk of increased employee absence associated with heatwaves, slips and trips in snow and icy conditions, flooding, or storm damage to employees' homes/assets. Warmer climates could result in the increased transmission of diseases and viruses as mosquitos and other disease carrying vectors are able to survive longer in new regions.	A large proportion of our employees predominantly work outdoors. Our physically demanding roles may become more difficult to fulfil in extreme weather conditions such as heatwaves. This could be exacerbated within certain demographic groups. We have recorded increases in slips, trips and falls during extreme weather events and storm conditions.	Ensuring that our people have the right equipment to deal with all weather conditions is an important element of our Health & Safety approach. We use a severe weather risk assessment approach to identify and manage extremes. This is reflected in our Health & Safety risk register and reviewed periodically. We regularly review and adjust uniforms to ensure they are appropriate to changing weather conditions, for example, snow shoe spikes for operations staff and improved quality and water resistance of uniforms. Our communication channels provide employees with guidance during weather events i.e. taking regular breaks and carrying water during heatwaves.
INTRODUCTION OF CLEAN AIR AND ULTRA-LOW EMISSION ZONES (T) (R)		
Risk of increased operational costs and fines if the business is unable to operate a delivery fleet that fully complies with the increasing standards and requirements associated with emissions.	A number of cities and locations across the UK and Europe have introduced, or are consulting on, measures relating to clean air. These include Clean Air, Ultra-Low and Zero Emission Zones.	We engage with local authorities as they consult on potential plans for cleaner air or other measures. Our fleet strategy ensures our continued compliance with local clean air measures to avoid associated financial penalties.
BAN ON THE SALE OF PETROL AND DIESEL VEHICLES (T) (R)		
Increased uncertainty on the effective date for the ban of petrol, diesel and hybrid vehicles. Uncertainly increases the risk of non-compliance, and inability to suitably plan for operational and purchasing changes required.	In support of net zero ambitions, the EU and UK governments have set dates for the ban of the sale of vehicles driven by fossil fuels. Governments are continually reviewing these dates and consulting on potentially bringing them forward. In the UK, for example, the Government is consulting to bring the current date of such a ban forward to 2035 or earlier. Our environmental commitments across the Group incorporate a strong focus on the transition to a low carbon/low emission fleet.	The business will engage with consultations relating to the ban on the sale of fossil fuelled vehicles. Our fleet strategies will be reviewed periodically to ensure our fleet remains compliant with any changes to requirements. We continue to trial and deploy alternative fuel vehicles, non-vehicle delivery and collaborative models across the business.

Key

(P) Physical	(T) Transitional	(R) Risk	(O) Opportunity

Risk	Activity	How we are mitigating the risk
SHIFTING CUSTOMER DEMAND (T)(R)(O)		
Increasing customer demand for clean delivery mechanisms may require additional investment to ensure no loss of market share to new entrants or competitors.	Customer relationship management programmes ensure strong long-term working relationships. We work to support customers on their environmental improvement journeys. Regular consumer and marketplace surveys ensure we are informed of emerging patterns of behaviours and consumer/customer interest.	Our environment and fleet strategies respond to increasing customer demand for clean delivery mechanisms. We continue to invest in and deploy new technology vehicles, and tools to promote efficiency i.e. telemetry, driver training. Opportunities identified include the increased demand for doorstep collections.
CARBON TAX (T)(R)		
Introduction of a carbon tax would increase energy, fuel and associated operational costs.	Royal Mail Group operates a large commercial vehicle fleet and property estate, both of which consume energy and fuel which are subject to some current taxation.	Our environment improvement programmes aim to increase efficiency and reduce consumption of both energy and fuel sources. This will mitigate the impact of any additional carbon tax to the business. A reduction in the use of fossil-based fuels and energy forms a key part of our environment improvement programmes.
WATER SCARCITY (P)(R)		
Changing weather patterns will result in water scarcity in numerous locations globally. There is a risk this would increase costs and introduce new controls on its usage.	The water industry has committed to making water services resilient to a changing climate and to reduce emissions to net zero. Its plans include encouraging customers to use less water. We predominantly use water for domestic/washroom facilities and vehicle washing.	Royal Mail (UKPIL) has set water consumption reduction targets as part of its environmental strategy. We plan to roll out waterless vehicle washing to reduce our water usage. Our building standards include the use of water efficient equipment.
SUPPLY CHAIN (P)(R)		
Extreme weather events may lead to potential shortages in the raw materials for, or the production of components for, our vehicles, equipment and operational supplies. Shortages may result in price increases.	Our Procurement Risk Register lists the risks that are deemed critical to our business relating to the supply chain. We regularly review this risk register, to identify new risks and opportunities to mitigate them.	We require all suppliers to commit to comply with our corporate responsibility codes for procurement, which cover social, environmental and ethical issues, or to demonstrate compliance with the codes. The codes specifically cover suppliers' management of carbon emissions. We have business continuity plans which operate at a supplier category level to ensure we can put alternative suppliers in place for critical suppliers and goods. Additionally, critical and bottleneck suppliers are required to have their own continuity plans and maintain them on our supplier management portal.
STAKEHOLDER EXPECTATIONS (T)(R)(O)		
Risk of reputational damage, and potential legal action, through the failure to respond appropriately to stakeholder expectations and disclosure requirements. Flow of capital to the business would be impacted if the business fails to engage and respond to increasing investor expectations on ESG risks, including climate change. Opportunity to differentiate Royal Mail Group from its competitors and peers by providing clear direction and action on climate risk.	Growing interest from shareholders relating to ESG performance, including disclosure and mitigation of climate change risks.	We communicate proactively with our stakeholders through a range of channels. We regularly engage with them to obtain their views and to understand their expectations.

NON-FINANCIAL INFORMATION STATEMENT

The Non-Financial Reporting requirements contained within sections 414CA and 414CB of the Companies Act 2006 are addressed within this statement using cross references to indicate pertinent sections within this report.

This report refers to a range of policies that support our performance across environment, social and governance topics. The majority of the policies are available to read in full on our websites:
→ www.royalmailgroup.com/en/responsibility/policies-and-reports/ → www.gls-group.eu/EU/en/compliance.

ENVIRONMENT MATTERS

Where material information can be found in the strategic report:
- Our environmental approach and policy outcomes, pages 81–83
- Section 172 Statement – Having regard of the impact of the Company's operations on the community and the environment, page 109
- Related principal risk: Environment and sustainability, page 71
- Further risks and opportunities outlined in the Task Force on Climate-related Financial Disclosures (TCFD) table, pages 84-85

MATERIAL POLICIES	HOW WE MONITOR THE EFFECTIVENESS OF THE POLICIES
Environment policy Our Groupwide commitment to managing our environmental impacts including our engagement with our people, customers and suppliers.	– Performance against key environmental metrics, including carbon, water and waste – Regular audits against our Safety, Health and Environment Management System, which is aligned to ISO 14001 – Inclusion of environmental criteria to supplier selection frameworks. Ongoing engagement and monitoring of performance

THE COMPANY'S EMPLOYEES

Where material information can be found in the strategic report:
- Our people approach and policy outcomes, pages 77-80
- Section 172 Statement – Having regard to the interests of the Company's employees, page 106
- Related principal risks: Industrial action; Pension arrangements; Health, safety and wellbeing; and Capability – talent and strategic workforce planning, pages 62-70

MATERIAL POLICIES	HOW WE MONITOR THE EFFECTIVENESS OF THE POLICIES
Our Business Standards (Royal Mail UKPIL) **Code of Business Standards (GLS)** Outline the values and standards of behaviour we expect. They are about doing the right thing, following the law, acting honourably and treating others with respect. **Health and Safety policy** Our Groupwide commitment to managing health and safety risks, removing or reducing the likelihood of injury or harm to its employees or others. **Equality and Fairness policy (UKPIL)** Outlines our principles and approach to promoting equality, diversity and fairness at all stages of employment. **Speak Up (Whistleblowing) policy (UKPIL)** **Whistleblowing policy (GLS)** Our commitments to investigating suspected wrongdoing, including the system for raising concerns and our respect for whistleblower confidentiality.	– Our annual Employee Engagement Survey enables us to quantify employee engagement and alignment with workplace culture – Regular audits against our Safety, Health and Environment Management System – Monitoring health and safety performance metrics – Tracking workforce diversity across job levels and different business areas – Monitoring the number of contacts made across our whistleblowing channels (i.e. by telephone, email, etc.)

SOCIAL AND COMMUNITY MATTERS

Where material information can be found in the strategic report:
- Our customers approach and policy outcomes, pages 76-77
- Our people approach and policy outcomes, pages 77-80
- Our community approach and policy outcomes, pages 80-81
- Our supply chain approach and policy outcomes, page 81
- Related principal risk: Our UK regulatory framework, page 68

MATERIAL POLICIES	HOW WE MONITOR THE EFFECTIVENESS OF THE POLICIES
Corporate Responsibility policy Sets out our Groupwide commitment and approach to responsibly managing our impacts on, and relationships with, our people, customers, communities and environment. **Responsible Procurement Code of Conduct (UKPIL)** **Supplier Code of Conduct (GLS)** Expectations of our suppliers, business partners and contractors to adopt and apply standards consistent with Royal Mail across social, ethical and environmental issues.	– Quantification of our socio-economic impact in the UK to understand the level of benefit we deliver to the communities we serve – Achieving high scores or rankings in sustainability benchmarks and indices, where high levels of disclosure are required – Investigating breaches to our supplier codes, plus effective monitoring and auditing of high-risk suppliers

RESPECT FOR HUMAN RIGHTS

Where material information can be found in the strategic report:
– Human rights approach and policy outcomes, page 77

MATERIAL POLICIES	HOW WE MONITOR THE EFFECTIVENESS OF THE POLICIES
Corporate Responsibility policy Our Groupwide commitment to respecting and implementing internationally recognised codes such as the UN Guiding Principles on Business and Human Rights; the 30 Articles of the United Nations Universal Declaration of Human Rights; and the International Labour Organization's (ILO) Fundamental Conventions. **Equality and Fairness policy (UKPIL)** Our principles and approach to promoting equality, diversity and fairness at all stages of employment. This includes a commitment to employing people based on merit. **Recruitment Vetting policy (UKPIL)** Sets out the policy for Right to Work and vetting checks for all roles within Royal Mail Group to ensure we meet our legal, regulatory and contractual obligations. **Responsible Procurement Code of Conduct (UKPIL)** **Supplier Code of Conduct (GLS)** Expectations of our suppliers, business partners and contractors to adopt and apply standards consistent with Royal Mail, such as adherence to UN Universal Declaration of Human Rights. Suppliers and sub-contractors are expected to enforce effective systems and controls to ensure that modern slavery and human trafficking do not take place anywhere in our supply chains.	– Regular monitoring of high-risk supplier categories for evidence of breaches to our standards – Embedding of human rights risks into our compliance risk monitoring programme – Strict resourcing controls governing the onboarding of new permanent, temporary and contract staff to ensure compliance with vetting standards

ANTI-BRIBERY AND CORRUPTION MATTERS

Where material information can be found in the strategic report:
– Our approach to operating with integrity and policy outcomes, page 77

MATERIAL POLICIES	HOW WE MONITOR THE EFFECTIVENESS OF THE POLICIES
Anti-Bribery and Corruption policy Our Groupwide policy outlines our zero-tolerance approach, setting the standards of behaviour expected to minimise the risk of bribery, including gifts and hospitality. **Our Business Standards** **Code of Business Standards (GLS)** Outline the values and standards of behaviour we expect. They are about doing the right thing, following the law, acting honourably and treating others with respect. **Responsible Procurement Code of Conduct (UKPIL)** **Supplier Code of Conduct (GLS)** Expectations of our suppliers, business partners and contractors to adopt and apply standards consistent with Royal Mail i.e. prevention of the use of any form of bribery or improper offers of payment.	– Mandatory annual compliance training for all employees – Annual manager attestations to maintain our Business Standards – Regular screening of suppliers to check for instances of corruption – Monitoring the number of contacts made across our whistleblowing channels (i.e. by telephone, email, etc.)

Non-financial information	Section	Pages
Business model	Business model	28-29
Key non-financial performance indicators	Measuring our performance	30-31
	Corporate responsibility	74-85

Further information regarding our customers, environment, people, communities, supply chain, human rights and business integrity will be available in our 2019-20 Corporate Responsibility Report, which will be available on our website later in 2020.
→ www.royalmailgroup.com/en/responsibility/policies-and-reports/.

On behalf of the Board

Keith Williams
Interim Executive Chair

24 June 2020

CHAIR'S INTRODUCTION

Keith Williams
Interim
Executive Chair

On behalf of the Board, I am pleased to present this year's Corporate Governance Report, my first as Chair of the Board. It should be read in conjunction with pages 1-87 of the Annual Report and Financial Statements. Here, we expand on the ways in which the Board has addressed communication with stakeholders, corporate culture and diversity.

Board changes

I am delighted to have been appointed as Chair of the Company in May 2019. I would like to extend my thanks to my predecessors, Peter Long and Les Owen, who both provided strong stewardship and saw the Company through a time of major change.

We have undergone a considerable refresh of the Board throughout the year to broaden and enhance the skills and experience of our Directors. I would like to thank the Nomination Committee for their involvement in this process. We have welcomed four new Non-Executive Directors to the Board this year, Michael Findlay, Maria da Cunha, Baroness Sarah Hogg and Lynne Peacock. They have all immersed themselves into the Company and brought a variety of welcomed skill sets to the Board. You can find the biographies for all of our Directors on pages 90-91. We have provided a thorough and tailored induction programme for the new Non-Executive Directors, details of which can be found on page 102.

I would like to extend a warm welcome to our new Board members, and I look forward to continuing to work with them over the coming years.

In July 2019, Orna Ni-Chionna stood down from the Board and as Chair of the Remuneration Committee. In her nine years with us, we benefitted greatly from Orna's skills and expertise. We thank her for her contribution to the Company.

We announced in May 2020 that Rico Back stood down as Group Chief Executive Officer (CEO) and from the Board. Rico made a significant contribution to the evolution of our business over his 20 years with us. On behalf of the Board, I would like to extend my thanks to Rico and wish him well in the future. Following Rico's departure, I have assumed the role of interim Executive Chair to lead the Company whilst a comprehensive search for a CEO of Royal Mail is conducted.

Compliance with the UK Corporate Governance Code 2018

As Chair, it is my role to promote the highest levels of governance across the organisation. As a Board, we place a high value on good governance and welcome the long-term benefits of a well governed Company for our stakeholders. It is important to ensure these values are embedded within our culture and that all stakeholders are engaged in our journey. We welcomed the Financial Reporting Council's (FRC) review of the Code, which applied to companies with financial years beginning on or after 1 January 2019. We can confirm that the Company complied in full with the provisions of the 2018 Code for the year ended 29 March 2020. Further information on how the Company has applied the principles of the Code is set out on page 101. The Board receives regular updates on Corporate Governance developments throughout the year from both internal and external sources.

The Directors' duties under Section 172 of the Companies Act 2006 help to underpin good governance. Details of how the Board takes account of shareholder and wider stakeholder interests in its strategic planning and decision making processes are set out on page 111.

Stakeholders

The Board recognises the importance of increasing focus on a wider range of stakeholders, in addition to our investors. We continue to take into account all stakeholder views and interests in our decision-making processes and vision for the Company. As a significant contributor to the economy in the UK, we are aware of our responsibilities to local communities, and our contribution to society. We have made good progress this year to improve our engagement with all of our stakeholders. We were pleased to announce the formation of an additional Board Sub-Committee in September 2019. The Corporate Responsibility Committee (CRC), chaired by Rita Griffin, oversees our performance in Environmental, Social and Governance (ESG) matters and our Corporate Responsibility standards. This will include engagement with our suppliers, customers and investors on ESG matters. You can find out more about the work of the Committee on pages 126-127. Simon Thompson continues to lead on Board engagement with the workforce. This year, Simon has worked with the business to drive our Employee Voice Forums. Further information about our engagement with our workforce is on pages 112-113.

REPORTING AGAINST THE UK CORPORATE GOVERNANCE CODE 2018 (CODE)

The Code, published in July 2018 by the Financial Reporting Council, applied to Royal Mail's financial year ended 29 March 2020. This Corporate Governance section describes how Royal Mail applied the Code's main principles during the year.

Throughout the financial year, Royal Mail has been in compliance with the relevant provisions of the Code.

As announced on 15 May 2020, Rico Back stood down as Group Chief Executive Officer (CEO) and from the Board. Keith Williams assumed the role of interim Executive Chair with immediate effect. As a result of this appointment Keith also stood down as a member of the Remuneration Committee in line with the Code requirements. Keith is expected to remain in this executive role until a permanent CEO of Royal Mail is appointed. A comprehensive internal and external search for a permanent CEO of Royal Mail is underway.

The Code is publicly available at →
www.frc.org.uk

We believe it is very important to work with our unions to bring about the wholesale change needed to deliver our UK strategy. We were disappointed with the outcome of ballots for industrial action during the course of the year. We welcomed and appreciated CWU's statement that the COVID-19 crisis was not the time to take industrial action. We signed a joint statement with the CWU on 15 May in which we awarded a £200 payment to our frontline employees to recognise their hard work throughout the current COVID-19 pandemic. We continue to engage, on a regular basis and at a senior level, with CWU and Unite/CMA on our plans for change. Our engagement with CWU follows our recent Joint Statement with the union whereby both parties committed to work on setting up a joint framework for talks to seek to resolve our dispute.

We have faced unprecedented times with the outbreak of COVID-19 in 2020. The pandemic only began to impact our business in the final weeks of the financial year. As a Board, we have taken a number of decisions which we believe are in the best interest of the long-term success of the Company and to protect our stakeholders. COVID-19 has changed the way we interact with each other and has further highlighted the key role our people play in society. Royal Mail has implemented a number of operational changes to protect our employees and customers during this time.

The institutional investor community continues to be a strong and influential force in shaping Corporate Governance. I have met with a range of our largest shareholders over the year, providing investors with the opportunity to discuss particular areas of interest, or to raise any concerns, personally with me.

Engagement with our stakeholders is vital as we embark on a period of major change. I, along with my Board members, have continued to engage with our stakeholders throughout the year. We will look at ways to further communicate and engage with them during the year ahead. Details of how we engage with all of our stakeholders are covered on pages 104-111.

Strategy

Royal Mail's strategy presentation on 22 May 2019, our first since listing in 2013, provided an update on our strategy for the next five years. Our UK business has been facing significant challenges for some years. Our history as a letters business means we are not as well positioned as we would like to efficiently and effectively deliver the growing numbers of parcels. Alongside cost increases, this is driving significant financial pressures.

The COVID-19 pandemic presents new, fundamental, challenges to our business model. Securing a sustainable future and a contemporary Universal Service requires us to adapt to the challenges of the past, and to quickly respond to this unprecedented global crisis.

Our GLS strategy is about growing the business, while continuing to improve performance in some of the countries in which we operate. In the foreseeable future, it is an important source of cash flow generation and revenue diversification. In the short term, there are limited synergies available between Royal Mail and GLS. In the medium term, an international presence is clearly important; the opportunity remains to create value, and sustainable profits, for shareholders.

Culture, diversity and inclusion

The Board sets the vision, purpose and values of the Group and strongly believes that good governance should also focus on the culture within which all our businesses and employees operate and conduct themselves. We recognise the importance of a diverse workforce and an inclusive culture, which promotes respect and has a positive impact on performance. Our culture supports the delivery of our purpose to "connect customers, companies and countries". The Board continues to take overall responsibility for the monitoring of culture. It will also be a particular focus of the newly created CRC.

I will lead the business and the development of our culture on a day to day basis along with the senior management team, until a new CEO of Royal Mail is appointed. You can read more about our Company culture and how we embed this throughout the organisation on page 78.

Royal Mail encourages diversity. Our Equality and Fairness policy and our 'Thrive' campaign aims for transparency, diversity and fairness at all stages of employment and raises awareness of diversity across our employee base.

During the year, we have celebrated events from each diversity workstream, including BAME, gender, LGBT, disability and youth, parents and carers. We are proud that average pay continues to be broadly the same for men and women. However, more men are in work that qualifies for allowances, such as shift work during the evening or night. This means that, on a mean basis, women are paid 2.1 per cent less than men. On a median basis, men are paid 3.5 per cent more than women. We pay bonuses equally to men and women on a median basis.

For further details see our 2019 Gender Pay Report → www.royalmailgroup.com/en/responsibility/our-focus-areas/our-people/.

Following a review in February 2020, the Board concluded that its Diversity Policy remained fit for purpose. A report on the progress made against the objectives set is on page 116. The Company has achieved the target introduced by the Lord Davies review for the proportion of women on FTSE 350 company boards to increase from the current 25 per cent target to 33 per cent by 2020. As at 24 June 2020, the Board's proportion of female directors was 50 per cent (four out of eight). The Executive Board, in consultation with the Nomination Committee, has considered and reviewed our high potential individuals, taking into account the skills and experience required for each subsidiary Company and diversity from a BAME and gender perspective. This has led to some changes to the membership of subsidiary Boards and we are pleased that, on the majority of our UK subsidiary Boards, we have increased female and BAME representation. Further details on the review and the Board's approach to diversity can be found on page 100.

Conclusion

We conducted an externally facilitated Board evaluation in late 2019 and early 2020; details of the process and outcome of this evaluation can be found on page 103. I am pleased with the progress that has been made this year to refresh the Board composition, which I believe remains effective and continues to work well. I am confident that the Board has the right balance of skills, expertise and independence to continue to deliver strong governance, whilst allowing the Executive team to implement and deliver the strategy.

The 2020 AGM will be held on Tuesday 8 September 2020 at 13.00. Full details of the business to be considered at the meeting and the special arrangements that will be in place in light of the COVID-19 outbreak will be included in the Notice of Annual General Meeting that will be sent to shareholders by their chosen communication means and published on our website at: → www.royalmailgroup.com/en/investors/annual-general-meetings/.

Keith Williams
Interim Executive Chair

24 June 2020

GROUP BOARD OF DIRECTORS

Keith Williams
Interim Executive Chair

N

Skills and Experience
Keith is a highly regarded business leader with extensive industrial relations, operational and customer service experience. Keith is a chartered accountant and worked in the UK and internationally before joining British Airways plc in 1998. He worked there for 18 years, including five years as CFO, three years as CEO and two years as Executive Chairman. During that time, he led the transformation of the Company, building a leaner and more customer focused organisation with a sustainable future.

Prior to British Airways, Keith worked for companies including Reckitt and Colman, Apple Computer Inc., and Boots. He was also an Executive Board member and Chair of the Audit Committee at Transport for London until 2016. His previous non-executive roles include appointments at Aviva plc and the John Lewis Partnership.

Appointed to the Board
- Non-Executive Director on 1 January 2018.
- Non-Executive Deputy Chair on 7 November 2018.
- Non-Executive Chair on 22 May 2019.
- Interim Executive Chair on 15 May 2020.

External appointments
- Chair of Halfords Group plc.
- Independent Chair of a review of the British Railways on behalf of the UK Government.

Stuart Simpson
Interim Chief Executive Officer of Royal Mail

Skills and Experience
Stuart has significant finance, strategy and operational experience. Prior to Royal Mail, Stuart worked in the automotive industry for 15 years, where he held senior roles in both finance and strategy, primarily based outside of the UK. He joined Royal Mail Group in 2009, was appointed as Deputy Chief Operations Officer in January 2014 and was subsequently appointed as Director of Group Finance in July 2015. Stuart was appointed Chief Finance Officer in July 2017 and in November 2018 took on the additional responsibility of Chief Operating Officer. Stuart stood down from these additional responsibilities in April 2020 following the outbreak of COVID-19, to enable him to focus on his responsibilities as Chief Finance Officer. He was appointed interim Chief Executive Officer of Royal Mail in May 2020.

Appointed to the Board
- Chief Finance Officer and Executive Director on 20 July 2017.
- Chief Finance and Operating Officer on 7 November 2018.
- Chief Finance Officer on 1 April 2020.
- Interim Chief Executive Officer of Royal Mail on 15 May 2020.

External appointments
- None.

Baroness Sarah Hogg
Senior Independent Non-Executive Director

A N

Skills and Experience
Sarah has extensive business and Government experience. She was previously Chair of 3i Group plc and has been a Non-Executive Director of numerous companies including BG Group plc and GKN plc. She has served as Lead Independent Non-Executive Director of HM Treasury and Chair of the Financial Reporting Council. Sarah was Head of the Prime Minister's Policy Unit under John Major, and previously Economics Editor of several leading newspapers including The Times, The Telegraph and The Economist.

Sarah was created a Life Peer in 1995 and sits in the House of Lords as a crossbencher. She received a Lifetime Achievement award at the Non-Executive Director awards in 2017.

Appointed to the Board
- Senior Independent Non-Executive Director on 1 October 2019.

External appointments
- Senior Independent Director of the Financial Conduct Authority.
- Non-Executive Director of Times Newspapers Holdings Limited.

Rita Griffin
Non-Executive Director

C N

Skills and Experience
Rita has considerable experience in developing and implementing strategies and leading substantial transformation programmes, which she has gained through her career at BP Group. Rita is currently Chief Operating Officer for Global Petrochemicals at BP plc, one of three main divisions of BP's downstream business. She has held a number of leadership positions within BP plc in manufacturing, logistics, retail and functional organisations. Rita was previously Chief Marketing Officer, BP plc.

Appointed to the Board
- Non-Executive Director on 1 December 2016.

External appointments
- Chief Operating Officer for Global Petrochemicals, BP.
- Director of BP Chemicals Investments Limited and BP Chemicals East China Investment Limited.

Simon Thompson
Non-Executive Director

Designated Non-Executive Director for engagement with the workforce

C N R

Skills and Experience
Simon has extensive experience as a global business leader with proven expertise in the digitisation of business and the customer experience. Simon is currently the Chief Product Officer of Ocado plc and has held senior executive positions at Apple Computer Inc., HSBC, lastminute.com, Wm Morrison Supermarkets plc, Motorola Inc. and Honda Europe Ltd. In 2019, Simon was appointed as the Designated Non-Executive Director for engagement with the workforce.

Appointed to the Board
- Non-Executive Director on 1 November 2017.
- Designated Non-Executive Director for engagement with the workforce on 26 February 2019.

External appointments
- Chief Product Officer of Ocado Group plc.
- Member of the Digital Advisory Board of Coca-Cola European Partners.

Board Committee membership

Ⓐ Audit and Risk Committee Ⓒ Corporate Responsibility Committee Ⓝ Nomination Committee Ⓡ Remuneration Committee

● Chair of Committee

Michael Findlay
Non-Executive Director

A N R

Skills and Experience
Michael has spent 27 years in investment banking, working for firms including Robert Fleming & Co, UBS and most recently Bank of America Merrill Lynch. He retired from Bank of America Merrill Lynch in 2016, where he was Co-Head of Investment Banking for the UK and Ireland, having previously been the Co-Head of Corporate Broking EMEA. He was, from 2009 until 2016, a Non-Executive Director of UK Mail Group plc, where he became Senior Independent Director and Chair of the Remuneration Committee and a member of the Audit Committee. Michael is currently Chair of Morgan Sindall Group plc.

Appointed to the Board
– Non-Executive Director on 22 May 2019.

External appointments
– Chair of Morgan Sindall Group plc.
– Chair of London Stock Exchange plc
– Non-Executive Director of Jarrold & Sons Limited.

Maria da Cunha
Non-Executive Director

C N R

Skills and Experience
Maria has extensive experience in dealings with trade unions, transformation programmes and employee engagement. Maria is a former senior executive of British Airways plc where she worked for 18 years until 2018. Maria was BA's Head of Legal and Government and Industry Affairs for four years before becoming its Director of People and Legal in 2011, responsible for human resources, legal, risk and compliance. Prior to joining BA, Maria held various positions with Lloyds of London, Lovells LLP and the Law College of Europe.

Appointed to the Board
– Non-Executive Director on 22 May 2019.

External appointments
– Non-Executive Director of De La Rue plc.
– Panel Member of the Competition and Markets Authority.

Lynne Peacock
Non-Executive Director

R A N

Skills and Experience
Lynne has over 20 years' experience as an Executive and Non-Executive Director both in the financial services and non-financial services sectors. This includes as Chief Executive Officer of Woolwich plc and Chief Executive Officer of National Australia Bank Europe Limited (NAB). She has been involved in a variety of successful transactions including an IPO and FTSE 100 listing, the sale of Woolwich plc to Barclays and the disinvestment of NAB's Irish operations.

Prior to moving into financial services, Lynne held positions with Unilever plc and Tate & Lyle plc. She was previously Non-Executive Director at Standard Life Aberdeen plc, Scottish Water, Jardine Lloyd Thompson Group plc and Nationwide Building Society.

Appointed to the Board
– Non-Executive Director on 1 November 2019.

External appointments
– Non-Executive Director of Serco Group plc.
– Non-Executive Director of TSB Banking Group plc.
– Non-Executive Director of TSB Bank plc.
– Chair of Trustees of the Westminster Society for People with Learning Disabilities.

BOARD DIVERSITY

Male	4
Female	4

As at 24 June 2020

NON-EXECUTIVE DIRECTOR TENURE*

1-2 years	4
2-6 years	2

As at 24 June 2020

Tenure data includes Non-Executive Directors only.

EXECUTIVE BOARD – ROYAL MAIL

Keith Williams
Interim Executive Chair (Group)

Skills and Experience
For Keith's biography please refer to Group Board of Directors on page 90.

Stuart Simpson
Interim Chief Executive Officer of Royal Mail

Skills and Experience
For Stuart's biography please refer to Group Board of Directors on page 90.

Mel Tomlin
Chief of Staff

Skills and Experience
Mel has performed a number of senior roles across the Group both in the UK and internationally, most recently as Chief of Staff for GLS and Royal Mail Parcels. She has held senior Group roles in Strategy, HR and Customer Experience. Previously Mel held a number of international Operational Director roles and was Managing Director of GLS Ireland. Prior to joining Royal Mail, she held senior general management roles in the construction materials industry in both the UK and US.

Appointed to the Executive Board
– 8 June 2018.

External appointments
– None.

Sally Ashford
Chief HR Officer

Skills and Experience
Sally joined Royal Mail in June 2015 to head up Reward and Recognition and subsequently became HR Director of Parcels. She was appointed Group Chief Human Resources Officer in June 2018. Sally has over 25 years' experience in Human Resources specialising in reward, performance, talent and organisation design. Prior to joining Royal Mail, Sally was HR Director for Telefonica Europe. Sally has also worked in a variety of HR related roles at O2, BT and Tesco.

Appointed to the Executive Board
– 8 June 2018.

External appointments
– Member of Telefonica Deutschland supervisory Board and Chair of its Remuneration Committee.

Christian Herrlich
Chief Information Officer

Skills and Experience
Christian joined Royal Mail in June 2017 and was appointed Group Chief Information Officer in July 2018. Christian is responsible for Royal Mail's technology estate and specifically for driving digital transformation and IT innovation across the business. Christian has more than 20 years' experience in the postal & parcels industry, providing leadership for numerous successful IT transformations. He was previously Managing Director IT at GLS for five years. Prior to that, Christian spent 13 years at Deutsche Post DHL, most recently in the role of Parcels CIO.

Appointed to the Executive Board
– 1 August 2018.

External appointments
– None.

Achim Dünnwald
Chief Operating Officer

Skills and Experience
Achim was appointed as Chief Operating Officer in April 2020 and is responsible for leading the UK operations. He also continues to lead the Strategy and Transformation function as it continues to develop and implement projects to support the transformation of our UK business. Achim has extensive experience in the international postal and logistics sectors, including most recently as CEO DHL Parcel, which is part of the Deutsche Post DHL Group. Prior to that, he was a partner with the consulting firm McKinsey & Company, where he led the global post, express and parcels service line, and worked for postal operators in Europe, North America, and the Middle East.

Appointed to the Executive Board
– 25 March 2019.

External appointments
– Advisory Board Member, Seven Senders GmbH.

Mark Amsden
Group General Counsel and Company Secretary

Chief Risk and Governance Officer

Skills and Experience
Mark joined Royal Mail in April 2019. Mark is the former General Counsel and Company Secretary of Wm Morrison Supermarkets plc, and the former Interim Company Secretary of Yorkshire Water. Prior to joining Morrisons, Mark was for 14 years a partner in the international law firm Addleshaw Goddard LLP where he specialised in corporate litigation and headed up Addleshaw's national IT litigation practice.

Appointed to the Executive Board
– 8 April 2019.

External appointments
– None.

Shane O'Riordain
Managing Director of Corporate Affairs, Regulation and Marketing

Skills and Experience
Shane joined Royal Mail in November 2010 and was appointed to his current role in 2018. Previously, he had responsibility for Strategy and Pricing in addition to Corporate Affairs and Regulation. Before joining Royal Mail, Shane was Corporate Affairs and Group Economics Director for a range of major financial services organisations, including Flemings, Halifax, HBOS and Lloyds Banking Group. Shane was previously a diplomat in the Irish Foreign Service.

Appointed to the Executive Board
– 8 June 2018.

External appointments
– None.

James Rietkerk
GLS Chief Executive Officer

Skills and Experience
James was Chief Financial Officer of GLS from 2001 to 2018. He was appointed Chief Executive Officer of GLS and joined the Executive Board in June 2018. Prior to joining Royal Mail, James was a Group Financial Controller at Charter plc. He qualified as a Chartered accountant with Price Waterhouse.

Appointed to the Executive Board
– 8 June 2018.

External appointments
– None.

EXECUTIVE BOARD DIVERSITY

Male	7
Female	2

As at 24 June 2020

GOVERNANCE STRUCTURE

Board structure and leadership

The Board is responsible for the stewardship of the Group, overseeing its strategy, conduct and affairs to create sustainable value for the benefit of its shareholders. The Board, led by Keith Williams, is accountable for the long-term success of the Company, setting the Group's strategic objectives and monitoring performance against those objectives. The day-to-day management of the Group is currently also led on an interim basis by Keith Williams, following the announcement that Rico Back had stood down as Group CEO in May 2020. A comprehensive search is underway for a CEO of Royal Mail (UKPIL).

The Board recognises that, to be successful over the long term, it has a wider duty to a broader stakeholder community whose support is required to create sustainable value. It is therefore essential that the Board considers the impact of the business and its decisions on our colleagues, customers, shareholders, suppliers and the communities in which the Company operates. Pages 104-111 highlight how we consider and engage with our stakeholders.

The Board has undergone a considerable refresh during 2019 to enhance the skills and experience of our Board members. The Non-Executive Directors play a key role in challenging our Management team and ensuring the highest levels of governance are adhered to throughout the organisation. The Board has adopted the governance framework as set out below, which assists us in the exercise of our responsibilities, namely providing strategic direction to the Company to create long-term shareholder value.

The Board has established several Committees and has delegated authority to them to carry out certain tasks. The Board was pleased to announce the formation of a new Corporate Responsibility Committee (CRC) in September 2019, which recognises the importance of Corporate Responsibility to the Group. The CRC is responsible for promoting a culture that emphasises and sets high standards for corporate responsibility and reviews corporate performance against those standards. The Terms of Reference of each Board Committee, and the Matters Reserved for the Board, have been reviewed during the year. Relevant changes have been made in line with the Code. These documents are available at → www.royalmailgroup.com.

The minutes of each meeting are made available to and approved by Committee Members on a timely basis. Each Committee Chair reports to the Board on matters discussed at Committee meetings and highlights any significant issues that require the Board's attention.

THE BOARD AND ITS COMMITTEES

THE BOARD

The Board is responsible for the stewardship of the Company, overseeing its strategy, conduct and affairs to create sustainable value for the benefit of its shareholders. It is responsible for the long-term success of the Group. The Board:

- sets the Company's values and standards, making sure that they align with its strategic aims and the desired business culture;
- has oversight and accountability for the interests of wider stakeholders;
- sets the objectives and strategy, and monitors performance and risk management; and
- approves major contracts, investments, internal controls and key policies.

The Board has four Committees that are set out below.

More information → www.royalmailgroup.com/en/about-us/governance/

NOMINATION COMMITTEE

Committee Chair
Keith Williams

- Reviews the balance and composition of the Board and its Committees including in relation to skills, knowledge, independence, diversity and experience.
- Ensures a progressive renewal of Board membership through orderly succession planning.
- Considers talent reviews and succession planning for Senior Executives.
- Oversees progress against the Company's diversity policy.

Read more – pages 114-116

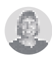
AUDIT AND RISK COMMITTEE

Committee Chair
Michael Findlay

- Reviews, and recommends for the Board's approval, all financial statements and associated disclosures.
- Advises the Board on the Company's overall risk appetite, tolerance and strategy, and reviews the policies and processes for identifying and assessing the risks to which the Company is exposed and the management of those risks.
- Satisfies itself that internal controls and risk management processes work effectively.
- Oversees the financial performance of the Group, including GLS.
- Oversees the relationship with the external auditor, ensuring the effectiveness of the external audit process.

Read more – pages 117-125

REMUNERATION COMMITTEE



Committee Chair
Lynne Peacock

- Determines, and recommends for the Board's approval, the framework for the remuneration of the Group's Senior Executives.
- Determines and recommends for the Board's approval the individual remuneration arrangements for the Chair, the Executive Directors, Executive Board and the Company Secretary.
- Agrees targets for any performance related incentive schemes.

Read more – pages 128-153

CORPORATE RESPONSIBILITY COMMITTEE

Committee Chair
Rita Griffin

- Oversees the Company's performance in Environment, Social and Governance (ESG) matters and Corporate Responsibility (CR) standards to ensure they are in alignment with the Group strategy.
- Reviews, and recommends for the Board's approval, the Company's Corporate Responsibility policies and practices.
- Focuses its efforts on the ESG issues that are of most importance to the Company and its stakeholders and remains attuned to the changing needs and expectations of society.
- Monitors and reviews the Company culture and whistleblowing arrangements.

Read more – pages 126-127

SEPARATION OF ROLES

Governance documents available on our website

More information → www.royalmailgroup.com/en/about-us/governance/

- Matters Reserved for the Board
- Committee Terms of Reference
- Role Profiles
- Board Diversity Policy

As at year end there was a clear division of responsibilities between the roles of the Chair, CEO and Senior Independent Director (SID). These roles were set out in writing and agreed by the Board and can be seen below. The separation of roles enhances independent oversight of executive management and ensures no one individual has unfettered powers or decision making authority. Subsequent to the year end, our Group CEO left the business. Keith Williams has assumed the role of interim Executive Chair of the Group and Stuart Simpson was appointed interim CEO of Royal Mail. Keith will remain in this executive role for a short period until the search for a CEO of Royal Mail is complete. Once the restructure has been completed, the roles and responsibilities of the Board will be updated and agreed by the Board.

CHAIR

- Responsible for the leadership and management of the Board and for promoting high ethical and governance standards.
- Ensures an effective and complementary Board, including appropriate contribution and sufficient challenge from the Directors.
- Ensures the Board determines the nature and extent of the significant risks that the Company is willing to accept in implementing its strategy.
- With support from the Company Secretary, promotes the highest standards in corporate governance and provides all new Directors with a thorough and tailored induction programme.
- Ensures effective relationships exist between all Directors, driving a culture that supports constructive discussion, challenge and debate.
- Maintains effective communications with shareholders, ensuring their views are understood and considered appropriately during Board discussions.

SENIOR INDEPENDENT DIRECTOR

- Acts as a sounding board for the Chair and serves as a trusted intermediary for the other Directors.
- Leads the annual appraisal of the Chair's performance.
- Available to meet with shareholders, should they have issues or concerns.

INDEPENDENT NON-EXECUTIVE DIRECTORS

- Responsible for contributing sound judgement and objectivity to the Board's deliberations and overall decision-making process.
- Provide constructive challenge and monitor the Executive Directors' delivery of the strategy within the Board's risk and governance structure.
- Provide independent insight and support based on relevant experience.
- Satisfy themselves of the integrity of financial information and of the effectiveness of financial controls and risk management systems.
- Determine the appropriate level of remuneration for Executive Directors and ensure there is appropriate succession planning in place at both Executive and Board level.
- Engage with internal and external stakeholders, and feed back insights as to their views in relation to Company culture.

GROUP CHIEF EXECUTIVE OFFICER

- Responsible for the executive leadership and day-to-day management of the Company.
- Leads the Company's Executive Board and is responsible for implementing the delivery of the strategy as agreed by the Board and in accordance with the Group's risk appetite and business plan.
- Promotes the Company's culture and standards and engages with key stakeholders.

CHIEF FINANCE OFFICER

- Responsible for providing strategic financial leadership of the Company and the day-to-day management of the finance function.
- Develops and monitors the control systems designed to preserve Company assets and report accurate financial results.

COMPANY SECRETARY

- Provides advice to Board members, particularly in relation to corporate governance practices, induction training and personal development.
- Ensures that Board procedures are complied with, applicable rules are followed and that good information flows exist to the Board and between its Committees.
- Communicates with shareholders as appropriate and ensures due regard is paid to their interests.
- Ensures the Board has high quality information, adequate time and appropriate resources in order to function effectively and efficiently.
- Considers Board effectiveness in conjunction with the Chair and provides support to the Chair as required.

DESIGNATED NON-EXECUTIVE DIRECTOR FOR ENGAGEMENT WITH THE WORKFORCE

- Represents the Board in engagement with the workforce.
- Develops a thorough understanding of the workforce's views and the Company culture.
- Develops, implements and feeds back on employee engagement initiatives in conjunction with Senior Management.
- Provides an employee voice in the Boardroom by raising relevant matters on issues raised.
- Communicates to the workforce the outcomes and developments made by the Board on specific matters.

BOARD IN ACTION

BOARD AND COMMITTEE ATTENDANCE

	Board	Nomination Committee	Audit and Risk Committee	Remuneration Committee	Corporate Responsibility Committee
Keith Williams[1]	9/9	2/2	1/1	4/4	
Stuart Simpson[11]	8/9				
Sarah Hogg[2]	5/5	2/2	3/3		
Rita Griffin[3]	9/9	2/2	2/2	2/2	2/2
Simon Thompson[4]	9/9	2/2	2/2	6/6	2/2
Michael Findlay[5]	8/8	2/2	4/4	4/4	
Maria da Cunha[6]	8/8	2/2		4/4	2/2
Lynne Peacock[7]	4/4	2/2	3/3	3/3	
Les Owen[8]	1/1				
Orna Ni-Chionna[9]	3/3		1/1	2/2	
Rico Back[10]	9/9				

1 Keith Williams was appointed as Chair on 22 May 2019. Keith stepped down as Chair of the Audit and Risk Committee on appointment and was appointed to the Remuneration Committee on 25 September 2019. Keith assumed the role of interim Executive Chair of the Company and ceased to be a member of the Remuneration Committee on 15 May 2020.

2 Sarah Hogg was appointed as Senior Independent Director and as a member of the Audit and Risk Committee and Nomination Committee on 1 October 2019.

3 Rita Griffin stood down from the Remuneration Committee and Audit and Risk Committee on 25 September 2019 and 1 October 2019 respectively and was appointed as Chair of the Corporate Responsibility Committee on 25 September 2019.

4 Simon Thompson was appointed as Senior Independent Director on an interim basis on 18 July 2019. Simon stepped down from this role on 1 October 2019, following the appointment of Sarah Hogg. Simon was appointed as interim Chair of the Remuneration Committee on 18 July 2019 and stepped down from this role on 1 November 2019, following the appointment of Lynne Peacock. Simon remains a member of the Remuneration Committee. Simon stood down from the Audit and Risk Committee and was appointed to the Corporate Responsibility Committee on 25 September 2019.

5 Michael Findlay was appointed to the Board on 22 May 2019 and as Chair of the Audit and Risk Committee on 30 May 2019. Michael was also appointed to the Nomination Committee and Remuneration Committee on 25 September 2019.

6 Maria da Cunha was appointed to the Board on 22 May 2019. Maria was also appointed to the Nomination Committee, Remuneration Committee and Corporate Responsibility Committee on 25 September 2019.

7 Lynne Peacock was appointed to the Board on 1 November 2019. Lynne was also appointed as Chair of the Remuneration Committee and as a member of the Nomination Committee and Audit and Risk Committee on 1 November 2019.

8 Les Owen stood down as Chair of the Board and as Chair of the Nomination Committee on 22 May 2019.

9 Orna Ni-Chionna stood down as Senior Independent Director and as Chair of the Remuneration Committee on 18 July 2019.

10 Rico Back stood down from the Board on 15 May 2020.

11 Stuart Simpson was unable to attend one Board meeting due to illness. Stuart was provided with the papers in advance of the meeting.

The attendance above reflects the number of scheduled meetings held during the financial year. There were also a number of ad-hoc Board and Committee meetings to deal with matters arising outside of the usual meeting schedule. The majority of Directors made themselves available at short notice for these meetings.

2019-20 Board meetings

The details of the Board's scheduled meetings and attendance during 2019-20 can be found above. The Non-Executive Directors and the Chair met on several occasions without the Executive Directors present. These meetings are an important way to develop working relationships between the Non-Executive Directors and to assess the performance of senior management.

The Non-Executive Directors regularly met with Management and spent extra time increasing their understanding of the business through site visits, informal briefing sessions and networking sessions. This allows discussions to take place in a different format to Board meetings and helps to "open out" discussions, enabling formal Board meetings to be more focused. It also helps to reframe The Non-Executive Directors' views of their roles, recognising that attendance at Board meetings is only one part of their role and enabling them to engage as proactively and frequently as possible with the business.

Directors unable to attend a Board or Committee meeting receive the relevant papers prior to the meeting with the opportunity to provide in advance any comments to the Chair or the relevant Committee Chair. The minutes of the meeting and all papers are also available for the Directors to review for their future reference, through use of an online Board portal.

Board activities

The Board's annual plan is designed to ensure that sufficient time is allocated to ensure all necessary matters are addressed. The agendas are adjusted throughout the course of the year to prioritise relevant issues and ensure focused consideration of strategic priorities. Sufficient time is provided for the Chair to meet privately with the SID and Non-Executive Directors to discuss any issues arising.

The table on pages 97-99 outlines specific areas the Board focused on during the year and up until 24 June 2020.

The Board reviews key transactions and projects, financial performance and health and safety updates at every Board meeting. It also regularly reviews:

- Business strategy;
- Key risks;
- The market;
- Operational matters;
- Customer service;
- Diversity and inclusivity;
- Corporate responsibility;
- Governance;
- Compliance and legal matters;
- Whistleblowing and culture; and
- Stakeholder-related matters, including the makeup of the share register and investor relations programme; community engagement; and human resources and wider employee matters.

Committee Chairs are provided with a standing agenda item to update the Board on the work of the Committees.

Board members and, as appropriate, individuals from the relevant business areas, are invited to present on key items, allowing the Board the opportunity to debate and challenge on initiatives directly with the Senior Management team along with the Executives.

MATTER CONSIDERED	ACTIVITY
STRATEGY AND BUSINESS PLAN	
Group strategy	The Board considered corporate and material transactions and projects to ensure that proposed transactions were aligned with the Group's strategy and risk appetite. Participated in strategy sessions covering UK business functions and GLS. Monitored, reviewed and/or approved: – The UK transformation programme; – Relations with CWU and assessment of productivity and efficiency opportunities in the 2018 Agreement; – Long-term growth in parcels; and – Technology developments including automation.
Business plan and budget	Reviewed and approved the 2020-21 business plan/budget and monitored progress against the Group's long-term business plan. Considered and approved the Capital Allocation Framework. Monitored progress against annual budget and financial targets for the Group.
LEADERSHIP	
Organisational change and development of talent in pipeline	Monitored and received updates on structural changes within the Executive Leadership team. Considered recommendations from the Nomination Committee and HR about succession and developing talent for colleagues below Executive Board level. Approved recommended changes to subsidiary board compositions.
Board composition and succession planning for Board	Progressed the appointment of Non-Executive Directors. Four Non-Executive Directors joined the Board during 2019. Continued to refresh Board membership including Board succession planning, with a focus on diversity. Refreshed and implemented a new Non-Executive Director Induction Plan. Created a new Corporate Responsibility Committee. Reviewed and refreshed the Committee compositions.

MATTER CONSIDERED	ACTIVITY
STAKEHOLDER ENGAGEMENT	
Unions/Industrial relations	Received regular updates on discussions with unions and the industrial relations environment. Group CEO and Senior Management met regularly with CWU.
Ofcom	Group CEO met regularly with Ofcom. Reviewed updates of Management engagement with Ofcom.
Investor relations and Shareholders	Regularly reviewed investor relations updates and reports at Board meetings. Received updates provided by Corporate Brokers. The Chair, Senior Independent Director and Company Secretary between them met with institutional shareholders and proxy advisory groups throughout the year and provided updates to the Board on these discussions. Breakfast meeting hosted by the Non-Executive Directors with a number of investors. Against the backdrop of the UK Stewardship Code, assessed how the Group engages with existing and potential shareholders. Considered feedback and response to the Capital Markets Day held in May 2019. Tracked progress of commitments made at the Capital Markets Day.
Pensions	Held discussions and received updates on how the Collective Defined Contribution (CDC) scheme would work and its impact on stakeholders.
Engagement with the workforce	Simon Thompson (Designated NED for engagement with the workforce) held Employee Voice Forums in the UK and reported his findings to the Board. In addition, Simon has discussed remuneration with employees during these sessions. Reviewed the results of the Employee Engagement Survey. Through the People Panel, reviewed and oversaw the development of an action plan following the results of our Employee Engagement Survey. Met with senior leaders in informal settings to get to know people based in different sites and in the talent pipeline. Met with employees during a Board site visit to the GLS hub in Hungary.
Culture	Discussed and reviewed the Group's culture in detail, particularly in the March Board meeting. Visited numerous operational sites across the UK and Europe to experience and assess the culture and attended two full Board employee voice forums with employees.
GOVERNANCE	
UK Corporate Governance Code 2018	Reviewed and considered the changes to the 2018 UK Corporate Governance Code which included: – Reviewing and/or approving changes to the Matters reserved for the Board, Committee Terms of Reference, Role of the Chair, SID and Group CEO; – The importance of the Company's purpose being articulated and its linkage to the new strategy, culture and the Remuneration Policy; – An update on Directors' duties to Section 172 of the Companies Act 2006 and the introduction of a Section 172 report to be included within the Annual Report; – Action to be taken as a result of significant votes against, received at an Annual General Meeting; and – The enhanced responsibilities of the Board in monitoring and assessing culture, monitoring and understanding of the Company's emerging and principal risks, and engagement with stakeholders.
Board agendas and meetings	Reviewed agendas and topics for discussion, identified key topics to be focused on over the course of the year. Reviewed and approved, where appropriate (upon recommendation from the appropriate Committee): – Modern Slavery Statement; – Whistleblowing Policy; – Corporate Responsibility Policy and Report; – Annual Report and Accounts; and – Dividend payments. The Board is regularly updated by the Group General Counsel and Company Secretary on legal matters, emerging regulation and governance changes. Regularly updated by the Director of Internal Audit and Risk on risk and audit matters. Received regular updates from the Group Legal team including any ongoing litigation claims. Reviewed the Environmental Strategy. Reviewed the Vehicle Strategy. Reviewed and approved a number of proposed changes to subsidiary Company Board compositions.
Board and Committee Evaluations	An externally facilitated Board evaluation took place in Q4 2019 and Q1 2020 and the Board considered the findings at the March 2020 meeting. Detailed recommendations arising from the Board evaluation were developed.

MATTER CONSIDERED	ACTIVITY
RISK AND INTERNAL CONTROLS	
Health & Safety	Received regular updates on health, safety and wellbeing matters.
GDPR	Received regular updates on the Company's compliance with GDPR.
Cyber Security	Received updates on cyber security and the associated risks. Reviewed the updated cyber security improvement plan.
Brexit	Reviewed and discussed potential impacts of Brexit and the threat of the US administration taking the US postal service out of the Universal Postal Union. Considered the Company's response to various scenarios. Oversaw planning for Brexit and associated customs clearance impacts.
General Election	Reviewed and discussed the impacts and potential risks of the General Election. Put in place plans to ensure adequate operational capacity was in place to deal with increased volumes. Considered the Company's response to various scenarios including how best to preserve shareholder value in a re-nationalisation scenario.
Whistleblowing	Received reports from the Audit and Risk Committee and the Corporate Responsibility Committee, particularly to gauge the Company's approach to bullying, harassment and anti-bribery and corruption risks. Reviewed the updated Whistleblowing Policy.
Emerging and Principal Risks	Received regular updates on emerging and principal risks. Conducted a horizon scanning exercise to determine and understand the emerging risks to the Company. Received regular updates on the outbreak of COVID-19. This included updates on the Company's impact assessment and contingency plans to protect our employees and customers.
OPERATIONAL	
Group CEO Reports	Discussed regular Group CEO reports on the operating performance of the Group's business functions and progress of recent acquisitions. Received updates from the GLS CEO. Received updates on management structure and management succession planning. Received updates on the performance of subsidiary companies.
Property	Received updates on the Group's property portfolio including discussions regarding the sale of the Nine Elms plots.
FINANCIAL	
Performance Reports	Regularly discussed and considered reports on performance of different business functions.
Cost reduction	Regularly reviewed cost/efficiency with particular focus on UK business.
Reports and announcements	Considered and approved half year, full year and trading updates.
Dividend Policy	Considered the Dividend Policy and the level of dividend cover.

Strategy

The Board presented our strategy for the next five years on 22 May 2019. A range of presentations set out the plans to develop the UK operation to meet changing customers' requirements. See pages 19-25.

The Board dedicated a significant amount of time and focus to detailed discussions of the strategy. Alongside the annual review of the budget and business plan, this included a number of specific Board meetings to discuss the Company's transformation programme and dedicated reviews of the productivity and efficiency opportunities under the 2018 Agreement with the Communication Workers Union (CWU). Throughout the year, the Board held a number of additional meetings to discuss industrial relations, the possible threat of industrial action and the impact this could have on the Company. In addition, the Board discussed the GLS "scale up and grow" strategy which included consideration of a number of acquisition proposals and an expansion into cross-border parcels.

BOARD COMPOSITION AND DIVERSITY

The delivery of the Company's strategy depends on attracting and retaining the right skills across the Group. This starts with the Board, as well as the Executive Management team and their direct reports. A list of the Company's current Directors, including their biographies, can be found on page 90-91.

As at 24 June 2020, the Board comprised the interim Executive Chair, six independent Non-Executive Directors and one Executive Director with wide-ranging backgrounds and varying industry and professional experience. The Company complies with the Code's recommendation that at least half the Board, excluding the Chair, should be Non Executive Directors whom the Board considered to be independent. The Company's Chair, Keith Williams, was deemed to be independent upon appointment. Following the year end, Keith Williams assumed the role of Executive Chair on an interim basis. Keith will resume the role of Non-Executive Chair once the search for a CEO of Royal Mail (UKPIL) has been completed.

A strong governance framework alone is not enough to deliver our strategic objectives. The framework needs to be managed and overseen by an effective Board that sets the tone for the Group's culture, values and ethical behaviours. Royal Mail recognises the importance and benefits of having a diverse Board. The Board considers that diversity should not be limited to gender. A diverse Board should include and make good use of differences in skills, geographic and industry experience, background, race, gender and other characteristics of Directors.

The Board seeks to construct an effective, robust, well balanced and complementary Board, whose capability is appropriate for the nature, complexity and strategic demands of the business. The Nomination Committee leads the process for Board appointments as detailed in the Nomination Committee Report. The Code requires that the Board and its Committees should have the appropriate balance of skills, experience, independence and knowledge of the Company to enable duties and responsibilities to be discharged appropriately. These factors are taken into consideration when recruiting Board members to ensure the Board is effective and able to discharge its duties. The Board considers that each Director brings relevant and complementary skills and experience to the Board and each Director has sufficient time to allocate to the Company.

The Board and the Nomination Committee actively consider the structure, size and composition of the Board and its Committees when considering new appointments and succession planning. A range of diversity factors are taken into account when determining the optimum composition of the Board and its Committees. These factors are considered alongside the need to balance the composition of the Board and Committees and refresh them over time to meet the changing needs of the organisation.

The Company's Non-Executive Directors come from a wide range of industries, backgrounds and geographic locations. They have appropriate experience of organisations with international reach, transformation programmes and industrial relations. The skills and expertise of the Board have been extended and reinforced through the appointments of Maria da Cunha and Michael Findlay (from 22 May 2019), Baroness Sarah Hogg and Lynne Peacock (from 1 October 2019 and 1 November 2019, respectively). The Nomination Committee will continue to consider and develop succession plans for the Board and its Committees. When considering Board appointments and internal promotions at a senior level, the Company will continue to take account of relevant codes and voluntary guidelines and the performance of peer companies, while seeking to ensure that each post is offered strictly on merit to the best available candidate.

Information and support

The Board receives business and financial performance reports at each Board meeting and reports on health and safety, regulation, market dynamics and governance. The Directors receive regular updates and training on matters such as developments in corporate governance and compliance policies. The Company Secretary is responsible for ensuring the timely provision of information to the Directors.

Board terms of appointment

Copies of the Directors' service contracts and letters of appointment are available for inspection at the Company's registered office during normal office hours.

Time commitments

The terms of appointment for the Non-Executive Directors require them to devote a minimum average of two days a month to working for the Company.

In practice, they tend to devote considerably more time than this, supporting projects where their areas of expertise contribute to specific initiatives. Since his appointment, the Chair has devoted a minimum of two days per week to the Company. This has increased considerably since taking on the role of interim Executive Chair. Since last year, the Chair has stepped down as a Non-Executive Director of Aviva plc and the John Lewis Partnership, ensuring sufficient time to devote to his responsibilities at Royal Mail. The Non-Executive Directors were required to declare any significant outside commitments prior to their appointment with an indication of the time commitment involved. Any new external appointments which may impact existing time commitments will be considered by the Chair and agreed by the Board in advance.

Conflicts of interest

The Companies Act 2006 and the Articles of Association (the Articles) require the Board to consider any potential conflicts of interest. The Board operates a policy to identify and, where appropriate, manage potential conflicts of interest for Directors. The Board considers the conflicts during the financial year and, if appropriate, authorises each Director's reported actual, and potential, conflicts of interest. Each Director abstains from approving their own reported potential conflicts. The Board will continue to monitor the status of each conflict or potential conflicts.

The conflicts of interest register was reviewed during the year by the Board. It concluded that where Directors' conflicts were appropriately authorised, the process for authorisation was operating effectively.

Related party internal controls are in place to ensure Directors advise the Board of any related party transactions involving themselves or their connected persons, and that these are conducted on an arm's length basis. Directors have an ongoing obligation to advise of any changes that are required to be reviewed and monitored by the Board. As at 29 March 2020, no Director had advised the Board of any related party transactions. Note 29 on pages 226-227 sets out the Group's related party transactions over the year.

REPORTING AGAINST THE 2018 CORPORATE GOVERNANCE CODE

The Financial Reporting Council's 2018 UK Corporate Governance Code applied to Royal Mail's financial year ended 29 March 2020. The table below highlights where you can find information on how the Code's Principles have been applied. As confirmed on page 88, the Company complied with all relevant Provisions of the Code during the financial year.

CODE PRINCIPLE	PAGE
1. BOARD LEADERSHIP AND COMPANY PURPOSE	
A. Effective leadership, promotion of long-term success, value generation and social contribution	1-87, 94
B. Purpose, values, strategy and cultural alignment	1-87, 126-127
C. Resources and controls	117-125
D. Stakeholder engagement	88-89, 104-111
E. Workforce engagement	112-113
2. DIVISION OF RESPONSIBILITY	
F. Role of the Chair	95
G. Composition of the Board	100
H. Role and time commitment of the Non-Executive Directors	95, 100
I. Role of the Company Secretary	95
3. COMPOSITION, SUCCESSION AND EVALUATION	
J. Appointments to the Board and succession planning	100, 114-116
K. Skills, experience and knowledge of the Board	90-91, 100
L. Board evaluation	103
4. AUDIT, RISK AND INTERNAL CONTROL	
M. Internal and External Audit	117-125
N. Fair, balanced and understandable	117-125
O. Risk management and internal control framework	117-125
5. REMUNERATION	
P. Remuneration policies and practices	128-153
Q. Executive remuneration	128-153
R. Remuneration outcomes and independent judgement	128-153

BOARD INDUCTION PROGRAMME

Upon appointment, Directors are provided with a thorough induction process. The process has been designed to suit their individual needs and ensure they receive the required knowledge to fulfil their role as a Non-Executive Director. The tailored and comprehensive programme is agreed through discussion with the Chair and arranged and supported by the Company Secretary. The induction programme comprises various meetings with Senior Management and visits to operational sites. These sessions ensure that new Directors are adequately informed and equipped to participate effectively in Board discussions, with a sound understanding of the long-term strategy, business operations, the sectoral and regulatory context and Company culture. Committee members are provided with additional induction sessions specific to their Committee's remit. The Corporate Responsibility Committee will be holding an induction session in 2020-21, where all Board members will be invited to attend.

After the initial induction phase, Directors are welcome to meet with key personnel throughout the business at any time to continue their familiarisation with the Company's business, strategy, values and culture.

Four Non-Executive Directors joined the Company in 2019. Multiple induction days were held throughout the year at various locations with senior members of Management. Directors were provided with an overview of relevant business areas and engaged in open discussion to ensure all queries were addressed. The invitation to attend the induction sessions was extended to existing Directors as an opportunity to build relationships with the new Non-Executive Directors and to refresh their knowledge of the Company. In addition, the Non-Executive Directors met on a number of occasions, without the Executive team present, to promote effective working relations and to maximise the effectiveness of the Board.

Site visits

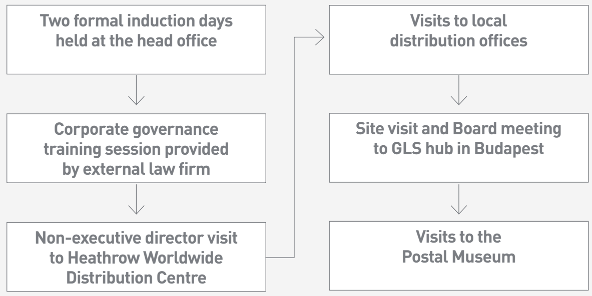
In addition to formal induction days, a number of site visits were held for the Non-Executive Directors to deepen their knowledge and understanding of the Company at an operational level and provide opportunities to meet with employees.

Examples of the business areas covered during the induction days and a timeline of the full induction programme can be found below.

Topics covered during induction sessions

– Corporate Finance	– Health & Safety
– Operations	– Communication and Marketing
– Risk	– Regulation
– Internal Audit	– Technology & Cyber Security
– Letters and Parcels	– Parcelforce Worldwide
– Investor Relations	– Remuneration
– Property	– Pensions

INDUCTION PROGRAMME



Q&A WITH LYNNE PEACOCK

How have your found your first six months as a Director at Royal Mail?
The Company is operating in a rapidly changing market. The COVID-19 crisis has seen the acceleration of the decline in letters and the growth in parcels; this change reinforces the strategy announced in 2019. There is huge scope for the various parts of the business to work together to satisfy these changing needs and build a business that is efficient, diversified and growing. The composition of the Board has changed significantly over the last 12 months with a number of new appointments. The range of skills is broad and complementary, and this is evident in the quality of debates.

What do you believe are Royal Mail's greatest strengths?
The Group combines a business which delivers to nearly 31 million addresses in the UK and a parcels business with significant geographical reach. Harnessing these strengths to satisfy changing customer needs is a huge opportunity. Within the UK, the business is more than a delivery service; our employees are valued and trusted by the communities which they serve.

Having recently attended the overall induction programme, what were your impressions of the programme?
The induction process was excellent. It was helped by the fact that some other Directors were also going through induction at the same time, so the sessions were collective meetings. The induction consisted of a wide range of briefings and site visits. Sadly, the COVID-19 crisis meant that our visit to GLS in Germany had to be postponed, but I am looking forward to completing this as soon as practical.

What were your key highlights from the induction sessions?
The Group has some fantastic people, many of whom are very long serving with tremendous corporate knowledge. The opportunities presented by delivering on our announced strategy were also apparent.

You recently visited a Royal Mail Delivery Office. How has that visit helped your understanding of the business?
The Delivery Office visit was first class. Although just for a day, it was great to go out on one of the delivery rounds with a postal worker. It was clear that he knew his local community extremely well and was valued by them. The decline in letter volumes and the growth in parcels was also apparent from the visit.

Have you attended any additional induction sessions in your role as Chair of the Remuneration Committee? How have these helped you to fulfil your role as Chair of the Committee?
In addition to meeting the senior management team, I have met with the key HR people and the Reward team, plus our external remuneration advisers and our brokers. This has given me different perspectives on our reward philosophy and its implementation.

How important do you believe it is to engage with our investors and wider stakeholder groups?
It is vital that the interests of the company and its key stakeholders are aligned. Engaging, consulting and acting on the needs of different stakeholders is critical for the development of a culture and strategy that achieves long-term sustainable success. As a Board, we are keen to engage with all of our stakeholders to ensure their interests are heard and considered as part of our strategic decision making. Since joining the Board, I have been impressed with the progress that has been made on improving our engagement with stakeholders and the comprehensive engagement programme that is in place. The Board will continue to develop the engagement programme to ensure continued compliance with its duties under Section 172 to promote the success of the company for the benefit of its members as a whole. Engagement with our stakeholders takes place in multiple forms as can be seen in the table on pages 104-111. Following my appointment as Chair of the Remuneration Committee, I have personally written to our major investors to update them on our remuneration developments and have provided updates on feedback received from our major investors during Board meetings. I look forward to engaging further with our stakeholders over the coming years.

ANNUAL EVALUATION OF BOARD PERFORMANCE AND EFFECTIVENESS

Progress against the 2018-19 internal Board evaluation

In 2018-19, the performance and effectiveness of the Board was reviewed through an internally facilitated evaluation process. Agreed actions included a strengthening of the Board composition to include Directors with experience in people related change and engagement, industrial relations and relevant industry experience. In addition, Directors recognised the need to spend more time on training (in particular on Company related issues such as regulation and the wider competitive environment), and to receive clearer, shorter discussion papers.

The Nomination Committee has conducted a thorough and robust recruitment process to strengthen the composition of the Board. Four Non-Executive Directors have been appointed throughout the year. The Board has also spent additional time, during meetings and induction sessions, focusing on Company related issues such as regulation, the market and health and safety. The Board noted the considerable amount of change that it would undergo throughout the year. It was agreed that the Director recruitment process be completed before an external Board evaluation facilitator was engaged to review the Board performance in 2019-20.

2019-2020 EXTERNAL BOARD EVALUATION

SELECTION OF EXTERNAL EVALUATION PROVIDER

In accordance with best practice, an external effectiveness review is carried out with external facilitation once every three years. The selection process was led by the Chair and Company Secretary, who, with their knowledge of different providers, confirmed the appointment of Independent Board Evaluation (IBE) in 2019. IBE is an independent consultancy and has no other relationship with Royal Mail or individual Directors.

AGREE REMIT AND SCOPE

Initial meetings between the Chair, the Company Secretary and IBE were used to agree the remit, scope, timing, and practicalities of the evaluation. This included agreement of a proposed agenda and the appropriate mechanisms to ensure a suitably comprehensive assessment could be carried out.

INFORMATION GATHERING AND MEETING OBSERVATION

Between November 2019 and February 2020, the Evaluation team conducted its research, reviewed key documents and attended Board and Committee meetings. Support materials for briefing purposes were provided by the Company.
In January and February 2020, detailed interviews were conducted with every Board member. All participants were interviewed for 1.5 hours by Ffion Hague according to a set agenda, tailored for the Board. In addition, the team interviewed Senior Managers within the business and key advisers who have regular contact with the Board or its Committees.

FEEDBACK AND REPORT FINDINGS

Draft conclusions were discussed with the Chair and subsequently discussed with the whole Board at its meeting on 12 March 2020 with Ffion Hague present. The conclusions of that discussion are recorded in the minutes of the meeting.
Following the Board meeting, Ffion Hague gave feedback to Committee chairs on the performance of each Committee and discussed the report on the Chair's performance with the Senior Independent Director.
In addition, the Chair received a report with feedback on individual Directors.

THIS EXTERNALLY FACILITATED SELF-EVALUATION OF THE BOARD FOCUSED ON:

- Board composition, dynamics and relationships with Senior Management;
- Strategic oversight;
- Succession planning; and
- Included a review of the Chair's performance.

The Board agreed that the refresh of Board membership has brought in some very relevant and useful skills and the Board dynamics are improving. Board members also agreed that while progress has been made, there is further to go in addressing some issues such as clarifying the long-term strategy and succession-planning for key roles. The Board has therefore agreed a plan for the coming year that includes a stronger focus on long-term strategy, Group governance structures and succession planning for key roles, enshrined in a set of Board objectives.

ENGAGING WITH OUR STAKEHOLDERS

COMPANIES ACT 2006, SECTION 172
DUTY TO PROMOTE THE SUCCESS OF THE COMPANY

A director of a Company must act in the way he/she considers, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

- **The likely consequences of any decision in the long term**
- **The interests of the Company's employees**
- **The need to foster the Company's business relationships with suppliers, customers and others**
- **The impact of the Company's operations on the community and the environment**
- **The desirability of the Company maintaining a reputation for high standards of business conduct**
- **The need to act fairly as between members of the Company**

The Board considers these factors, as appropriate, when making strategic decisions on behalf of the Group.

The discussion of our environment commitments on pages 81-83 in our Corporate Responsibility section, including in particular our decision for GLS Germany to become carbon neutral (page 82), and to launch initiatives to reduce our fleet and building emissions (pages 82 and 83) are examples as to how we have regard to our impact on the community and environment.

The discussion of our transformation strategy on pages 19-25 provides examples of decisions taken in the long-term interests of the Company, such as the decision to move ahead with extending our trial of automated clocking in and out for frontline colleagues at a small number of UK sites (page 20) and the decision to start work on the first of our state of the art parcel hubs in Warrington which would handle 40,000 items per hour once fully operational (page 20).

The stakeholder engagement analysis and the discussion of decisions taken during the COVID-19 pandemic on pages 110-111 provides examples of how we build and maintain business relationships with suppliers, customers and others and take into account the interest of our colleagues.

> TO CREATE FUTURE SUCCESS, WE NEED TO ENGAGE WITH ALL STAKEHOLDERS WHO ARE WILLING TO ENGAGE WITH US POSITIVELY.

Keith Williams
Interim Executive Chair

The role of the Board is to promote the long-term sustainable success of the Company, generating value for shareholders and contributing to wider society. The Board recognises that the Company has multiple stakeholders and its obligations to have regard to the interests of stakeholders and certain other factors in complying with the broader section 172 duty of the Companies Act 2006. Our Board decisions can have a significant impact on each stakeholder group. The long-term success of our business is dependent on the way we engage with our stakeholders. We have worked hard, as a Board, throughout the year to improve our stakeholder engagement. By understanding our stakeholders, we can factor their views into Boardroom discussions and assess the potential impact of our decisions on each stakeholder group, in accordance with Section 172.

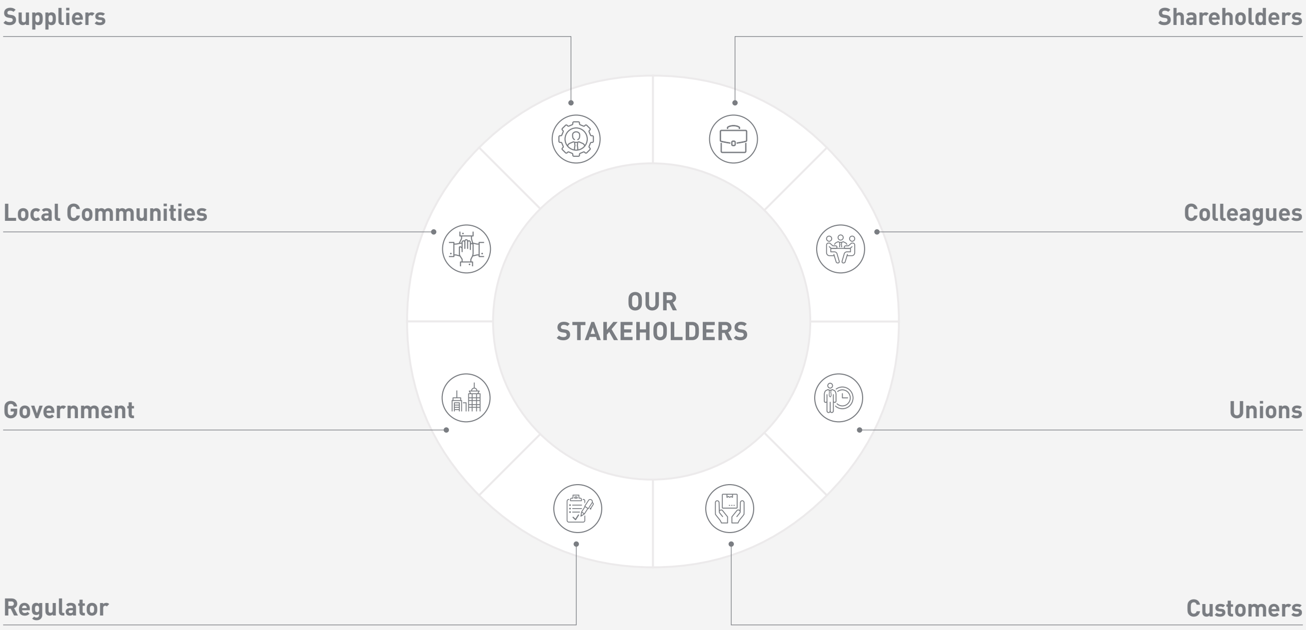
Royal Mail communicates proactively with its stakeholders through a range of channels. We regularly engage with them to obtain their views and understand their needs and expectations. Our purpose of connecting customers, companies and countries demonstrates the importance we place on stakeholder relationships and our impact on wider society. We seek to obtain stakeholders' views about our role and responsibilities as a key part of the UK's economic and social infrastructure. We take issues raised by them into account in our decision making.

During the year, the Board considered the revised Code and discussed its duty under Section 172. The Board focused on reviewing key stakeholder groups, discussing its current level of engagement and how it can continue to ensure stakeholder views are incorporated into the decision-making process. In 2019, we appointed Simon Thompson as our designated Non-Executive Director for engagement with the workforce. Simon has helped to launch our Employee Voice Forum and has improved our engagement with employees. See the Employee Voice Forum section on pages 112-113 for more information about our engagement with our workforce.

Of course, stakeholder engagement goes further than our employees. We want to ensure the views of all stakeholders are heard and considered in the Boardroom.

Engagement can take place in multiple forms. In some instances, one or more members of the Board may be involved directly in the engagement (such as with a shareholder, employee or other investor networking forums). In each case, it is important for all members of the Board to gain sufficient understanding of the issues relating to every stakeholder group. Board members are invited to provide updates during Board meetings on any engagement they have had with our stakeholders. Committee Chairs are given a standing agenda item to update the Board on the views and recommendations made by the Committee. We continue to develop our stakeholder engagement programme to ensure the Board has had regard to its duty under Section 172. This includes ensuring the interests of key stakeholders, and the likely consequences of any decisions in the long term, have been taken into account. As explained in the Strategic Report on page 17, the Board considers that it has complied with its duties under Section 172 of the Companies Act 2006. This section includes more information about our engagement with our stakeholders and a case study on the Board's considerations towards its stakeholders during the COVID-19 outbreak.

IDENTIFYING OUR STAKEHOLDERS



SHAREHOLDERS

We have one of the broadest shareholder bases in the FTSE.

One in four Royal Mail Group shares are held by retail investors or colleagues (who own eight per cent of our shares).

Our shareholders expect long-term sustainable value on their investments. We have a comprehensive rolling programme of investor relations events and encourage open, two-way communication.

Engaging with our shareholders helps us to understand and address their concerns when making decisions in their long-term interests.

HOW DO WE ENGAGE?

The Chair and Senior Independent Director (SID) met with numerous major shareholders to understand their views on governance and performance against strategy. Feedback from these meetings is provided to the Board.

All Directors attended the 2019 Annual General Meeting. Shareholders were provided with the opportunity to ask questions and to engage with the Board.

The Board receives monthly reports from the Director of Investor Relations. These reports provide clarity on the investor landscape and help to update Directors on our investors' views.

The Chair responded to major investors to update them on the steps being taken to protect our employees and the long-term success of the Company during the COVID-19 outbreak.

Our corporate brokers provide updates to the Board as required.

Our corporate website provides a dedicated investor section which contains all London Stock Exchange regulatory announcements and a copy of all of our Annual Reports. A webcast of our results presentations is also available to shareholders.

OUTCOMES

Following various meetings with investors, the Board agreed that the Corporate Responsibility Committee should be created to allow greater Board focus on Environment, Social and Governance (ESG) matters.

The Board considered it was in the best interest of the long-term success of the Company not to recommend a final dividend for the year. You can read more about the Board's considerations to its stakeholders on this decision below.

Lynne Peacock, Chair of the Remuneration Committee, wrote to our largest Institutional Investors to provide an update on the work of the Remuneration Committee. This included a proposal to make changes to the remuneration policy which will be subject to shareholder approval at the AGM in September 2020. The proposed changes can be seen on page 139. The Committee has considered feedback received in its discussions.

Engagement with our major investors allowed the Board to take their views into consideration when reviewing our transformation plan.

COLLEAGUES

Royal Mail employs around 160,000 people across our Group.

Our employees are our greatest asset. We are proud of the role our people play in society and they are crucial to the success of our transformation.

We engage with our colleagues to understand their needs and how our decisions will impact them. Our colleagues underpin our strategy and it is important they are engaged on our journey.

HOW DO WE ENGAGE?

Board engagement
Simon Thompson, the designated Non-Executive Director for engagement with the workforce, led an extensive colleague engagement programme throughout the year, details of which can be found below. Simon provides an update on each Employee Voice Forum to the Corporate Responsibility Committee. He has a standing Board agenda item to update them on his engagement with our colleagues. A report from Simon Thompson on engagement with the workforce is included on pages 112-113.

The majority of the Directors attended two Employee Voice Forums: one in Northampton and another in Exeter.

Our annual UK Employee Engagement Survey tracks overall engagement, culture and areas for improvement.

Internal communications
We run one of the UK's largest face-to-face engagement programmes, from 'Town Halls' with senior Executives and Ambassador visits, through to team briefings and regular conference calls.

Internal communication channels include a monthly magazine, a weekly TV programme, daily intranet and extranet updates, WhatsApp and, since 2019 and Facebook Workplace.

The Global Compliance and Sustainability Director submits a Health and Safety Report to each Board meeting and a Health & Wellbeing report to the CRC.

The Board reviews and approves the Gender Pay Gap report and the Whistleblowing Report annually.

OUTCOMES

The Board is presented with the Annual Employee Survey results. These results provide the Board with a rich source of employee feedback and help to shape the agenda and discussion topics for the Employee Voice Forums. The results have also given the Board a great insight into the Company's culture. As a result of the survey the Board has requested greater focus on culture to enhance its monitoring and oversight. The Board recognises culture as a key component to the success of the Company's transformation.

Discussions on the transformation programme consider the impacts of any proposed changes on our colleagues, the environment and the long-term success of the Company. You can read more about our transformation on pages 19-25.

There were seven themes identified from the Employee Voice Forums highlighted as needing swift attention:

– Policy – "Unfairness everywhere"
– Pride – "I am proud to wear the badge"
– Speed – "Why are we waiting, we should be going more quickly"
– Strategy – "What should I do? What does this change mean to me?"
– Tools – "We are not given the tools to be successful"
– Training – "Please make me the best I can be"
– Trust – "I only trust people like me"

Following the identification of these key themes, the Ambassador programme was launched in 2020 as a way of educating our colleagues on our strategy and what the changes meant for them. The Board recognises there is more to do in this area and will be looking to make further improvement during 2020-21.

During the COVID-19 pandemic, our first priority was to protect our people. A number of operational changes were introduced to safeguard the health and wellbeing of colleagues during this unprecedented crisis. All updates were shared in a timely manner with colleagues through our internal communications channels. See page18 for more information.

UNIONS

We value the input of the Communication Workers Union (CWU) and Unite/CMA, and the role they play in representing the interests of our workforce.

We are committed to open and constructive engagement with them.

A productive and cooperative working relationship with our unions is a core part of our strategy.

HOW DO WE ENGAGE?

The Group CEO and CFO met with senior union leadership during the year. This year, this has included meetings about the significant financial challenges we face in the UK and protecting our people during the COVID-19 pandemic. Updates on these meetings are provided to the Board.

Engagement across our business
Elected union members in every operational unit, office and plant work closely with managers on a daily basis to plan resources, assess workload and share key initiatives with colleagues. Joint working groups consult on aspects of change and deployment, determined by our framework agreements. Negotiations on national agreements, including pay, pensions, terms and conditions, take place at a national level.

Honouring our Agreements
We are honouring our Agreements with CWU. This includes making two pay awards and implementing the first hour of the Shorter Working Week. This equates to an effective pay increase of 10 per cent over a two-year period.

Working together
As part of our 2018 Agreement, the Royal Mail Pension Plan (RMPP) closed in its previous form on 31 March 2018. We are working with CWU and Government to underpin the retirement plans of employees through a Collective Defined Contribution (CDC) scheme. The Pension Schemes Bill, which enables CDC, is currently passing through Parliament.

GLS Works Councils
GLS Works Councils are formed by employees in specific locations in line with the applicable national law. GLS Germany elected its first Works Council in November 2000. Since it was set up, the council has addressed areas such as working schedules and working behaviours.

OUTCOMES

The Board was disappointed that we saw six national CWU ballots (for Royal Mail and Parcelforce Worldwide) for industrial action, and outcomes in favour of taking action.

The Board does not believe there are any grounds for the current dispute. We have honoured our Agreements with CWU.

The Company entered into mediation with CWU and made it clear that under our Dispute Resolution Procedure, set out in the Agenda for Growth, we were committed to reaching an amicable resolution.

In 2019, the High Court and Court of Appeal ordered and upheld an injunction against national industrial action. It ruled CWU's ballot of Royal Mail employees was unlawful. We did not take the decision to go to the High Court lightly. We sought to reach resolution outside the courts. Trade union legislation is designed to safeguard democratic integrity by ensuring union members can vote in the privacy of their own homes, rather than in any public process.

Following the outcome of its second ballot, we welcomed CWU's assertion in March 2020 that now is not the right time for Royal Mail employees to take industrial action. We have been able to work with them on a number of measures to protect our colleagues – including being one of the first UK delivery companies to introduce contact free delivery.

We believe it is very important to work with our unions to bring about the wholesale change needed to deliver our UK strategy. We continue to engage, on a regular basis and at a senior level, with CWU and Unite/CMA on our plans for change. Our engagement with CWU follows our recent Joint Statement with the union whereby both parties committed to work on setting up a joint framework for talks to seek to resolve our dispute.

Following a review of the Board's skills and experience it was felt that the Board could benefit from additional Industrial Relations experience. This was considered as part of the recruitment process and Maria da Cunha was appointed to the Board in May 2019. Maria brings extensive experience in Industrial Relations which has been a valuable asset to Board discussions.

CUSTOMERS

As the UK's Universal Service Provider, Royal Mail delivers to nearly 31 million addresses across the country. GLS has over 240,000 customers across 40 countries. All customers – whether consumers, marketplace sellers and SMEs or the biggest companies and e-retailers – expect high quality, access to up-to-date delivery information, and value for money.

Engaging with our customers helps us to understand their changing needs and preferences and allows us to make decisions to improve our service offering.

HOW DO WE ENGAGE?

Our Retail target for First Class Quality of Service is a 2019-20 KPI. Regular updates are provided to the Board on our Quality of Service metrics.

Each quarter, we review our performance against a large number of measures, reflecting our performance, and that of our competitors.

Mean customer satisfaction – a key advocacy measure – was 79 points. Our Net Promoter Score was +43. This is market leading in our sector.

Feedback
Every year we survey thousands of customers, including consumers. We also conduct touchpoint surveys to understand customers' experiences with a range of products, including Tracked and Special Delivery Guaranteed.

OUTCOMES

A number of operational changes were introduced to protect our customers and the service provided to them during the COVID-19 outbreak. See page 18 for more information.

Board discussions around potential strike action have included consideration on the impact this would have on our customers.

The Board has discussed and regularly reviews its Universal Service Obligations and the impact on customers. This was a particularly important consideration for the Board when the decision to temporarily relax the Universal Service Obligation on Saturday letter deliveries for a six-week period was made.

Discussions on the transformation programme consider the impacts of proposed changes on our customers and how this will improve the customer experience. You can read more about our transformation on pages 19-25.

There have been a number of improvements made to the service and products we offer our customers as a result of customer feedback. You can read more about these changes on page 21. These improvements are as a result of the need to foster good customer relations.

REGULATOR

Ofcom has a comprehensive monitoring regime for us as the UK's Universal Service Provider.

We provide detailed information on our Quality of Service, complaints, financial and volumetric performance and efficiency metrics, as required by regulatory reporting obligations.

We seek to actively participate with regulatory bodies to develop regulations that meet the needs of all stakeholders.

HOW DO WE ENGAGE?

The Chair and CEO provide updates to the Board on engagement with Ofcom.

The Group CEO, CFO and Managing Director of Corporate Affairs, Regulation and Marketing lead engagement with Ofcom's senior representatives on a wide range of issues.

We have a dedicated regulatory team who work with Ofcom at all levels. It leads on responding to Ofcom's consultations and regularly engages with the regulator through face-to-face meetings.

The designated regulatory team are invited to attend Board meetings to provide updates on engagement or changes in the regulatory environment.

The end of 2019-20 saw a significant increase in engagement with the Regulator as a result of the COVID-19 outbreak, which challenged our ability to provide regulated services across the UK against a backdrop of high levels of sick absence.

We have an open dialogue with Ofcom and share, as appropriate, information it needs. We continue to press our case for a supportive regulatory environment that will help to keep the Universal Service market-funded.

OUTCOMES

In November 2019, the Competition Appeal Tribunal (CAT) upheld Ofcom's decision to fine Royal Mail £50 million for abusing a dominant position by announcing price changes. The Board announced that it would seek permission to appeal to the Court of Appeal. The Board welcomed the Court of Appeal's decision in March 2020 to review the CAT's judgment in this case.

Ofcom is conducting a User Needs Review around the USO. We believe that many of the key USO features are valued by consumers and SMEs. They include uniformity, universality, affordability and measurability. But, they all have to be paid for at a time when COVID-19 has exacerbated the underlying problems facing the USO. For example, since the beginning of this financial year (2020-21) letter volumes have declined about 33%, around four times the decline rate we saw in 2019-20.

For its part, Royal Mail has a stretching self-help programme in place. This involves significant investment in the Universal Service when our finances are under challenge; we will be materially loss-making in the UK this year. In addition, we plan to address the very specific challenges presented by COVID-19. We do not believe, however, that successful delivery of our transformation and COVID-19 mitigation plans will be enough in themselves to underpin the long-term stability of the USO.

That is why, alongside engaging with our unions on our own plans to put Royal Mail in a better position, we are working with the Regulator and Government on the Universal Service. This is all about ensuring it is financially underpinned, in a sustainable way, and future-proofed to reflect changing consumer and SME needs and preferences. Ofcom will embark on a public consultation on the USO, and Royal Mail will engage, at the same time, with many stakeholders on a USO for the 21st century. From its own, detailed research, the Company anticipates that many of the current features of the USO should remain in place, subject to regulatory and Government approval. We look forward to the debate and engagement to come, including ensuring the Universal Service has the requisite financial resources to sustain itself.

GOVERNMENT

We remain strictly neutral on political matters but engage with political stakeholders to remain informed on all economical developments which could impact our stakeholders.

Royal Mail is uniquely positioned as the provider of the Universal Service. It is important we engage with the Government to ensure this service continues to be provided to our customers.

HOW DO WE ENGAGE?

In 2019-20, Executives met with key politicians, including the Postal Affairs and Pensions Ministers, the Cabinet Office and the Chancellor of the Duchy of Lancaster.

The Board receives regular updates and briefings on matters of political relevance to the business.

The Public Affairs team was invited to attend Board meetings, as appropriate, to provide updates and advise on the political environment. Updates on engagement with political stakeholders were provided to the Board as appropriate.

The Public Affairs team meets a range of political and Government stakeholders. This includes politicians in Westminster as well as ministers and officials from HMT, HMRC, BEIS, DIT, DfT, DfE, DWP and the Home Office. This is replicated in the devolved administrations in Scotland, Wales, Northern Ireland and the EU institutions in Brussels.

The team runs one of the UK's largest political stakeholder programmes, with c. 200 meetings throughout 2019-20. This included the 'walking in a postie's shoes' programme, where individuals accompany a postman or woman on their round, and the Christmas visits programme.

We have engaged with UK Government and the devolved administrations on the impact of COVID-19 on the business.

Consultations
We monitor and respond to Government consultations affecting our business, including those focusing on environmental, employment and pensions issues.
We respond to relevant Parliamentary Select Committee inquiries.

OUTCOMES

The Board agenda has been strongly focused on governmental issues this year. Discussions included consideration to issues such as the implications and preparations for a 'no deal' Brexit, operational plans to ensure Royal Mail had the capacity to deliver a successful General Election for our customers, and our campaign for Collective Defined Contribution pension legislation.

We are working with the Government to ensure the effective movement of cross-border parcels. We are also developing a new model for the collection of taxes and duties with Government.

Prior to the outcome of the December General Election, the Board received updates on Labour's proposals to renationalise the Company and the possible impacts of renationalisation on stakeholders. Consideration was given to all stakeholders during the planning phase of a possible renationalisation.

Following continued engagement with the Government throughout the COVID-19 pandemic, we supported the Government with the delivery and return of coronavirus tests for NHS and social care frontline staff. The initiative enabled NHS staff to receive and complete a coronavirus test at home. Many customers relied on Royal Mail to bring them medication and pharmaceutical supplies, hospital appointments and other crucial communications. We also supported the UK Government's public information campaign on coronavirus, designed to provide information and guidance to UK households.

LOCAL COMMUNITIES

We are creating long-term benefits for the communities we serve, through our social and economic impact, and our community investments.

Stakeholders rank community impact as a key issue for our business. They expect us to operate responsibly and maintain our presence in local communities.

HOW DO WE ENGAGE?

The Directors' induction programme includes visits to local Operational sites to better understand the contribution we make to our communities.

The Chair of the CRC provides an update to the Board following each meeting.

Members of the designated Corporate Responsibility team are standing attendees of the CRC and are invited to provide updates on our work in the community.

The Board reviews and approves the annual Corporate Responsibility Report.

We work with the Centre for Economics and Business Research (Cebr) to assess our contribution to the UK economy. This helps the Board to understand the value we add to UK society above and beyond delivering the mail.

Key programmes

We encourage involvement in local communities through the provision of matched giving, grants and volunteering opportunities, enabling colleagues to support local and national charities.

Our employees are the eyes and ears of local communities, which is reflected in our involvement with the charity Missing People.

OUTCOMES

Following engagement with investors on the importance of ESG, the Board created a Corporate Responsibility Committee (CRC) in September 2019 to focus on the Company's Corporate Responsibility programme. The CRC's remit includes oversight of:

- Environment, Social and Governance (ESG) matters
- Health & Safety
- Culture
- Whistleblowing

We have seen new and ambitious targets from governments, investors, key customers and competitors on our personal and collective responsibility to the environment and, in turn, society. As a result, we have been working to develop a new environment strategy, with three distinct pillars, addressing the areas where we have most material environmental impacts: delivering net-zero CO_2e emissions, cleaner air and resource efficiency.

Our customers tell us that sustainability has become an increasingly important issue for them. Organisations are beginning to replace plastic magazine wrappings with biodegradable starch ones. We are working with a number of customers and mail producers to test biodegradable wraps.

In Germany, GLS has launched KlimaProtect. This small, additional charge for all parcel senders is primarily invested in CO_2e offsetting and other sustainability projects.

This year, we completed our materiality assessment; we do this every two years. We sought stakeholders' views through one-to-one interviews, surveys and an external stakeholder panel. The assessment identified the following issues as being of most importance to both Royal Mail and our stakeholders:

- Climate change
- Engagement and culture
- Labour standards and human rights
- Customer service
- Health, safety and wellbeing
- Diversity
- Community impacts

We use this feedback to tailor our activity and reporting. For example, in response to feedback, we have provided more information about how we manage environmental issues.

SUPPLIERS

Through our extensive supply chain, we have an opportunity to raise standards of social, environmental and ethical conduct.

We work with a broad range of suppliers who must state or demonstrate compliance with our Responsible Procurement Code (Our Code).

We proactively engage with our suppliers to promote awareness of our policies and monitor compliance with Our Code. It sets out the high standards of ethical, social and environmental conduct we expect.

HOW DO WE ENGAGE?

Group procurement operates in accordance with Group Delegated Authorities with relevant contract award approvals being submitted to the CFO, CEO and/or relevant Board members.

The Chairs of the Audit and Risk Committee and Corporate Responsibility Committee provide updates on engagement with our suppliers at each Board meeting.

A report is provided to the Audit and Risk Committee on Payment Practices regulation for relevant businesses.

The Board reviews and approves the annual Modern Slavery Statement. Our latest Modern Slavery Statement is available at www.royalmailgroup.com/responsibility.

New contracts considered critical in terms of risk profile (including business dependency, financial status, reputation, compliance and safety) may be referred for Board approval prior to award.

Members of the procurement team are invited to attend Corporate Responsibility Committee meetings to provide updates on supplier management and relationships.

Our supplier management portal tracks whether suppliers are meeting their ethical, social and environmental obligations, contractual requirements and KPIs.

OUTCOMES

In response to Shareholder feedback, the Board created a Corporate Responsibility Committee in September 2019 to focus on the Company's Corporate Responsibility programme. The CRC's remit includes oversight of our relationship with suppliers and our payment practices. The Corporate Responsibility Report includes an update on supply chain activities.

We believe the immediate risk of Brexit to our domestic operations is low. However, we continue to work with key suppliers to ensure our supply chain remains secure.

THE BOARD'S CONSIDERATIONS TO OUR STAKEHOLDERS DURING THE COVID-19 OUTBREAK

The Board held multiple ad hoc meetings to discuss and consider the impact of the outbreak of COVID-19 on our stakeholders. The Board received expert updates on Government guidance, received medical advice and engaged with its stakeholders throughout the pandemic.

The postal service is a key part of the UK's infrastructure and the delivery of parcels and letters is an important way of keeping the country connected and businesses operating, and helping many people who may not have the option to leave their homes. It was important to ensure the Company could continue to deliver this service to the country, whilst ensuring the safety and wellbeing of our employees and customers and the long-term success of the Company. You can read more about the Board's considerations towards its stakeholders below.

STAKEHOLDER IMPACT	OUTCOMES
CONSIDERATION: THE OUTBREAK OF COVID-19 COULD CAUSE SIGNIFICANT ECONOMIC UNCERTAINTY	
Shareholders – The Board recognises the importance of dividend payments to our investors. The outbreak of COVID-19 caused significant economic uncertainty and the Board felt it was necessary to preserve cash during this time to safeguard the financial stability and long-term success of the Company. **Colleagues** – The economic uncertainty could cause our colleagues to worry about their own personal financial situation. The Board wanted to ensure that our colleagues did not put themselves or others at risk by coming into work if they displayed symptoms of COVID-19 and provide reassurance that newer members of staff would not be financially disadvantaged by following government guidance and staying at home. **Suppliers** – we continued to engage with our suppliers to understand the effect of the pandemic on their financial stability and ability to continue in operations.	The Board agreed that a final dividend should not be recommended. Executive Director Bonus payments would not be paid for the year 2019-20. Temporary enhanced sick pay terms were introduced for any colleague who experienced or showed symptoms of COVID-19, with less than one year's service. We have engaged with our suppliers throughout the pandemic who may be experiencing financial difficulties. This engagement has allowed us to understand the individual needs of our suppliers and has included discussions regarding the availability of the RBS supplier financing scheme and individual cases where we have offered flexibility on our payment terms. Enrolment in the supplier finance platform delivers a working capital solution, whereby suppliers to an accredited buyer can receive immediate settlement of their receivable at a discounted rate, following buyer approval of their invoice. We aim to support our suppliers where possible and maintain our working relationships with them.
The Board had regard to the following matters in reaching its decisions: – S172 (1)(a) The likely consequences of any decision in the long term – S172 (1)(f) The need to act fairly as between members of the Company	
CONSIDERATION: OUR EMPLOYEES AND CUSTOMERS COULD BE AT RISK OF INFECTION	
Colleagues – The Board recognised the growing risk of the virus and the effect this could have on our colleagues' physical and mental wellbeing. **Customers** – It was important to the Board to also protect our customers from the risk of infection. **Suppliers** – We have worked in partnership with a range of suppliers across the world to source protective equipment for our people. This has included companies that have switched their production lines to manufacture hand sanitiser, from a gin distillery in Germany to fragrance companies in the UK. **Unions** – We engaged with the Unions when agreeing the measures that should be taken to protect our employees and customers from the risk of infection.	A number of operational changes were made to the way we deliver to our customers. For example, we put in place a number of important social distancing measures (e.g. one person per van, etc.). We were one of the first delivery companies in the UK to introduce "contact free" delivery. You can read more about this on page 18. Internal communications were regularly issued to employees to update them on the operational changes and colleagues' measures to protect themselves and those around them. In addition, updates were shared on the latest government advice and hints and tips on ways to protect physical and mental wellbeing during the pandemic. Temporary enhanced sick pay terms were introduced for any colleague who experienced or showed symptoms of COVID-19, with less than one year's service. Personal Protective Equipment (PPE) was sourced and delivered to all operational sites. The Board has already committed to investing £40 million in PPE for our frontline colleagues.
The Board had regard to the following matters in reaching its decisions: – S172(1)(b) The interest of the Company's employees – S172(1)(c) The need to foster the Company's business relationships with suppliers, customers and others – S172(1)(d) The impact of the Company's operations on the community and the environment – S172(1)(e) The desirability of the Company maintaining a reputation for high standards of business conduct	

STAKEHOLDER IMPACT	OUTCOMES
CONSIDERATION: OUR WORKFORCE COULD BECOME OVERWHELMED DUE TO INCREASED POSTAL DEMAND AND INCREASED LEVELS OF ABSENTEEISM	
Colleagues – Our frontline staff have played a key role in society during the COVID-19 pandemic, fulfilling a vital role with respect to the collection and delivery of parcels, home testing kits and Government information. The Board was conscious of the increased workloads on our people and the long-term detrimental effect this could have on our colleagues and their wellbeing. We sought feedback from colleagues on workloads and the Board recognised the significant contribution our people have made during this period. **Customers** – As a result of the COVID-19 pandemic, we initially indicated that there could be some service disruption across the country. We saw a substantial switch from letters to parcels in the UK during the COVID-19 outbreak. UK parcels volume was up 31 per cent and parcels revenue up 20 per cent. There were 308 million fewer addressed letters (down 33 per cent). Letter revenue was down 23 per cent, offset, in part, by 36 million more parcels. Subsequently, and in line with colleague feedback, the Board considered a temporary relaxation of delivery frequency arrangements in relation to letters. For a six-week period, letters were delivered five days a week; we continued to deliver most parcels on a six days a week basis. Normal services resumed on 13 June 2020. The Board considered that this decision would not materially impact customers and would ease the pressure on our people during this unprecedented time. **Regulator** – We engaged with the Regulator on a regular basis.	Implemented a six-week temporary relaxation of delivery frequency arrangements in relation to letters to ease the pressure on our people. Frontline colleagues who, since March, have been at work throughout the crisis will receive a cash recognition award of up to £200 in June.

The Board had regard to the following matters in reaching its decisions:

– S172(1)(b) The interest of the Company's employees

– S172(1)(c) The need to foster the Company's business relationships with suppliers, customers and others

EMPLOYEE ENGAGEMENT

Simon Thompson
Designated
Non-Executive Director
for engagement
with the workforce

Introduction

I was delighted to be appointed as the Company's designated Non-Executive Director for engagement with the workforce in February 2019.

This role is crucial to making sure the Board is better informed of our business reality, since the vast majority of our decisions could impact our colleagues around the world.

It is clear to me that our frontline teams have a unique understanding of both the ever changing needs of the consumer and the competitive nature of the market in which we compete. We are determined to make sure this insight is actively sought and central to our decision making.

I would like to take this opportunity to thank our Company Secretariat team, the Human Resources team and our management teams at all levels around the world, who have willingly granted me an "access all areas" pass.

We have continued to use existing research tools, and have added a number of formal gatherings and a series of informal, unstructured site visits, which are proving to be the most productive.

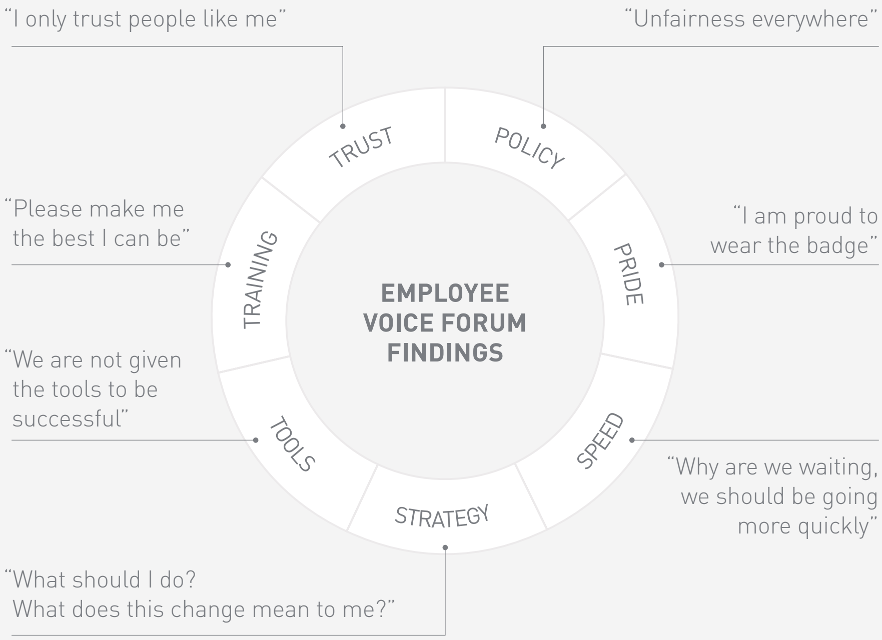
As a final point, one of our key learnings is that we need to improve how we explain to our colleagues what our business change means to them on an individual basis, both for the short and the long term. My strong sense is they want to help, and when armed with the correct information, they will happily do so.

EMPLOYEE VOICE FORUM

In February 2019, we launched our new Employee Voice Forum at our National Distribution Centre in Northampton. It was attended by the whole Board. The Forums, chaired by Simon Thompson, aim to provide the global workforce with a voice on key matters. They enable the Board to hear first-hand from employees across the Group and to consider their views when deliberating Board matters.

We communicate learnings from the Forums in our monthly newspaper, Courier, on Royal Mail TV and through our new employee social media channels.

There were seven themes that were highlighted as needing swift attention. We are working with the management teams to ensure timely resolution.



Strategic Report
Corporate Governance
Financial Statements
Shareholder Information

Purpose of the designated Non-Executive Director for engagement with the workforce

As the Employee Board Representative, it is my role to make sure that when making decisions we can answer the question: "what would our colleagues think of that?"

In 2019, as an additional new activity, we launched the Employee Voice Forum as an opportunity to meet and listen to the views of our colleagues across multiple operational sites.

During our AGM in Exeter last year, we gathered a number of our colleagues who enjoyed the opportunity to freely ask questions directly to the Group CEO, CFO and a number of Board members. Following the event, we published a highlights video to all of our colleagues summarising the key topics discussed.

Alongside our National Operations Director, I spent a number of days travelling around the UK informally meeting colleagues in groups of twenty. We learnt that having no formal agenda and simply asking the question "what would you like to discuss today?" started a mutually beneficial, two way conversation.

During the past year our colleagues have voted for industrial action on two occasions; this has meant that the majority of our time has been spent focusing on Royal Mail in the UK.

Outside of the UK, my Board colleagues and I visited our GLS operation in Hungary to learn about how the business has successfully grown. We seized the opportunity to walk the operations and enjoyed informal discussions with the leadership to learn more about life at GLS.

I am conscious that we do need to learn more about life at GLS, and due to its extensive geographical coverage, we will be investigating digital tools to enable us to do this effectively over the coming year.

Following these meetings, I produce a written report and provide an update to the Corporate Responsibility Committee. I also have a standing agenda item at the main Board meeting to update on any key themes.

As a Board, we also review and discuss the annual Employee Survey results and the output of the People Panels which both provide an additional useful source of feedback.

It is worth noting that all of my Board colleagues spend time visiting the operations, so we are not reliant on my voice alone.

As a Board, we will continue to develop our employee engagement programmes and I very much look forward to meeting many more of our colleagues over the coming years.

I accept that not every conversation I have had has been 100 per cent happy, but I am delighted to report that they have always been 100 per cent valuable.

Simon Thompson
Designated Non-Executive Director
for engagement with the workforce

PEOPLE PANELS

Our "People Panel" sessions were set up as part of our Group Engagement Action Plan.

The People Panel consists of colleagues representing a broad cross-section of roles and grades within Royal Mail. The Panels are run by the Employee Experience team and help to shape new initiatives designed to make Royal Mail a better place to work.

Our most recent People Panel was held in January 2020 at our Greenford Mail Centre. Over 40 colleagues from across the business joined us.

EMPLOYEE ENGAGEMENT SESSIONS

Employee Voice Forums
- National Distribution Centre in Northampton
- Exeter

Board Meetings
- Hungary

Site Visits
- Southwark Delivery Office
- Kennington/Walworth Delivery Office
- Croydon Delivery Office
- London Central Delivery Office
- Leicester Delivery Office
- Nottingham Delivery Office
- Salford Delivery Office
- Manchester East Delivery Office
- Manchester Plant
- Edinburgh Hub
- Edinburgh West Delivery Office
- Edinburgh South Delivery Office
- GLS Hub, Hungary

NOMINATION COMMITTEE

Keith Williams
Nomination
Committee Chair

Committee members
Keith Williams
Baroness Sarah Hogg
Rita Griffin
Simon Thompson
Michael Findlay
Maria da Cunha
Lynne Peacock

In line with our conflicts of Interest policy, directors are asked to absent themselves from any discussions regarding their own reappointment or succession.

Introduction

I am pleased to update you on the Committee's activity for the year ended 29 March 2020. I was appointed Chair of the Committee in May 2019. I would like to pass my thanks to the previous Chair, Les Owen, for the considerable work undertaken throughout his tenure to refresh the Board. I have previously commented on the substantial, but necessary, refresh of the Board that has taken place this year within my Chair's report and would like to thank my fellow Committee members for their welcome support and guidance during this process, which included a number of additional ad hoc meetings. It is important that we have a wide range of skills and experience on the Board to allow the Company to prosper and grow over the long term and in the best interest of our stakeholders. You will find an overview of the recruitment process for our new Non-Executive Directors later in the Report.

Composition of the Committee

The Committee is chaired by the Chair of the Board. Its composition meets the recommendations of the Code, with the majority of members being independent.

Committee objectives for 2019-20

- Appointment of additional Non-Executive Directors to the Board, ensuring a thorough and tailored induction programme for each new director.
- Ensure a clearer and more robust succession planning process for the Board and Executive Management.
- In planning future Non-Executive appointments, ensure there is a balance of skills and diversity in the broadest sense on the Board.

I am pleased with the progress that has been made against the Committee's objectives this year. Michael Findlay and Maria da Cunha were appointed as Non-Executive Directors on 22 May 2019. Baroness Sarah Hogg was appointed as Senior Non-Executive Director with effect from 1 October 2019 and Lynne Peacock was appointed as Non-Executive Director with effect from 1 November 2019. In addition, there were a number of Committee membership changes, details of which can be found below. You can find out more about the induction programme for our new Non-Executive Directors on page 102.

I would like to thank Simon Thompson for taking on the role of Senior Independent Director and Chair of the Remuneration Committee on an interim basis, when Orna Ni-Chionna stood down at the AGM in July 2019, pending the arrival of Sarah Hogg and Lynne Peacock, respectively. The Committee also recommended the creation of a Corporate Responsibility Committee in response to shareholder feedback. The initial members of the Committee are Rita Griffin (Chair), Maria da Cunha and Simon Thompson.

We announced in May 2020 that Rico Back stood down as Group Chief Executive Officer (CEO) and from the Board. Rico has made a significant contribution to the evolution of our business over his 20 years with us and I wish him well for the future. The Committee will play a key role in our search for a new CEO of Royal Mail (UKPIL) during 2020.

Other areas of focus for the Committee this year included a review of the organisational structure, Board and Senior Management succession planning, global talent programme and diversity. The composition of the Group's subsidiary Boards were reviewed and refreshed taking into account development needs, gender and BAME diversity.

The Committee reviewed and updated its Terms of Reference taking into consideration the 2018 Code. The Committee's updated Terms of Reference are available on our website:
→ www.royalmailgroup.com/en/about-us/management-and-Committees/nomination-Committee/.

Board diversity

The Board has reviewed its Diversity Policy and confirms that it remains fit for purpose and in line with policy guidance. The policy includes measurable objectives and a commitment to aspire to achieve the diversity targets of the Parker and Hampton-Alexander reviews. The policy also includes a commitment to only engage with search firms who are signatories of the Voluntary Code of Conduct for Executive Search Firms. The Policy is reviewed annually by the Nomination Committee and progress against the objectives is reported on later in my report.

NON-EXECUTIVE DIRECTOR RECRUITMENT PROCESS

Executive Search Firm – We have engaged Ridgeway Partners Limited to lead the process of finding suitable candidates to join our Board. Ridgeway Partners are a signatory to the Voluntary Code of Conduct for Executive Search Firms, which promotes gender diversity and best practice for corporate Board recruitment searches. Ridgeway Partners have no other connection to the Company or any of its directors.

Long list – We ensure that the long list of candidates will include at least 50% female candidates and is compared against the Committee's latest review of the composition, diversity and skill set of the Board.

Short list – The Committee reviews and considers the long list and produces a short list of candidates it deems to be suitable candidates to progress to interview.

Interviews – Candidates are invited to attend a number of interviews with variations of the Chair, Directors, Company Secretary and Chief HR Officer.

Candidate selection – The results of the interviews are formulated and the Nomination Committee will agree on its preferred candidate, subject to satisfactory referencing.

References – Background checks and references are taken for all preferred candidates.

Conflicts – The Company Secretary, with Ridgeway Partners, considers if preferred candidates have any conflicts of interest.

Appointment – Upon receipt of satisfactory references, the Nomination Committee will recommend its preferred candidate to the Board for approval.

Announcement – Once Board approval has been received and the candidate has accepted the position, we will make an announcement to the market of the new Board appointment.

Induction – All new Directors undergo a thorough and tailored induction programme, details of which can be found on page 102.

AGM – Directors appointed throughout the year are subject to shareholder approval at the AGM subsequent to their appointment. Indeed, all Directors who wish to continue in their roles seek re-appointment at each Annual General Meeting.

Committee changes

There were a number of Committee membership changes during the year, following the refresh of the Board composition.

Audit and Risk Committee

- Sarah Hogg and Lynne Peacock were appointed with effect from 1 October 2019 and 1 November 2019 respectively.
- Rita Griffin and Simon Thompson stood down on 1 October 2019.

Nomination Committee

- When Les Owen stepped down in May 2019, I assumed the role of the Chair of the Committee upon my appointment as Chair of the Board.
- Maria da Cunha and Michael Findlay were appointed with effect from 25 September 2019.
- Sarah Hogg and Lynne Peacock were appointed with effect from 1 October 2019 and 1 November 2019 respectively.

Remuneration Committee

- Simon Thompson took over from Orna Ni-Chionna as the interim Chair when Orna stood down in July 2019.
- Keith Williams, Maria da Cunha and Michael Findlay were appointed with effect from 25 September 2019.
- Rita Griffin stood down with effect from 25 September 2019.
- Lynne Peacock succeeded Simon Thompson as Chair with effect from 1 November 2019.
- Keith Williams stood down with effect from 15 May 2020 following his appointment as Executive Chair.

Corporate Responsibility Committee

- The Company was pleased to announce the formation of a Corporate Responsibility Committee effective 25 September 2019 which comprised Rita Griffin, Simon Thompson and Maria da Cunha.
- Rita Griffin was appointed as Chair of the Committee.

Committee evaluation

The Committee's performance was externally evaluated by IBE as referred to on page 103. Committee members noted the extensive work conducted during 2019 to appoint four new Non-Executive Directors and members were hopeful that the Committee will be able to turn its attention to succession planning and talent-mapping across the organisation.
The Committee concluded that it was performing effectively.

More information on the Board effectiveness process can be found on page 103. The key priorities for 2020-21 are to:

- Focus on talent management and succession plans; and
- Keep the Board composition under review and in line with the Board skills matrix and diversity policy.

Directors' independence and re-appointment

The Board reviews the independence of its Non-Executive Directors as part of its Annual Board Effectiveness review. It considers that each of the Non-Executive Directors is independent. This means that, in the view of the Board, they have no links to the Executive Directors and other managers and no business or other relationship with the Company that could impact their judgement. The Board has a majority of independent Directors. Full biographies of each of the Directors are on pages 90-91.

The Committee considered the performance of each individual Director, including whether they continued to be effective and demonstrate commitment to their roles. All Directors are considered by the Board to be fully effective. This supports the proposal for those Directors standing for re-appointment at the AGM.

Keith Williams
Chair of the Nomination Committee

REVIEW OF PROGRESS AGAINST DIVERSITY POLICY

The Board Diversity Policy (the Policy) sets out our approach to transparency and diversity in making appointments to the Board on the recommendation of the Nomination Committee.

The Board promotes diversity in its broadest sense, including professional, education, skills, age, gender and ethnic diversity. It is our belief that a diverse Board, with different backgrounds and viewpoints in decision making, benefits the Group's stakeholders and the performance of the business.

The Nomination Committee reviews and assesses progress against the Diversity Policy. The principles of this Policy are embedded in the appointment process for Directors and Senior Executives. During the year, the Board reviewed the Policy and has reported on progress against the Policy targets. All appointments to the Board are based on merit and considered against a range of objective criteria.

The Board will report annually against the objectives in the Policy and other initiatives taking place within the Company to promote gender and other forms of diversity. Progress against each objective is described below.

Endeavour to achieve target for 33 per cent female representation on the Board:

The Board is committed to its target for female representation and is mindful of the target set out in the Hampton-Alexander Review of 33 per cent female representation. The Committee will continue to make recommendations for new appointments to the Board based on merit, with candidates measured against objective criteria and with regard to the skills and experience they would bring to the Board. As at 24 June 2020, the female representation on the Board represents 50 per cent of the membership.

The Board places emphasis on development of diversity within the Group. Royal Mail is committed to further pursuing diversity, as appropriate and on merit, within the Group senior management roles and intends to meet where possible the recommendations of the Hampton-Alexander Review of 33 per cent women in senior leadership positions:

We continue to strengthen the pipeline of senior female executives within the business. Our initiatives are outlined on pages 79-80. The gender balance amongst our senior management for 2019-20 was 37 per cent female to 63 per cent male. For this purpose, and in line with the 2018 Code, we have defined senior management as the executive board and their direct reports. The executive board comprised 9 individuals, with 48 direct reports. In 2019-20, Royal Mail was named as one of The Times Top 50 Employers for Women for the sixth consecutive year[1].

Aspiration to achieve the recommendations of the Parker Review by having at least one director on the Board from an ethnic minority background:

The Committee has adopted this in its Policy and the Board continues to consider candidates from a wide range of backgrounds. The Company has established mentoring schemes to increase female and BAME representation across the organisation and has implemented the Spring Forward programme aimed at supporting those relatively new to management, including a BAME programme for under-represented colleagues in higher positions.

In searches for candidates, engage with executive search firms which are signatories to the Voluntary Code of Conduct for Executive Search Firms:

The Board supports the provisions of the Voluntary Code of Conduct for Executive Search Firms and will only engage those who have signed up to this Code. The Board's current executive search firm is a signatory to the Code.

Report annually against these objectives and other initiatives taking place within the Company to promote gender and other forms of diversity:

The Board places a strong emphasis on increasing diversity in senior leadership. It is proud of the many initiatives that were in place during the year to achieve this, such as the Springboard women's development programme which, since 2005, has helped to encourage women into leadership positions. Other schemes include the following:

- The Inclusive Action Steering Group, which monitors and progresses the Group's diversity performance in terms of women, ethnic background, parents and carers, disabilities, young and LGBT.
- Working with Business in the Community's (BITC) Opportunity Now and Race for Opportunity programmes.
- Mentoring schemes to increase female and BAME representation.
- Women's Steering Group:
  - "W" magazine for women in Royal Mail with copies sent to every woman in the business. Details networking events, role models and showcasing activity.
  - Series of International Women's Day events and talks.
  - Spring Forward programme aimed at supporting those relatively new to management, including a BAME programme for under-represented colleagues in higher positions.
  - Everywoman online personal and professional development platform available to all colleagues.

There is also an adopted Equality and Fairness Policy which is our overarching policy for diversity within the Group. A copy of the Equality and Fairness Policy is available on our website at → www.royalmailgroup.com/en/responsibility/policies-and-reports. This Policy provides a statement of Royal Mail Group's commitment to diversity.

The Board will report annually on the outcome of the Board evaluation, and the composition and structure of the Board.

The Board continues to commit to report annually on the outcome of the Board evaluation, and the composition and structure of the Board.

Read more – Corporate Responsibility (pages 74-87)

1 The 2020 results have been delayed until July 2020, so the results are unknown at this time.

AUDIT AND RISK COMMITTEE

Michael Findlay
Audit and Risk Committee Chair

Committee members

Michael Findlay
Baroness Sarah Hogg
Lynne Peacock

Introduction

I was pleased to become the Chair of this Committee upon my appointment to the Board on 22 May 2019 and I would like to thank my predecessor, Keith Williams, for his work with the Committee and for his support during the transition period.

It was an interesting year to become Chair of the Committee. As is clear elsewhere in the Annual Report, the Group has faced a number of significant challenges as it pursues its new strategy against a backdrop of: declining letters and growing parcel volumes in an increasingly competitive market; an ongoing dispute with the Communication Workers Union (CWU) including the threat of industrial action; the potential of re-nationalisation; Brexit; the US administration's initiative to take the US Postal Service (USPS) out of the Universal Postal Union (UPU); and the slowdown in GDP growth – a key determinant of letter volume movement. Towards the end of the financial year we faced unprecedented times with the outbreak of COVID-19. This global pandemic caused significant uncertainty and concern to both individuals and business alike and remains a very real and emerging risk. It has been a busy year.

During the year, the Committee focused on the Group's financial performance and the integrity of the Group's financial reporting, including the annual and half-year financial statements and announcements. This included a thorough review of the Company's going concern, viability and covenant compliance. We also focused on the Group's principal and emerging risks and uncertainties, including an ongoing review of the outbreak of COVID-19 to ensure our employees, customers and suppliers were protected and that we were putting plans in place to be able to continue to provide a key service to the nation, as well as meet our regulatory obligations. The Committee also reviewed the key accounting areas of judgment, the adequacy and effectiveness of the Group's system of internal controls, including whistleblowing, and the effectiveness, performance and objectivity of the internal and external audit functions.

The Corporate Responsibility Committee (CRC), created in September 2019, has taken over ownership of monitoring culture from the Audit and Risk Committee. During the year, Internal Audit & Risk Management (IA&RM) has completed a review of cultural themes within the business. IA&RM has since completed an audit of the Group's controls for assessing and monitoring culture. The report is being finalised and will be reported to the Board in due course.

The Committee has also worked closely with IA&RM to enhance the reporting of emerging and principal risks to the Board. The Committee was pleased with the extensive annual "horizon scanning" exercise conducted by IA&RM to assess and evaluate the emerging risk environment and the level of insight this has provided to the Board to support its decision-making process. IA&RM engaged with numerous stakeholders across the business and sought views from subject matter experts on the exercise, which has helped to shape and progress Board discussions on risk.

The Committee, along with management and the external auditor, considered the impact of reporting recommendations published by the Financial Reporting Council (FRC), as well as the new accounting and reporting requirements introduced by International Financial Reporting Standards (IFRS).

The Committee has reviewed and updated the Stamps in the Hands of the Public (SITHOP) methodology and continues to review IFRS 16 Leases and its impact on the Group's financial statements. IFRS 16 was a particular area of focus. The Group has in excess of three million square metres of property, many of which are leasehold in the UK.

Other areas of continued focus were: the Group's preparedness for Brexit, especially for a potential 'no deal' Brexit; reviewing the Group's internal controls and systems of risk management; and, in particular, monitoring the Group's risks and their linkage to the Group strategy.

As a Committee, we have developed the agenda to enable us to have active oversight of our remit and to facilitate deep dives into key areas of strategic focus. Deep dives were presented to the Committee, by the management team, on the economic environment including Brexit, the threat of the US administration withdrawing from the UPU, the impact and associated risks of the General Election, the threat of possible industrial action, cyber security and data regulations and the sustainability of the regulatory framework. This facilitated a healthy debate between the management team and the Committee and enhanced knowledge on these topics.

The Committee holds meetings with the external auditor and Director of IA&RM, independent of the Executive team, to ensure that the reporting, forecasting and risk management processes are subject to rigorous review throughout the year.

Lastly, we have also reviewed and updated our Terms of Reference. Following the creation of the CRC, the following topics will now form part of the CRC's oversight remit on behalf of the Board.

- Modern Slavery;
- Whistleblowing; and
- Monitoring and Assessment of Culture.

Culture and Whistleblowing remain matters reserved for the Board.

Composition of the Committee

There has been a refresh of the Committee composition throughout the year. The Committee composition complies with the Code. All members are independent Non-Executive Directors. The Board considers that the Chair has the relevant and recent financial skills and experience required to fulfil this role for the purposes of the Code and the FRC's Guidance on Audit Committees. Meetings of the Committee were also attended, where relevant, by the Chair of the Board, the Group Chief Executive Officer, the Chief Financial Officer, the Director of Internal Audit and Risk Management and other members of Senior Management together with representatives from the external auditor, KPMG LLP. The Committee is supported by the Company Secretary. I would like to thank my fellow Committee members and those who have served on the Committee throughout the year for their continued support and constructive input into Committee discussions.

The full Terms of Reference for the Committee can be found on our website at: → www.royalmailgroup.com.

Committee activity

The Committee has an extensive agenda of items of business focusing on the audit, assurance and risk processes within the business which it deals with in conjunction with senior management, the external auditor, IA&RM and the financial reporting team. The Committee has oversight of GLS and has taken on the oversight of the Group's Pension arrangements from the now defunct Plc Pensions Sub-Committee.

Committee evaluation

The Committee's performance was externally evaluated by Independent Board Evaluation as referred to on page 103. Committee members noted the refreshed Committee composition and new chairmanship which was functioning well. The challenge over the next year is to gain a better insight into financial controls and governance across the Group and to provide the Board with assurance that the control environment remains effective.

More information on the Board effectiveness process can be found on page 103. The key priorities for 2020-21 are to:

- Work with the Secretary to improve the quality of Committee papers to allow Committee members to effectively discharge their duties; and
- Enhance oversight of the Group's governance processes and financial controls.

Michael Findlay
Chair of the Audit and Risk Committee

Items of business considered by the Committee during the year are set out in the table below.

Reviewing the draft full and half year results for 2019-20 including key areas of judgement, the Group's viability, covenant compliance, going concern and contingent liabilities for approval by the Board.	Reviewing the effectiveness of the risk management and internal control systems prior to making a recommendation to the Board.
Reviewing the draft 2019-20 Annual Report & Financial Statements including significant financial reporting judgements.	Reviewing and monitoring the principal and emerging risk profile of the Group.
Reviewing and discussing the reports from the financial reporting team on the financial statements, considering management's significant accounting judgements, and the policies being applied, and how the statutory audit contributed to the integrity of the financial reporting.	Reviewing the Cyber Security Strategy and risk appetite.
Reviewing the performance and financial reporting of GLS.	Biannual oversight and monitoring of the Group's compliance with the Bribery Act 2010, which the Board then reviews annually.
Reviewing the proposed audit strategy for the 2019-20 statutory audit, including the level of materiality to be applied by KPMG, audit reports from KPMG on the financial statements and the areas of particular focus for the audit, and tasking management to resolve any issues relating to internal controls and risk management systems.	Reviewing the Group's pension assumptions.
Monitoring the outbreak of COVID-19 and assessing the impact on the Group particularly in relation to the year end financial position. There has been focus on developing and implementing mitigating actions and processes to ensure that the Group can continue to operate in an effective control environment.	Considering and approving the Committee's revised Terms of Reference to ensure they were in line with the Code and best practice.
Reviewing the basis of preparation of the financial statements as a going concern (prior to making a recommendation to the Board) as set out in the accounting policies.	Conducting deep dive sessions on key topics such as Brexit, the USPS potential withdrawal from the UPU, industrial relations, cyber security and data regulations, and the sustainability of the regulatory framework.
Reviewing the viability statement in conjunction with the external auditor following the outbreak of COVID-19.	Considering and reviewing the FRC letter to Audit Committee Chairs and Finance Directors.
Reviewing the interim and final dividend recommendations and advising the Board on the appropriateness of the proposed dividends.	Reviewing the conclusions of the Committee's Annual Evaluation.
Conducting an Annual Review of the effectiveness of the external audit process.	Monitoring and reviewing incidents of whistleblowing (this has subsequently moved to the Corporate Responsibility Committee).
Reviewing and approving the non-audit services and related fees provided by the external auditor and approving the policy on non-audit services provided by the auditor for 2019-20.	Monitoring Payment Practices and reviewing and approving the Modern Slavery Statement.
Considering the issues and findings brought to the Committee's attention by the internal audit team and satisfying itself that management has resolved or is in the process of resolving any outstanding issues or concerns.	Reviewing and approving the Internal Audit Plan for the Group for the year which included the approval of an audit on the effectiveness of monitoring and assessment of culture by the business.
	Reviewing and approving the UK and GLS Internal Audit budget.
	Considering the resources available to Internal Audit and confirming these are appropriate.
	Reviewing and considering the impairment of Royal Mail (UKPIL).
	Reviewing covenant compliance on an ongoing basis.

Key judgment areas

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

MATTER	ACTION TAKEN BY COMMITTEE
ONE OFF MATTERS CONSIDERED DUE TO THEIR MATERIALITY OR NATURE	
Ofcom alleged infringement of competition law On 14 August 2018, Ofcom published its decision following its investigation into whether Royal Mail had breached competition law. The investigation was launched in February 2014, following a complaint brought by TNT Post UK (now Whistl). Ofcom found that Royal Mail had abused its dominant position in the market for bulk mail delivery services in the United Kingdom by issuing Contract Change Notices on 10 January 2014 which introduced discriminatory prices. It fined Royal Mail £50 million. On 12 November 2019, the Competition Appeal Tribunal (CAT) issued its judgment, which upheld Ofcom's decision finding that Royal Mail had breached competition law and the £50 million fine it imposed. As a result, the £50 million fine is now payable and, accordingly, a liability has been recognised in these financial statements.	This investigation remains a key agenda item and regular updates have been provided to the Committee throughout the year. We have continued to review and challenge Management's assessment of the issue with reference to the accounting standards. We concluded that it is now appropriate to make a provision for the £50 million fine.
ONGOING MATTERS CONSIDERED DUE TO THEIR MATERIALITY AND/OR THE APPLICATION OF JUDGEMENT	
Advance customer payments Included within Advance customer payments is an estimate of the amounts of stamps and meter credits that have been sold but not used prior to the reporting date. The majority of this balance is made up of stamps sold to the general public. To determine the amount of sales to defer, previously estimates of stamp volumes held by the general public at the year end were made on the basis of monthly surveys performed by an independent third party. As surveys of this nature are inherently subjective and rely on the number and demographic profile of respondents, management has adopted a modified approach utilising a number of different data sources to calculate the estimated deferred revenue liability. Management uses judgement in applying a weighting to the component parts of the data sources. This judgement impacts revenue, profit and net assets. The independent survey used previously has also been referenced this year as an additional data source to support the calculation of the deferred revenue adjustment, rather than being the sole basis on which the deferred revenue number is based. As at 29 March 2020 the Group recognised £185 million (March 2019: £188 million) deferred revenue in respect of stamps sold to the general public but not used at the balance sheet date.	The Committee examined reports from Management summarising the revised methodology. We compared the level of deferred revenue recognised by Management at each reporting date to ensure a consistent application. Separately, the auditor used its own experts to review the statistical processes and assess the judgemental assumptions. We concluded that the level of deferred revenue remained appropriate.

MATTER	ACTION TAKEN BY COMMITTEE
Pension surplus calculation and recognition The valuation of the pension liabilities and assets relies on the estimation of long-term assumptions such as RPI/CPI and mortality and the selection of appropriate asset valuation methods. Small movements in these assumptions can lead to material impacts on the balance sheet. In view of the complexity of accounting for pension schemes, significant focus is required on the associated disclosure to ensure that it is fair, balanced and understandable.	Key long-term assumptions were prepared by the Group's actuary, Willis Towers Watson Limited, and benchmarked against prevailing economic indicators and other large pension schemes. All of these assumptions are disclosed in Note 11 (page 192) to the financial statements. Changes in the assumptions were summarised for the Committee and explanations provided for the returns on scheme assets, particularly as a result of the liability hedging strategy. The auditor used its own independent actuarial experts to confirm that the assumptions used were reasonable and appropriate.
Impact of changing employment legislation The Group has a large workforce and changes to laws and regulations relating to employment can have a significant effect on the Group's results.	Throughout the year, the Committee received regular updates on relevant employment law cases from the General Counsel along with impact assessments of judgements on the Group. We examined reports prepared by Management to determine whether their interpretation of the potential liabilities for the Group was appropriate.
Impairment test – Royal Mail UK CGU During the year this CGU was tested for impairment. At 29 March 2020 the carrying value of this CGU was £1,313 million. The recoverable amount, assessed as being the 'value in use' was calculated based on the Board's three year forecast free cash flows, with the assumption that the subsequent years will be in line with the performance of year three. Cash flows into perpetuity are assumed to have a growth rate of nil. The calculated value in use of the CGU exceeds its carrying value by £478m. The Group has conducted sensitivity analysis on the impairment test for each of the key assumptions.	The Committee examined reports from Management summarising the outcome of the impairment reviews and the sensitivity analysis that had been performed by Management. We also received KPMG's comments on the assumptions and the calculation used to perform the impairment review. We concluded that the approach taken was appropriate.
Impairment test – Parcelforce Worldwide CGU As a result of delays in the transformation of the Parcelforce Worldwide business an impairment review of the Parcelforce Worldwide CGU was undertaken. This impairment assessment identified that the carrying value of the CGU was in excess of its recoverable amount which resulted in a £91 million impairment charge, which was reported as a specific item within the UKPIL segment.	The Committee examined reports from Management summarising the outcome of the impairment reviews performed. Further details of the assumptions can be found in Note 6 (page 180) of the financial statements. We also received KPMG's comments on the assumptions and the calculation used to perform the impairment review. We concluded that the approach taken was appropriate.

Committee advisers

To help the Committee with our responsibilities, the Committee receives independent assurance from IA&RM. The Committee also received regular reports from the compliance function as well as the external auditor, KPMG, across a wide range of issues in support of their respective oversight responsibilities. The Committee is further supported by the Risk Management Committee (RMC).

We also obtain support from external experts, such as the Group's actuary, Willis Towers Watson Limited, who provide expert opinion and long-term assumption advice with respect to pension accounting. Aon Limited provides similar expertise in relation to other long-term liabilities.

The Committee also relies on the advice and information provided by the Group General Counsel with respect to specific provisions and other contingent liabilities. The Committee is satisfied that the Group General Counsel has, or has access to, the relevant necessary expertise and resources. The external auditor has full access to these experts where required and, using its own actuarial and statistical experts is able to provide further assurance to the Committee on these matters.

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

We have complied in all material respects throughout the year with the Statutory Audit Services Order 2014 issued by the Competition and Markets Authority.

Effectiveness of the external audit process

The Committee, on behalf of the Board, is responsible for the relationship with the external auditor, and part of that role is to examine the effectiveness of the audit process. Audit quality is a key requirement of the external audit process. The performance of the Company's external auditor, KPMG LLP, is kept under review by the Board and the Committee. The Committee undertakes a formal assessment of the external audit process each year and assesses the quality of audit against some of the following criteria:

- Provision of timely and accurate industry specific and technical knowledge
- Maintaining a professional and open dialogue with the Audit Committee Chair and members at all times
- Delivery of an efficient audit and the ability to meet objectives within the agreed timeframes
- The quality of its audit findings, management's response and stakeholder feedback

The Committee reviews and approves the terms of engagement of the external auditor and monitors its independence. This includes overseeing, and in certain circumstances approving, the engagement of the external auditor for non-audit work.

Meetings between the senior audit team and Finance have been held at least monthly, giving the opportunity for any concerns to be raised and addressed on a timely basis. The Committee also received a report on the areas of audit risk identified by KPMG and approved its proposed audit approach.

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

Overall, the Committee and KPMG both considered that the 2019-20 external audit process had been completely effectively notwithstanding the challenges presented by the outbreak of COVID-19. It agreed that KPMG's engagement was managed well and there had been an appropriate level of challenge from the audit team. The Committee identified key lessons from this review which have been considered for the 2020-2021 audit.

Safeguarding the independence and objectivity of the external auditor

The Committee has a policy in respect of non-audit work which requires Management to seek approval prior to the engagement of the external auditor for the provision of any non-audit services. This is to ensure that the level of fees earned from non-audit services and the type of services provided do not impair the external auditor's independence and objectivity. In general, the external auditor is not approached to perform non-audit work.

However, the auditor may be engaged to perform non-audit services if it is uniquely placed to undertake them, or if the performance of the non-audit services will support a future statutory audit (including the provision of buyer assist due diligence) and would not compromise the auditor's independence. The engagement may follow a competitive tender process.

The Committee currently permits the external auditor to provide non-audit related services, tax services and other services insofar as permitted by auditor independence rules.

The Committee has delegated authority to the Chief Financial Officer to pre-approve assignments up to £25,000, with an annual limit of £500,000. Non-audit services above this limit require prior approval from the Committee.

During the year, KPMG has been engaged to provide certain, agreed upon services. Total fees earned for non-audit services during 2019-20 were £447,000 which represented around 16 per cent of the external audit fee. In addition to the fees earned from the Company, KPMG has been engaged by the respective Pension Trustee as external auditor of the Royal Mail Pension Plan and the Royal Mail Defined Contribution Plan, the fees for which were £131,500 in 2019-20. KPMG has now adopted a policy of not undertaking non-audit work for audit clients unless there is a clear requirement for the auditor to perform this work.

KPMG was appointed as external auditor in July 2015, following a competitive tender process during the 2014-15 financial year. Under the current regulations, the Company will be required to retender no later than the 2025-26 financial year and the current audit partner will be required to rotate after the 2019-20 audit. The Committee intends to complete a competitive tender process no later than 2025-26 unless the annual reviews of audit effectiveness or other circumstances dictate otherwise. The Committee has recommended the reappointment of KPMG as the Group's external auditor to the Board for approval by shareholders at the AGM in September 2020.

The Committee remains satisfied that KPMG continued to be independent. In addition, KPMG annually reports on whether and why it deems itself to be independent.

Risk management and internal control overview

The Board collectively, including the Committee members, believes that effective risk management and a sound control environment are fundamental to the Group. The Code requires the Board to maintain sound risk management and internal control systems, to review their effectiveness at least annually and to report on this review to shareholders. A sound system of internal control depends on a thorough and regular evaluation of the nature and extent to which the Group is exposed to risk. The Board has delegated responsibility for reviewing the effectiveness of the Group's systems of internal control to the Committee. The Committee seeks to ensure that the Group operates within a framework of prudent and effective controls that allow risks to be identified, assessed and effectively managed.

The Group's risk management and internal control system is designed to manage, rather than eliminate, risk. Taking on manageable risk is an inherent part of undertaking the commercial activities of the Group. The system can only provide reasonable, not absolute, assurance against material misstatement or loss.

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

In addition, the Directors carry out a robust risk assessment of the Principal Risks facing the Group as set out on pages 62-72. These include those principal risks that threaten the business model, future performance, solvency and liquidity of the Group. These reviews have been informed by the financial evaluation of severe but plausible scenarios of our principal risks which has also been used to support our Viability Statement on page 73.

Annual cycle of activities

Phase	Business Unit Leadership Teams	Risk Management Committee	Audit and Risk Committee	IA&RM
April – May	3	1 4 6 10	1 4 6 10	
June – July	2			
August – September	3	1 6 7 9	1 6 7 9	
October – November		1 4 5	1 4 5	5
December – January	2 3 8	6 8	6 8	
February – March	3	5 6 7	1 5 6 7	5

1 **Group Risk Update** – Quarterly update on movements in gross, net and target risk, including progress on actions towards target risk and risk appetite

2 **Business Unit Risk Workshop** – IA&RM facilitation of risk workshops to assess key risks to business objectives

3 **Business Unit Risk Update** – Quarterly risk update and approval by Leadership Teams (GLS approval through GLS ARC)

4 **Principal Risks and Uncertainties** – Review of disclosure for the Annual Report & Accounts (April – June) and interim disclosure for half year results (Oct–Nov)

5 **Audit Plan Update** – Six monthly review of the audit plan to align assurance work to Corporate and Business risks

6 **Group Risk Deep Dives** – Risk owner presentation of Group Risk to provide an overview of status and mitigating actions. Scheduled on a priority basis

7 **Business Unit Risk Update** – Update of key themes and movements on Business Unit risk profile – "bottom-up" assessment of risk for consideration on GRP

8 **Horizon Scanning Risk Workshops/Discussions** – Robust assessment of emerging risks with Executive Board members and Senior Management

9 **Annual Review of Risk Management Policy and Framework**

10 **Risk Management and Internal Control Effectiveness Assessment** – IA&RM facilitation of Annual Review of Risk Management and Internal Control environment

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

The Committee has completed its review of the effectiveness of the Group's system of internal control and risk management. During this review the Committee did not identify any significant weaknesses in the preparation of the financial statements. In addition, the Committee monitored and reviewed the effectiveness of the Group's Internal Audit & Risk Management function. The Director of Internal Audit and Risk Management has a standing agenda item at each meeting to update the Committee on audit activities and progress of the audit plan. The Committee regularly reviews and monitors the audit activity and, where necessary, will request updates from the appropriate Executive Board member on any unsatisfactory audit reports.

In addition to the specific composition, meetings, reliance on experts, and focus areas highlighted above, the Committee uses several mechanisms to help it to arrive at its conclusions on the effectiveness of the system of risk management and internal control in the business.

These include:

Governance over Risk and Control – The Board has delegated responsibility for specific review of risk and control processes to the Committee. The Committee, in turn, is supported by the Risk Management Committee (RMC) and the Finance Committee, to help discharge its duties. The RMC met five times over the course of 2019-20 to promote and support the establishment, communication and embedding of risk management throughout the Group. It also seeks to ensure that risks that are significant at Group level are being effectively managed and supports the business in complying with the Risk Management Mandatory Standards and the reporting of key controls and mitigation plans for Group level risks. The Finance Committee supports the Committee in reviewing the Company's financial performance and reports to the Committee. The RMC oversees and evaluates a 'bottom up' assessment of risks on a quarterly basis. It receives presentations from Business Units on the operation of risk management and control processes on a cyclical basis and conducts deep dive analysis of Group risks.

Assurance from internal audit – Internal Audit & Risk Management (IA&RM) provides independent assurance to the Committee, Executive Management and the Board on the effectiveness of the internal control system and elements of the risk management process. IA&RM establishes and agrees with the Committee a bi-annual rolling plan of assignments and activities covering the whole Group, including GLS, based on discussions with the Board and Management. This considers key areas of business risk, areas of importance to the delivery of the strategy, geographical spread, areas subject to strong or emerging regulation or legislation or specific issues in the industry. During the year, the Committee evaluated the performance of IA&RM. It concluded that the function continued to be effective.

The IA&RM work programme during 2019–20 included 26 risk-based audits in the UK and over 120 audits in GLS, covering compliance with business controls in depots and head offices in addition to one risk-based audit. The UK internal audit programme was risk focussed and included audits of key strategic and business priorities including:

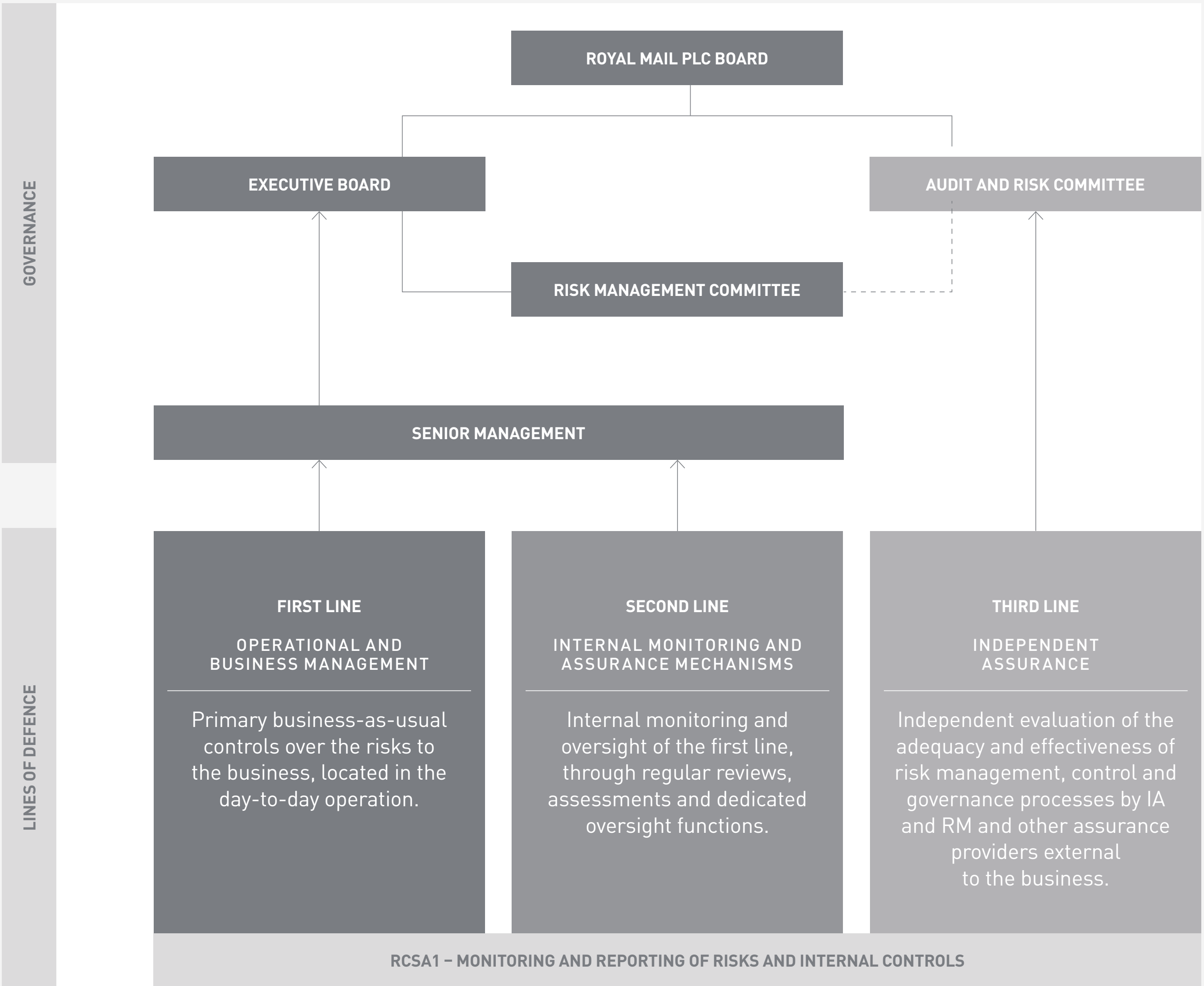
- Governance of major business transformation and programmes;
- Major business processes and regulatory requirements; and
- Monitoring and assessment of Culture.

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

- the external auditor performs a statutory year-end audit;
- the external auditor performs an audit of the regulatory accounts as part of Universal Service Provider accounting requirements;
- the externally measured end to end Quality of Service is audited by an independent accounting firm (appointed by Ofcom) as part of Royal Mail's Designated Universal Service Provider condition requirements; and
- the Universal Service Obligation daily collections and deliveries performance reporting and methodology is assured by an independent accounting firm (appointed by Royal Mail) as part of Royal Mail's designated Universal Service.

In the carrying out of these activities, the Board considers it has fulfilled its obligations under the Code in respect of risk management and internal controls. Further details of the Principal Risks and how they are managed and mitigated can be found on pages 62-72.

ROYAL MAIL GOVERNANCE AND THREE LINES OF DEFENCE



ROLE OF THE COMMITTEE IN ASSESSING THE PRINCIPAL RISKS

Review of principal risk areas	– The Committee routinely assessed the risks that might impact the achievement of the business plan, including consideration of whether these should be categorised as a principal risk to the business (see Principal Risks on pages 62-72). Committee discussions on risk also covered new and emerging risks and the interrelationships between the significant risks to the business. – In particular, the Committee reviewed changes to the Group Risk Profile on a quarterly basis and held deep dive discussions of principal risk areas with risk owners. The Committee holds the business to account for the management of risk and operation of control across the Group.
Deep dive discussions	During the year, 'deep dive' risk discussions included the following: – Regulatory Sustainability Framework – Economic Environment including Brexit and the US administration's initiative to take the USPS out of the UPU – Cyber Security and Data Regulations – Industrial Relations

CORPORATE RESPONSIBILITY COMMITTEE

Rita Griffin
Corporate Responsibility Committee Chair

Committee members

Rita Griffin
Simon Thompson
Maria da Cunha

COMMITTEE FOCUS

The Committee considers issues and performance in the following areas to ensure consideration is given to all stakeholder groups that could be impacted by the Company's corporate responsibility standards.

Introduction

I am delighted to present the first of our Corporate Responsibility Committee reports. The Committee was established in September 2019, recognising the growing importance of Environment, Social and Governance (ESG) matters within the business, and across our key stakeholder groups. The Committee oversees our agenda across the business. It will aim to ensure the Company's continued position as an industry leader in ESG matters.

This report details the work undertaken by the Committee during the year. A detailed report on the Company's corporate responsibility performance during the year can be found on pages 74-87.

I would like to thank the members of the Corporate Responsibility Committee for the open and constructive discussions that take place during our meetings and their personal commitment to our wide ranging and impactful agenda. Corporate responsibility (CR) is now a key area of focus for many Boards. I welcome the creation of this Committee to allow us to push forward on our CR agenda.

Committee activity

The Committee's first priority was to define its Terms of Reference (TORs). The TORs are published at:
→ www.royalmailgroup.com/en/about-us/management-and-committees/corporate-responsibility-committee.

I am pleased that the TORs formally enshrine the Company's Groupwide commitment to sustainability leadership. The TORs set out the Committee's responsibility for overseeing the Company's ESG performance in each of its material impact areas. The Committee is also responsible for keeping abreast of emerging issues. It has a mandate to address any area of concern both with internal stakeholders and the Board.

The Committee further agreed key areas of focus for the next year or so. Having consulted extensively both internally and externally with various stakeholders, the Committee recommended to the Board that its focus should be on culture and diversity, the environment strategy, and health, safety and wellbeing performance. Previously, these subjects were monitored by the Board and other Committees. For example, the Audit and Risk Committee was responsible for monitoring culture. Performance in each of these areas will be tracked as part of a standing item on Committee meeting agendas throughout the year.

The Committee met twice since its creation in September 2019. Committee meetings were also attended by the Group Chair and, as required, by the Managing Director of Corporate Affairs, Marketing and Regulation, members of the CR team, Chief HR Officer and the Global Compliance and Sustainability Director. The Committee is supported by the Company Secretary and the Corporate Responsibility team.

The Committee focused on the following main areas during its meetings:

– Development and approval of the Committee's remit, Terms of Reference and ambitions
– Review of Group Health & Safety and the Group Health & Wellbeing Reports
– Review of the Company's economic and social contribution and corporate purpose
– External presentation on Environment, Social and Governance matters, expectations and trends
– Update on Corporate Responsibility strategy, policy and performance
– Review and approval of the new environment strategy for Royal Mail
– In-depth review of the Company's culture and diversity programmes
– Updates on Employee Voice Forums and engagement with the workforce
– Overview of the emerging corporate responsibility issues presented by e-commerce

The Committee spent a significant proportion of its time focusing on Royal Mail's role as a leader across ESG matters; reviewing aspirations, commitments and performance to date. Topics included climate change, and the emerging issues presented by e-commerce, such as supply chain ethics – specifically human and labour rights. A full induction programme has been developed to ensure each Committee member understands these key CR related risks and opportunities, and the governance in place to manage these presently within the organisation. The intention is for the CR induction to be attended by all Board members during 2020-21.

The Committee is responsible for updating and approving the Company's CR policy. The policy sets out the standards to which the Company commits, as well as the standards expected of its business partners and supply chain. In addition, the Committee is taking responsibility for reviewing and approving key public disclosures, such as the annual Corporate Responsibility Report, on behalf of the Board. In response to increased interest from our stakeholders, the Company's disclosure on environmental issues and on diversity and inclusion has been augmented in this year's CR Report. There is also greater disclosure about the Company's management of health, safety and wellbeing. This area of focus is particularly important in light of the COVID-19 pandemic that blighted the country at the end of the last financial year and is still impacting us now.

The updates to the revised 2018 UK Corporate Governance Code have placed enhanced emphasis on the Board's role in monitoring and assessing the Company's culture. The Code states that the Board should establish the Company's purpose, values and strategy. It must satisfy itself that these and its culture are aligned and that all directors act with integrity, lead by example and promote the desired culture. Our Company purpose is to 'Connect customers, companies and countries'. Alongside this, in the UK we have a specific legal duty to deliver the Universal Service. This means we also have a legal corporate purpose, which makes us very different to other companies. The social and economic impact of the resources that we expend to deliver our corporate purpose is brought to life in our CR programme. It is what we do, and how we do it, that is at the essence of our role as a good corporate citizen. More information can be found in the Corporate Responsibility section on pages 74-87.

The Board believes that the Company's culture should promote integrity and openness, value diversity and be responsive to the views of shareholders and wider stakeholders. The Committee has taken responsibility of monitoring culture from the Audit and Risk Committee and will work with the Management team to ensure culture is aligned to the Company's strategy.

Speak Up line

Arrangements are in place to enable employees to raise concerns about potential wrongdoings in confidence and to ensure independent investigation of such matters.
The Committee will take over responsibility for monitoring the Company's Whistleblowing policy and Whistleblowing reports from the Audit and Risk Committee during 2020-21. Culture is a standing item on the Committee agenda. It will encompass updates on the Employee Voice Forums, Employee Engagement Survey results, bullying and harassment complaints and monitoring the various inclusion and diversity initiatives in place across the organisation. The Committee will provide reports to the Board, as whistleblowing and culture remain matters reserved for the Board. Simon Thompson provides a detailed report of his engagement with employees during the year on pages 112-113 of this report.

Committee evaluation

As the Committee is in its first year of formation it did not form part of the external Board and Committee evaluation conducted in 2019-20, details of which can be found on page 103.
The Committee will undergo an internal evaluation in 2020-21 and be included within the next externally facilitated evaluation in 2022.

Rita Griffin
Chair of the Corporate Responsibility Committee

Governance Documents available on our website

More information →
www.royalmailgroup.com

– Committee Terms of Reference
– Corporate Responsibility Report
– Corporate Responsibility Policy
– Modern Slavery Statement
– Whistleblowing Policy

DIRECTORS' REMUNERATION REPORT

Lynne Peacock
Remuneration Committee Chair

Dear Shareholder

On behalf of the Board, I am pleased to present our 2019-20 Remuneration Report, my first as Chair of the Remuneration Committee. I would like to extend my thanks to Orna Ni-Chionna, who stepped down following the 2019 AGM, after nine years of service on the Board. Orna chaired the Remuneration Committee for the majority of this period. I would also like to thank Simon Thompson, who took on the role of interim Chair of the Committee prior to my appointment in November 2019. Their hard work and commitment have helped in the adoption of a new Remuneration Policy. It has created a strong foundation on which to make executive remuneration decisions in the coming years.

Our Remuneration Policy

I was delighted that the Company received such a high level of support from shareholders for the 2019 Remuneration Policy. Key changes were to:

- reduce the proportion of the short-term bonus that would be payable for achieving target performance;
- reduce the number of annual bonus measures, with increased weighting on financial measures (now accounting for 75 per cent of the total);
- rebalance the ratio of our short and long-term incentives;
- reduce the cash pension allowance for new Executive Directors to be in line with the current employer pension contribution for the majority of the workforce;
- introduce a post-cessation shareholding requirement for the Executive Directors.

The changes to our Policy achieve an appropriate balance between incentivising Executive Directors and ensuring that variable remuneration will only be payable for performance that delivers sustainable value to shareholders.

Changes to our Remuneration Policy

The Committee believes the Policy largely remains appropriate and continues to meet best practice. However, following the Senior Management changes announced on 15 May 2020, it has become apparent that we need to make some limited, albeit important, changes to the Policy so that it can be administered effectively in these changed circumstances. As such we will be seeking shareholder approval for these changes at our AGM in early September.

The Committee appreciates that it is unusual to seek shareholder support for a new Policy so soon after securing strong support for the existing one. However, the Committee believes investors will understand that the Senior Management changes, including appointment of a CEO of Royal Mail at Board level, necessitate some minor changes to be made.

The new Policy will also give the Committee flexibility in the future to appoint other Executive Directors, who may not be based in the UK. For the avoidance of doubt, it remains the Board's intention that, if in the future any Group CEO were to be reappointed, they would be based in the UK (and on a UK contract of employment).

The revisions to the Policy are:

- **Benefits.** In the event that the Company appointed a director (Executive or Non-Executive) who was based outside the UK, the reimbursement of business travel costs to the UK to attend Board meetings may be subject to taxation. To avoid any breach of the Policy, the Company is changing the Policy to provide that an overseas based director can be reimbursed for a) any reasonable travel and accommodation costs and b) any associated taxation thereon.
- **Annual incentive.** Since the adoption of the Policy, the Company has appointed an Executive Director responsible for its UK business. The Policy provided that a minimum level of Group earnings must be achieved before an annual bonus was payable. The new Policy would give the Remuneration Committee the flexibility to set this minimum level of earnings at a Group or an appropriate business unit level e.g. Royal Mail (UKPIL).
- **Contractual arrangements.** To provide the Committee flexibility should it decide to appoint in the future an Executive Director based outside the UK, the contractual terms and conditions for such a director can align to local laws in the applicable jurisdiction of employment and the Policy can be interpreted to ensure compliance with such local laws where necessary. By way of example, the current Policy provides that Executive Directors will have contracts of employment with payment in lieu of notice provisions. However, in some European countries such provisions are prohibited under employment law. In addition, the new Policy would give the Committee the flexibility to cover the additional tax liability incurred by a new Executive Director (based outside the UK) when performing duties outside their home country. This ensures they are not subject to a greater tax burden as a result. There is a risk that part of a director's remuneration will be taxed in the UK (as well as in their home country) if they travel to the UK to attend Board or other meetings.
- **Pension.** A reduction in the pension contribution rate for existing Executive Directors from 17.5 per cent to 15.6 per cent, mirroring the current rate for the majority of the workforce. This change will be effective 1 April 2021 (the start of the next financial year).

The new Policy is set out on pages 133-140.

2019-20 Group performance and remuneration outcomes

As the interim Executive Chair said in his statement, these are extraordinary times. The COVID-19 pandemic has been an unprecedented challenge for our customers across the world. We have worked hard to deliver the most comprehensive service possible to all our customers.

As discussed elsewhere in the Annual Report and Accounts, we have had successes: GLS reported good growth and we continued to make progress in all our safety metrics, and our employee engagement also improved. We achieved adjusted Group operating profit of £325 million. Excluding the impact of IFRS 16, the profit performance of £312 million was within our target range of £300-340 million.

In 2019-20, Royal Mail (UKPIL) revenue increased by 1.6 per cent. This was driven by a good performance in parcels, and lower than expected letter revenue partially offset by the benefit of a European Parliamentary Election and a UK General Election in the period. Costs remained a challenge in the UK, and we failed to achieve the productivity targets that we had set ourselves. This resulted in adjusted UKPIL operating profit being down 41.2 per cent. We have no reason to expect similar benefits (such as the elections) this financial year, and continue to expect Royal Mail (UKPIL) to be materially loss-making in 2020-21.

At year end, the Committee decided that it was not appropriate to award annual bonuses to the Executive Directors. This reflects the Board's decision not to recommend a final dividend and an outlook that was difficult to predict, making the preservation of cash (including bonuses) sensible.

The performance period for the 2017 Long Term Incentive Plan (LTIP) concluded at the end of March 2020. This was the second award granted under the 2016 Remuneration Policy, with the single metric of relative total shareholder return (TSR) compared to the FTSE 100 excluding mining and financial companies. Threshold performance was not met, so no part of this award will vest.

As referenced in previous remuneration reports, our former Group CEO, Rico Back, had some outstanding LTIP awards arising from his prior role at GLS. The Committee reviewed the performance of the 2017 LTIP award against the financial targets and concluded that the outcome against these targets was reasonable and supportable within the context of GLS' aggregate performance over the last three years and decided that no upwards or downwards discretion was required. The resulting outcome for Rico Back is reported in the 2019-20 Single Figure Table.

In May 2020, the Company announced that, in recognition of the role played by frontline colleagues maintaining services during the COVID-19 pandemic, it had set aside around £25 million to be paid as a cash bonus. Over 130,000 frontline colleagues who, since March 2020, have been at work throughout the COVID-19 crisis will be eligible to receive a cash recognition award of up to £200 paid in June 2020.

Shareholder engagement

We remain committed to maintaining an open and transparent engagement with our shareholders. We were very pleased that our current Remuneration Policy was strongly endorsed by shareholders in July 2019, with over 99 per cent voting in favour. I would like to thank shareholders for their constructive feedback over the last 15 months, which continues to feed into our Committee discussions and shape our approach to remuneration.

We look forward to continuing our discussions with investors in the coming months in the run up to the Annual General Meeting.

Board changes and implications for remuneration

A number of Board changes are mentioned elsewhere in the Annual Report and Accounts; but I also will summarise them here in the context of reporting on the implications for remuneration.

On 15 May 2020, we announced that Rico Back had stepped down as Group Chief Executive with immediate effect. As outlined in the stock exchange announcement, Rico will remain an employee for three months until 15 August 2020, on garden leave. The Committee determined that the following termination arrangements were fair and reasonable, consistent with the Directors' Remuneration Policy and in line with his contractual entitlements.

- On termination Rico Back will receive nine equal monthly payments in lieu of notice totalling £480,000, which represents the balance of his 12-month notice period. These payments will be reduced by any amounts that Rico Back receives from alternative paid employment.
- There is no eligibility to receive any annual bonus in respect of 2019-20 or 2020-21.
- The 2018 and 2019 Royal Mail Long Term Incentive Plan awards will lapse.
- Rico Back will retain his unexercised GLS long-term incentive plan award which was granted to him prior to his appointment as Group CEO and which is due to vest, subject to performance, in July 2020.
- Rico Back will also retain a deferred share bonus award granted in 2018. This award will continue to vest over the original vesting period i.e. there is no acceleration of vesting and the award will remain subject to malus. The Committee decided this was appropriate as the award related to a prior performance year (2017-18) and has already been earned.

Keith Williams was appointed as Chair of the Board on 22 May 2019. His fees were set at £300,000 per annum, which is the same level that his predecessor, Les Owen, received. Keith was subsequently appointed interim Executive Chair on 15 May 2020. Despite stepping up as interim Executive Chair, Keith asked to remain on the same fee he was paid as non-exec Chair of the Board. He declined to participate in any of the Group's pension or incentive plans (such as the annual bonus plan or long-term incentive plan). Keith will not be subject to the executive shareholding guideline requirements.

Stuart Simpson was appointed interim CEO of Royal Mail on 15 May 2020. During this period he will receive a temporary increase to his fixed pay of £75,000 per annum. This increase is not pensionable and will not be included when determining incentive opportunities. The Committee considered that this was an appropriate repositioning of his fixed remuneration in light of his significantly expanded responsibilities and being accountable to the Board for the UK business.

Through 2019-20, as reported elsewhere, the Board has focused on renewing and strengthening its membership. Orna Ni-Chionna stepped down as Chair of the Remuneration Committee and Senior Independent Director at the Annual General Meeting in July 2019. Orna has been replaced as Senior Independent Director by Baroness Sarah Hogg (appointed on 1 October 2019). Maria da Cunha and Michael Findlay joined the Board on 22 May 2019. Both have joined the Remuneration Committee, and Michael was appointed as Chair of the Audit and Risk Committee on 30 May 2019. A Corporate Responsibility Committee (CR Committee) was set up in September 2019. Rita Griffin has been appointed as Chair. Fees for the CR Committee have been set at a lower level than for the Audit and Risk, and Remuneration Committees. There have been no other changes to the Non-Executive Director fee structure, as set out in the 2019 Policy.

Consideration of the wider workforce remuneration

In addition to its primary role of reviewing Executive Directors' and other executives' remuneration, the Committee, and the Board more generally, continue to exercise oversight of other colleagues' remuneration. The Committee takes into consideration pay policy across the wider workforce as part of its decision making on executive remuneration. The Committee reviews the gender pay gap reporting and remuneration practices across the Group. As a Board, we also discuss details of any pay arrangements for the workforce represented by the Communication Workers Union and Unite/CMA.

Looking forward

The Committee has decided to postpone the grant of the 2020 Long Term Incentive Plan until later in 2020. This enables us to consider the impact of the COVID-19 pandemic and calibrate appropriate measures and targets when markets are less volatile and the performance outlook is more certain.

In July 2018, the new UK Corporate Governance Code ("Code") was published, which formally applied to Royal Mail with effect for the 2019-20 financial year. The Committee welcomes the new Code. Over the last 18 months it has held discussions as to how the provisions that were not already satisfied could be implemented in the most effective manner for the Company and our stakeholders. The Committee is pleased to note that in most areas of the Code, practice at Royal Mail was already very well-aligned. This included the areas of pension provision, post-employment shareholding requirements, incentive structures, the Committee's remit, and our oversight of wider employee pay and conditions.

Over the course of 2020, we will continue to monitor how best practice develops in these areas, especially in relation to the adoption of Environmental, Social and Governance (ESG) incentive measures. Health and Safety is an important priority for the Company and is a key measure among our bonus plans (for Executive Directors, our leadership teams and the broader senior management population). However, in the coming year, the Committee will review whether broader ESG measures may be appropriate in the Company's incentive plans.

Summary

2019-20 was a challenging year, ending with the onset of the COVID-19 pandemic, which has been an unprecedented challenge for our customers across the world. The delivery of parcels and letters has been a key way of keeping people connected and helping many people who have been unable to leave their homes. As a Committee, we have sought to make decisions which recognise the efforts of our colleagues and our underlying business performance, balanced with our desire to reflect a) an uncertain outlook and b) the Board's decision around the dividend.

I trust that you find the Remuneration Report clear and informative, and that the Committee has your support for both our new Remuneration Policy and Remuneration Report at the forthcoming AGM.

Lynne Peacock
Remuneration Committee Chair

OUR REMUNERATION AT A GLANCE (UNAUDITED)

Executive Directors' Remuneration Policy

At the July 2019 Annual General Meeting, an updated Directors' Remuneration Policy was approved by shareholders. Among the key changes in relation to Executive Directors' remuneration were:

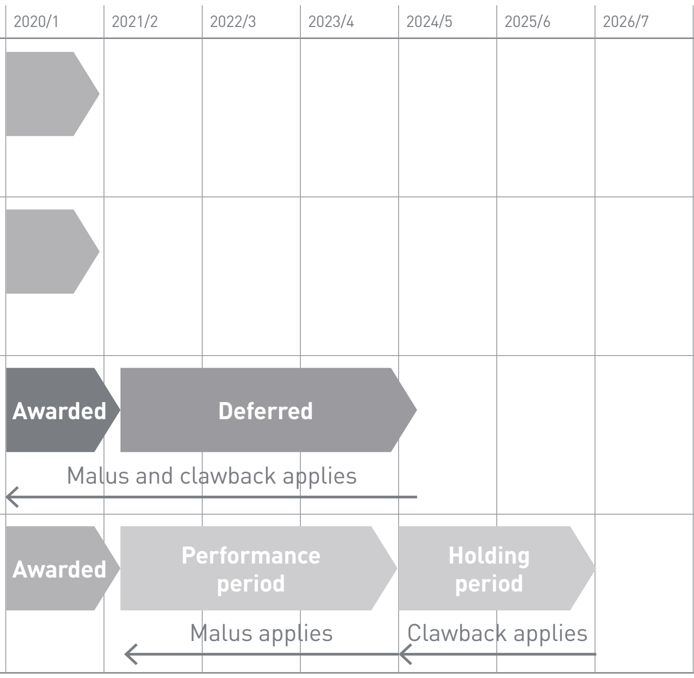
- A rebalancing of our incentive plans to weight them more strongly to the long term, ensuring Executive Directors are incentivised to execute the strategy and create value for shareholders;
- A reduction in the annual bonus payable for target performance;
- Simplification of our annual bonus measures, with more weight on financial measures (in 2019-20, this was 75 per cent);
- Long-term incentive plan based on a broader set of measures, stretching financial and shareholder return measures, creating long-term alignment, with a two-year holding period post vesting;
- A reduction in the cash pension allowance for new Executive Directors to be in line with the current employer pension contribution for the majority of the workforce; and
- Introduction of post-cessation shareholding requirements, with Executive Directors required to retain shares worth 100 per cent of their shareholding guideline for two years upon stepping down from the Board.

Subject to shareholder approval at the AGM, the Policy will also provide for a reduction in the pension contribution rate for existing Executive Directors from 17.5 per cent to 15.6 per cent, mirroring the current rate for the majority of the workforce.

Executive Directors' remuneration structure in 2020-21

Keith Williams, as interim Executive Chair, will continue to receive a fee of £300,000. He is not eligible to participate in any incentive plans, to receive any cash benefit allowances or to participate in any pension plan.

The table below summarises the implementation of the Remuneration Policy for Stuart Simpson in 2020-21.



Financial year	Implementation for 2020-21
Salary	– Salary remains £450,000 – Salaries may be reviewed during the year – While acting as interim CEO, Royal Mail an acting up allowance of £75,000 p/annum is received. It does not impact benefits, bonus or LTIP
Benefits	– No change in how Remuneration Policy is operated – Pension allowance remains at 17.5% of salary only – Other benefits include healthcare and car benefit/ allowance
Annual bonus	– Maximum 150% of salary (100% cash and 50% deferred in shares for three years) – Target 75% of salary (50% cash and 25% shares) – Measures and targets to be finalised later in 2020
LTIP	– Maximum 150% of salary – Shares vest after three years subject to performance, with a further two year holding period – Measures and targets to be finalised prior to grant later in 2020

Executive Directors' variable remuneration

No annual bonuses were awarded to Executive Directors in respect of 2019-20. This reflects the Board's decision not to recommend a final dividend and an outlook that was difficult to predict, which made the preservation of cash sensible.

The performance period for the 2017 LTIP concluded at the end of March 2020. For any portion of the award to vest, median relative TSR performance was required against this comparator group. As this has not been achieved, this award will not vest.

	R Back	S Simpson
2019-20 annual bonus (% of salary)	0%	0%
2017 RM LTIP vesting (% of salary)	0%	0%

Executive Directors will also receive an LTIP award later in 2020. It is envisaged that the measures will be relative TSR and financial performance measures, as set out in the current Remuneration Policy.

Executive Directors' total single figure of remuneration	R Back	S Simpson
2019-20 total remuneration (£'000s)	868	544
Year on year change	N/A[1]	0%

1 Rico Back was not on the Board for all of 2018-19, which makes a year on year comparison of remuneration inappropriate. Rico Back's 2018-2019 total single figure of remuneration was £647,000, which reflects his earnings from the date of his appointment as an Executive Director in June 2018. However, the level of his salary, pension and benefits were unchanged between 1 June 2018 and 29 March 2020.

Additional information	Percentage/Ratio
Former Group CEO shareholding requirement (% of salary)	200%
Former Group CEO's actual shareholding as a proportion of his salary	550%
Median gender pay gap	3.5%
Median gender bonus pay gap	0.0%
Former Group CEO pay versus median UK employee	28:1

UK Corporate Governance Code Requirements

The table below details how the Committee addressed the principles set out in the UK Corporate Governance Code in respect of Directors' remuneration:

PROVISION	APPROACH
Clarity	– The Committee undertook extensive shareholder engagement during the development of the current Remuneration Policy, and redesigned the report to ensure both the changes to the Policy, and decisions taken on Directors' pay were transparent and in line with latest practice. – Information on how remuneration is structured for all employees and how it is aligned to Directors' remuneration is included in the Directors' Remuneration Report.
Simplicity	– Our Remuneration Policy consists of a) fixed remuneration and b) variable remuneration comprised of one annual and one long-term incentive plan only. The objective of each element, as well as how they operate, is included in the Policy. – Incentive schemes have been simplified under the current Remuneration Policy, including a reduction in the number of measures, with links to our strategic objectives clearly set out.
Risk	– The combination of reward for short-term business performance (paid partly in cash and partly in deferred shares) and long-term performance (with measures covering shareholder returns, financial and non-financial elements) ensures the incentives drive the right behaviours for the Group, its shareholders, employees and customers. – The Committee retains the discretion to adjust formulaic outcomes of these plans if they do not reflect the underlying performance of the Group. – Our incentive plans are also subject to malus and clawback provisions.
Predictability	– Threshold, target and maximum pay scenarios are set out in full as part of the new Remuneration Policy section. – Maximum variable remuneration award levels are capped. Other than vesting levels, which are driven by performance outcomes, the only source of variation in final payouts is the fact that part of the variable remuneration is awarded in shares and so is linked to the share price.
Proportionality	– There is a clear and direct link between Group performance and individual rewards through our incentive plans.
Alignment with culture	– The Committee has worked hard to design a Remuneration Policy that directly supports our strategic priorities, and aligns our Directors and wider management to these outcomes. – Our incentive plans include both financial measures, and those that focus on our customers and employees. All our managers' individual performance is considered against our Company values: be positive, be brilliant, be part of it. Therefore, we assess our managers against not only what they have achieved, but also how they do things.

NEW DIRECTORS' REMUNERATION POLICY (UNAUDITED)

The Company's existing Directors' Remuneration Policy was approved by 99.64 per cent of shareholders at the AGM on 18 July 2019.

As outlined in the Committee Chair's statement, the Company is proposing a new Directors' Remuneration Policy, as set out below. Subject to shareholder approval at the Annual General Meeting to be held in September 2020, this Remuneration Policy will take effect from the date of the 2020 AGM and, if approved, will apply for up to three years.

The Board and the Remuneration Committee conducted a detailed review of the Remuneration Policy in 2019 and, at that time, considered the views of shareholders, the strategic objectives of the Group, the remuneration of all colleagues, market benchmarking and best practice.

Following careful consideration, the Remuneration Committee decided, in light of the recent Senior Management changes announced on 15 May 2020, to make some limited, albeit important, changes to the Remuneration Policy so that it can be administered effectively. The changes are summarised in the table below. The new Policy also ensures continued regulatory compliance and alignment with evolving best practice in many areas, such as executive pensions.

Overview of the changes to the Remuneration Policy

AREA OF POLICY	DESCRIPTION OF CHANGE
Pension	With effect from 1 April 2021 (the start of the Company's financial year), the rate for existing Executive Directors eligible for a pension will reduce from 17.5 per cent to 15.6 per cent, the current rate for the majority of the workforce.
Benefits	In the event that the Company appointed a director (Executive or Non-Executive) who was based outside the UK, the reimbursement of business travel costs to the UK to attend Board meetings may be subject to taxation. To avoid any breach of the Policy, the Company is changing it to provide that an overseas based director can be reimbursed for a) any reasonable travel and accommodation costs and b) any associated taxation thereon.
Annual incentive	**Performance measures** Since the adoption of the current Remuneration Policy, the Company has appointed an Executive Director responsible for its UK business. The current Policy provided that a minimum level of Group earnings must be achieved before an annual bonus was payable. The new Policy gives the Remuneration Committee the flexibility to set this minimum level of earnings at a Group or an appropriate business unit level.
Appointment of new Executive Director	A statement clarifying that any new Executive Director's contractual terms, as outlined in the Policy, shall always be subject to local laws in any applicable jurisdiction and that the contract can be amended to ensure compliance with such local laws where necessary. The new Policy gives the Remuneration Committee flexibility, if it so wished, to appoint, by way of example, an Executive Director based outside the UK on a non-UK employment contract, where local laws mean the terms of employment differ from those in the UK. In the event that the Company appointed an Executive Director who was based outside the UK, there is a risk that part of their remuneration will be taxed in the UK (as well as their home country) if they travel to the UK to attend Board or other meetings. The Company is changing the Policy to give the Committee the flexibility to cover the additional tax liability incurred by a new Executive Director (based outside the UK) when performing duties outside their home country. This ensures they are not subject to a greater tax burden as a result.
Termination of Executive Director – Payment in Lieu of Notice	The current Policy provides that a) the Company may terminate the contract by making a payment in lieu of any unexpired notice period, with such payment in lieu of notice being limited to a maximum of 12 months' base salary; and b) service contracts for Executive Directors expressly provide for the use of monthly phased payments in the event of a payment in lieu of notice with a reduction in amounts paid if the executive obtains alternative paid employment. The new Policy clarifies that these provisions can be adapted if not permitted by relevant law. This gives the Remuneration Committee flexibility, if it so wished, to appoint an Executive Director on an employment contract without, by way of example, payment in lieu of notice provisions, which are prohibited under employment law in some European countries.

Proposed Remuneration Policy
Executive Director Fixed Remuneration

AT A GLANCE	OPERATION
BASE SALARY	
Purpose and link to strategy Reflects the scope and responsibility of the role, while taking account of the skills and experience of the individual. Used to attract and retain talented executives to deliver the business strategy.	
Interim Executive Chair (Keith Williams): £300,000 (effective 15 May 2020) Interim CEO Royal Mail (Stuart Simpson): £450,000 (effective 20 July 2017) plus an interim allowance £75,000 (effective 15 May 2020)	Salary levels for the Executive Directors are normally reviewed annually. The Committee takes into account factors such as the performance of the Company, the performance of the Executive Director, any changes in role and responsibility, assessment against relevant comparator groups, internal relativities and the level of increase being offered to our frontline employees. Increases will normally be in line with the broader employee population. Increases may be made above this level to take account of changing circumstances, such as a change in responsibility, progression in the role, individual performance or a significant increase in the scale or size of the role.
BENEFITS	
Purpose and link to strategy To support the attraction and retention of talented executives by providing a competitive offering.	
The value of the benefits stated is the maximum cost to the Company of providing them	Benefits currently include the provision of a company car and health insurance, or the cash equivalent of these benefits. Life assurance and health screening are also provided. Additional benefits may be offered such as financial advice and relocation allowances on recruitment. UK based Executive Directors are entitled to participate in any SIP or SAYE schemes currently available to employees. Where an Executive Director is based outside the UK, but is required to travel to the UK to fulfil the responsibilities of their role and to attend Board meetings, they may be subject to tax on their business travel expenses to and from the UK and on the provision of any accommodation in the UK. Although in reality it represents a business expense, the tax treatment requires that their travel and accommodation expenses are then included as benefits. Because of the business context, the tax liabilities will be covered by the Company on a grossed-up basis.
PENSION	
Purpose and link to strategy To provide a competitive post-retirement income.	
CEO Royal Mail (Stuart Simpson): currently 17.5 per cent of salary For newly appointed Executive Directors the pension allowance will be in line with the employer contribution for the majority of the workforce	Company contribution to a defined contribution pension scheme and/or a cash supplement (in lieu of pension). With effect from 1 April 2021 (start of the Company financial year), the pension allowance contribution rates for current Executive Directors will be reduced to 15.6 per cent, the current rate for the majority of the workforce.

Executive Director Variable Remuneration

AT A GLANCE – MAXIMUM OPPORTUNITY	OPERATION	PERFORMANCE MEASURES
ANNUAL BONUS		
Purpose and link to strategy Designed to reward achievement of key strategic, financial and operational priorities for the year to deliver strong performance in service of longer-term strategic goals and creation of long-term shareholder value. Part of the total annual incentive opportunity is a deferred share award encouraging a long-term view, providing alignment with shareholders' interests.		
Maximum total annual incentive opportunity of 150 per cent of salary, split between two plans: an annual cash bonus award of up to 100 per cent of salary and a deferred share bonus award of up to 50 per cent of salary. Target opportunity of 75 per cent of salary.	The total annual incentive opportunity is provided as follows: – Two thirds is payable in cash, paid at the end of the annual performance period; – One third is granted as a deferred share award, after the end of the performance period and subject to continued employment over the three- year vesting period. Deferred share awards will be granted to Executive Directors in the form of a conditional share award. The Committee will normally award dividend equivalents on deferred shares to plan participants to the extent that they vest. Malus and clawback provisions will apply to both elements of the award.	Annual performance measures and weightings will be selected at the start of each financial year to align with the key strategic, financial and operational priorities of the business. The measures themselves may change on an annual basis as financial and operational priorities of the business change. In 2020-21, 75 per cent of the measures shall be financial, with the remainder being operational KPIs or strategic objectives. In addition, the Committee will set a minimum level of earnings that must be achieved (which may be at a Group or an appropriate business unit level) before any bonus is payable to an Executive Director.
The Committee may use its discretion to: – change the performance measures and targets, and the weighting attached to the performance measures and targets part way through a performance year if there is a significant and material event which causes the Committee to believe that the original measures, weightings and targets are no longer appropriate; – make downward or upward movements to the amount of bonus earned resulting from the application of the performance measures, if the Committee believes that the bonus outcomes are not a fair and accurate reflection of business performance.		
LONG TERM INCENTIVE PLAN		
Purpose and link to strategy Supports executive recruitment and retention, with an appropriate balance between short-term performance and the creation of long-term, sustainable shareholder value.		
Maximum award level of 150 per cent of salary.	Awards are granted annually to Executive Directors in the form of a conditional share award. These will vest at the end of a three-year period subject to: – the Executive Director's continued employment at the date of vesting; and – the satisfaction of the performance conditions. The Committee will normally award dividend equivalents on those shares to the extent that they vest. Following the vesting, there is a holding period of two years when Executive Directors cannot sell the vested shares other than to pay tax. Malus provisions apply over the performance period. Clawback will apply over the holding period.	Performance measures and/or weightings reflect the business strategy at the time and are measured over or at the end of three years. The Committee may change the balance of the measures, or use different measures for subsequent awards, as appropriate. The underlying performance of the business will also be taken into account when determining the vesting. The grant of the 2020 LTIP awards is likely to be made towards the end of 2020. The measures and any associated targets will be confirmed at the time of grant via stock exchange announcement.
In exceptional circumstances the Committee retains the discretion to vary or waive the performance conditions applying to LTIP awards, if the Board considers it appropriate and the new performance conditions are deemed reasonable and are not materially more or less difficult to satisfy than the original conditions.		

AT A GLANCE – MAXIMUM OPPORTUNITY	OPERATION
APPLICATION OF MALUS AND CLAWBACK	
Malus and clawback may be applied by the Committee in the event of:	i. discovery of a material misstatement resulting in an adjustment in the Company's accounts; ii. discovery that the grant or vesting of an award was based on error or inaccurate or misleading information; iii. conduct by an Executive Director that amounts to fraud or gross misconduct; iv. conduct by an Executive Director that results, or could result, in serious reputational damage to the Group; v. conduct by an Executive Director that has caused a material failure of risk management; vi. the Company enters involuntary administration or insolvency process; and vii. an Executive Director breaching any restrictive covenants or confidentiality obligations that apply after the termination of their employment. Events iv) to vii) only apply to awards granted after 1 April 2019.

AT A GLANCE	OPERATION
SHAREHOLDING GUIDELINES – DURING EMPLOYMENT	
Purpose and link to strategy To ensure alignment between remuneration and long-term shareholder value creation.	
Shareholding guideline of 200 per cent of salary.	Executive Directors (other than the interim Executive Chair) are expected to keep any shares they already own and any shares released under the LTIP and the Deferred Share Bonus Plan (DSBP) (except for those sold to cover any tax and social security obligations) until this is achieved.
SHAREHOLDING GUIDELINES – POST CESSATION	
Purpose and link to strategy To ensure continued alignment of Executive Directors with shareholders as they transition out of the business.	
200 per cent of salary to be held in granted shares for two years after leaving.	On cessation, Executive Directors (other than the interim Executive Chair) are required to maintain their shareholding guideline for two years. The number of shares to be held will be based on the shares vested under executive share schemes only (including the shares from any DSBP award that are yet to vest, based on a net calculation) and will be determined by the share price on the date of cessation. If an Executive Director has not yet reached the 200 per cent of salary guideline at the point of departure, they will be required to hold any shares granted under executive shares schemes for two years. The post cessation shareholding requirement will be included in Settlement Agreements for Executive Directors on leaving the business.

Remuneration for a new Executive Director

The following table sets out the remuneration arrangements for a new Executive Director.

ELEMENT	POLICY
Salary	Salaries for new Executive Directors appointed to the Board will be set in accordance with the terms of the approved Remuneration Policy in force at the time of appointment. In particular, they will take account of the appointee's skills and experience as well as the scope and market rate for the role.
Benefits	Benefits consistent with those offered to other Executive Directors under the approved Remuneration Policy in force at the time of appointment will be offered, including the discretion to offer additional benefits including but not limited to a) relocation allowance on recruitment and b) covering additional tax incurred by a non UK based Executive Director when performing their duties outside their home country (such as visiting the UK for Board or other meetings) to ensure they are not subject to a greater tax burden as a result.
Pension allowance	The pension allowance paid to any newly appointed Executive Director will be aligned to the wider workforce pension arrangements as outlined in the Remuneration Policy.
Incentives	Incentive arrangements for new Executive Directors will be in accordance with the approved Remuneration Policy in force at the time of appointment. Under the Remuneration Policy: – maximum total annual incentive opportunity award in any year would be 150 per cent of salary, split between cash and shares (100 per cent and 50 per cent respectively) – maximum LTIP award would be 150 per cent of salary (with the ability to offer up to 300 per cent of salary for the year of recruitment) For an externally appointed Executive Director, the Company may offer additional cash or share-based payments that it considers necessary to buy out current entitlements from the former employer that will be forfeited on recruitment. Any such arrangements would reflect the type of award (for example, cash or shares); time horizons; and levels of conditionality of the remuneration foregone. In order to facilitate buy-out arrangements, existing incentive schemes will be used to the extent possible, and the Committee will retain discretion on the application of holding periods, performance conditions and performance periods. For an internally appointed Executive Director, any outstanding variable pay element, such as an LTIP awarded in respect of the prior role, will continue on its original terms.
Other	The Committee always seeks to use its judgement to ensure that any remuneration package is set such that the Company is able to attract the right calibre of individual required, whilst maintaining a responsible attitude to executive compensation. The terms and conditions for any new Executive Director contract as outlined in this Policy shall always be subject to local laws in any applicable jurisdiction and be amended to ensure compliance with such local laws where necessary.

What happens when an Executive Director leaves?

ELEMENT	POLICY
Payment in lieu of notice	The Company may terminate the contract by making a payment in lieu of any unexpired notice period (unless dictated by applicable law). The payment in lieu of notice is limited to a maximum of 12 months' base salary (unless dictated by applicable law). Service contracts for Executive Directors will expressly provide for the use of monthly phased payments (unless dictated by applicable law) in the event of a payment in lieu of notice with a reduction in amounts paid if the executive obtains alternative paid employment.
Other payments	Payment in lieu of accrued holiday, incidental expenses, outplacement services and payments relating to post-termination restrictions may be paid/provided for as appropriate. Any statutory entitlements or sums to settle or compromise claims in connection with a termination (including, at the discretion of the Committee, reimbursement for legal advice) would be paid as the Committee considers necessary.
Post-Cessation Shareholding	Executive Directors will be required to maintain their shareholding guideline for two years. The number of shares to be held will be based on the shares granted under executive share schemes only and will be determined by the share price on the date of cessation. If an Executive Director has not yet reached the 200 per cent of salary guideline at the point of departure, they will be required to hold any shares, granted under executive shares schemes for two years.

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

ELEMENT	GOOD LEAVER REASON[1]	OTHER REASON[2]	COMMITTEE DISCRETION
Annual Bonus: Cash Awards	Performance conditions will be measured at the bonus measurement date. Bonus will normally be pro-rated.	No bonus payable for year of cessation.	– to determine that an executive is a good leaver – to determine whether to pro-rate the bonus to time. The normal approach is that bonus will be pro-rated provided that where any discretion is exercised there is an appropriate business case which will be explained to shareholders.
Annual Bonus: Deferred Share Awards	All subsisting deferred share awards will normally vest on the normal vesting date.	Lapse of any unvested deferred share awards.	– to determine that an executive is a good leaver – to vest deferred shares at the date of cessation of employment – to determine whether to pro-rate the award to time. The normal approach for existing awards is that they will not be pro-rated provided that where any discretion is exercised there is an appropriate business case which will be explained in full to shareholders. In respect of the year of cessation, discretion may be exercised to provide a pro-rated deferred share award based on achievement of performance conditions as measured at the bonus measurement date.
LTIP	Pro-rated to time and performance in respect of each LTIP award. Awards will vest on the normal vesting date and the holding period will apply, except in the case of death when awards will vest on date of cessation of employment (and no holding period will apply).	Lapse of any unvested LTIP awards.	– to determine that an executive is a good leaver – to measure performance over the original performance period or at the date of cessation of employment – to vest the shares on date of cessation of employment – to determine whether to pro-rate the award to time. The normal approach is that awards will be pro-rated and to disapply the holding period provided that where any discretion is exercised there is an appropriate business case which will be explained in full to shareholders.

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

2 Cessation of employment in circumstances other than those set out above is cessation for other reasons.

What happens in case of a takeover?

The Committee's Policy on the vesting of incentives on a change of control is summarised below.

ELEMENT	TAKE-OVER	COMMITTEE DISCRETION
Annual Bonus: Cash Awards	Pro-rated to time and performance to the date of the takeover.	The Committee's normal approach is that it will pro-rate the bonus for time. It is the Committee's intention to use its discretion to not pro-rate in circumstances only where there is an appropriate business case which will be explained in full to shareholders.
Annual Bonus: Deferred Share Awards	Subsisting deferred share awards may vest on a takeover.	The Committee has discretion regarding whether to pro-rate the award to time. The Committee's normal approach is that it will not pro-rate awards for time. The Committee will make this determination depending on the circumstances of the takeover.
LTIP	Subsisting LTIP awards may vest on a takeover, pro-rated to time and performance.	The Committee will determine the proportion of the LTIP award which vests taking into account, among other factors, the period of time the LTIP award has been held by the participant and the extent to which any applicable performance conditions have been satisfied at that time.

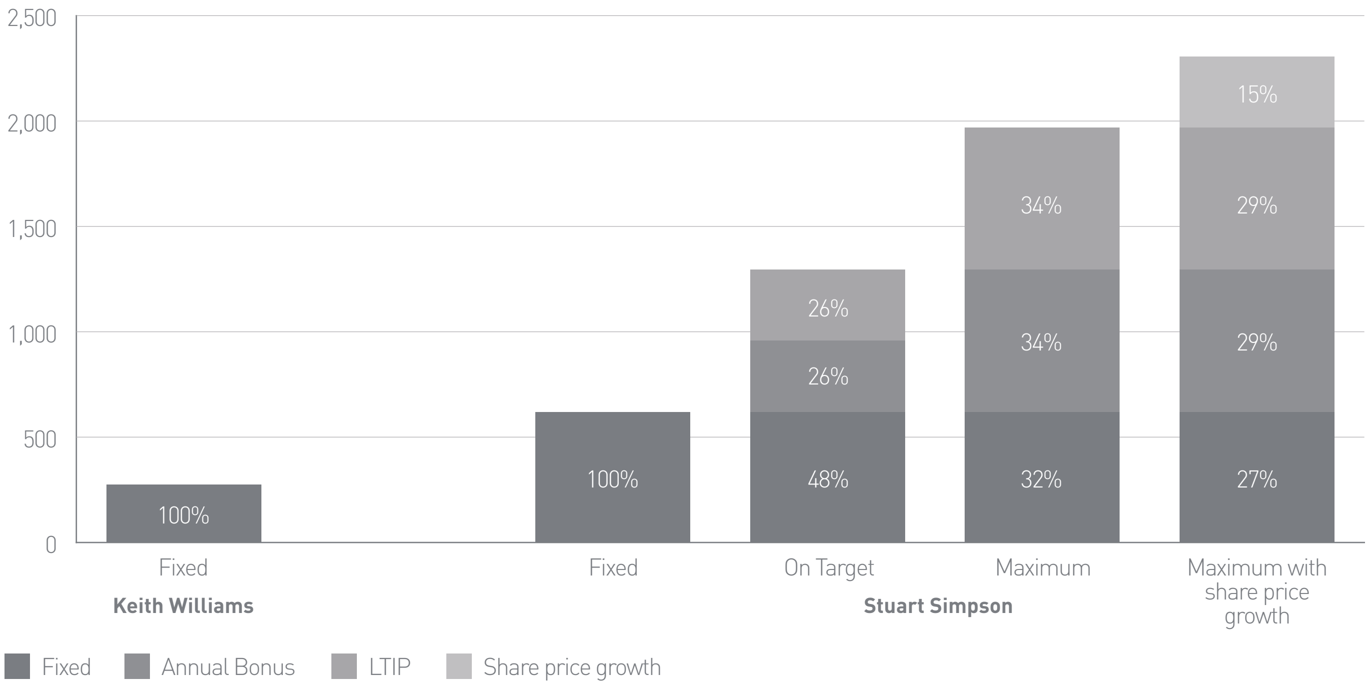
In the event of a demerger, the Committee has wide flexibility as to what should happen to awards, including whether all or part of an award should vest and on what terms, or whether an award should continue on amended terms.

Executive Directors' Remuneration opportunity under the new Policy

The following charts set out the remuneration scenarios under the Policy for the Executive Directors in 2020-21.

It should be noted that there is no change to the target or maximum remuneration receivable for the Executive Directors, compared with the previous Policy scenarios. As outlined in the Committee Chair's statement, the interim Executive Chair is not entitled to participate in any pension arrangements or incentive plans.

Illustrative remuneration scenarios
Keith Williams (fixed only) and Stuart Simpson



Assumptions

Fixed remuneration: For the interim Executive Chair this includes current salary only. For the Interim CEO of Royal Mail the total includes current salary, as well as an acting up allowance of £75,000 per annum, pension allowance at 17.5 per cent and a benefits value of £15,360.

On target: Bonus is 75 per cent of salary (including the deferred element) and LTIP is 75 per cent of salary.

Maximum: Bonus is 150 per cent of salary (including the deferred element) and LTIP is 150 per cent of salary under the Policy.

Maximum with 50 per cent share price appreciation: The share price embedded in the LTIP calculation for the 'maximum with share price growth' bar chart is assumed to increase by 50 per cent over the performance period.

No dividend equivalents on share-based incentives have been applied in any of the above scenarios.

Remuneration Policy for Non-Executive Directors (including any Non-Executive Chair of the Board)

AT A GLANCE	OPERATION
Purpose and link to strategy Provides a level of fees to support recruitment and retention of Non-Executive Directors and a Chair of the Board with the necessary experience to fulfil the leadership role required of them.	
Non-Executive Directors are paid an annual fee and additional fees for being Chair of a Committee or a member of a Committee and, if appropriate, other additional time commitments. The Chair of the Board does not receive any additional fees for membership of Committees.	The Board is responsible for setting the remuneration of the Non-Executive Directors. The Remuneration Committee is responsible for setting the Chair of the Board's fees. The fees for Non-Executive Directors and the Chair of the Board are set at broadly the median of the comparator group. Fees are reviewed annually based on equivalent roles in the comparator group used to review salaries paid to the Executive Directors. In general, the level of fee increase for the Non-Executive Directors and the Chair of the Board will be set taking account of any change in responsibility and will take into account the general rise in salaries across the UK workforce. The Company will pay reasonable expenses incurred by the Non-Executive Directors and Chair of the Board and may settle any tax incurred in relation to these. Non-Executive Directors and the Chair of the Board do not participate in any variable remuneration or benefits arrangements.

Service contracts and letters of appointment

The Company's policy is that the Executive Directors are employed under service contracts. The contracts have an indefinite term and are normally terminated by the Executive Director with six months' written notice and by the Company with twelve months' notice. In the case of the interim Executive Chair, his contract may be terminated with two months' notice. Copies of the Executive Directors' service contracts are available for inspection at the Company's AGM.

Subject to Board approval, it is the Company's policy to allow each Executive Director to accept one Non-Executive Director position on the board of another listed company. The fees for such appointments are retained by the Executive Directors and, as appropriate, are disclosed in the Remuneration Report. In addition, the interim Executive Chair will be permitted to retain his external commitments at the time of his appointment.

The Non-Executive Directors (including the Non-Executive Chair of the Board) are appointed by rolling letters of appointment. The Non-Executive Directors are appointed for up to three years, subject to annual review and reappointment. The fees for new Non-Executive Directors appointed will be set in accordance with the terms of the approved Remuneration Policy in force at the time of appointment. One month's notice is required by either party (four months' notice in the case of the Chair of the Board).

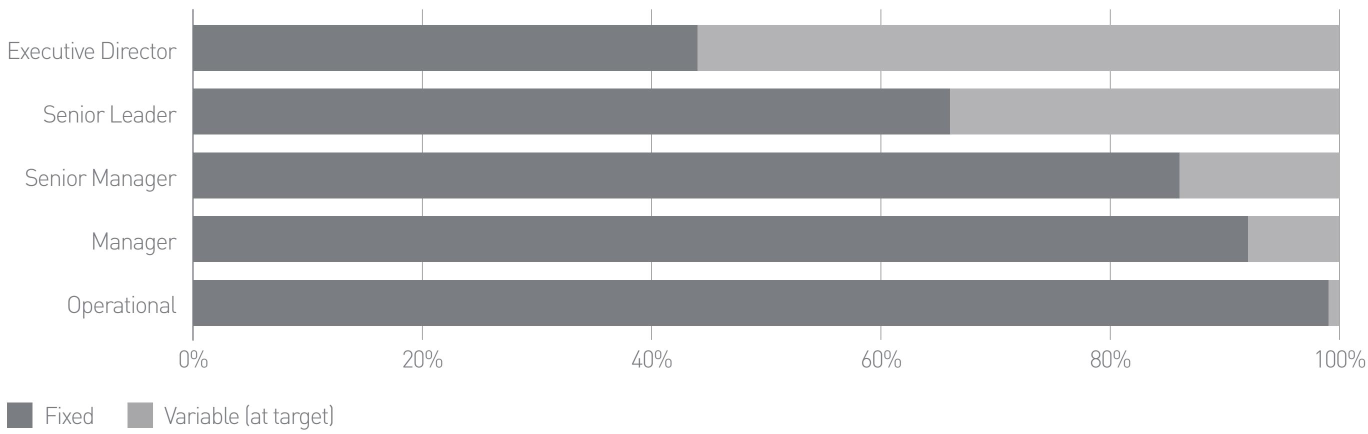
ALL EMPLOYEE REMUNERATION (UNAUDITED)

The Committee is directly responsible for the remuneration of the Executive Directors and the Executive Board. The Board and the Remuneration Committee are also given regular updates and, as required, take key decisions on incentive plans that cascade through the organisation. The Committee takes changes in workforce remuneration into account when making decisions on executive remuneration. A summary of remuneration across the UK organisation is set out below.

	OPERATIONAL	MANAGERS	SENIOR MANAGERS	SENIOR LEADERS
Salary	Based on role, location and service, progression typically based on service. Salary increases negotiated with the Communication Workers Union and applied to the pay scales, no personal or performance related element.	Middle and junior managers typically have a similar fixed pay structure to operational colleagues, with pay scales that they progress through based on service.	Pay based on the role and an individual's experience and skills, within broad bands.	Pay based on the role and an individual's experience and skills, and external market positioning.
Allowances & Overtime	Eligible for allowances (including functional, shift and legacy allowances), overtime and scheduled attendance (a form of planned overtime).	Some roles at this level are also eligible for shift pay, overtime and allowances.	Not eligible.	Not eligible.
Pension	The majority of employees are members of the Royal Mail Defined Benefit Cash Balance scheme, with company contribution at 15.6 per cent of salary, into which participants transferred after the closure of the final salary pension plan. New hires are eligible for the RM Defined Contribution scheme, with company contributions up to 10 per cent of salary.			Option of cash allowance in lieu of company contributions.
Benefits	Employee paid for flexible benefits (e.g. childcare vouchers, cycle to work scheme, car leasing, insurances, season ticket loans) and all employee share plans.		Car allowance and healthcare, in addition to employee paid for flexible benefits and all employee share plans.	
Annual Bonus	Eligible for a 'Christmas Supplement' reflecting their huge effort and impact during our busiest period. Not linked to personal performance.	Managers are eligible for a management cash bonus based on corporate and personal performance. Some senior managers also have a deferred share element to their bonus.		Eligible for annual management bonus with a cash and deferred share element based on corporate and personal performance.
LTIP	Not eligible	Not eligible	Not eligible	Executive Board

The chart shows an indicative summary of the relationship between fixed and variable pay across the organisation. There is no performance related pay for operational roles. Colleagues at this level influence their remuneration through working additional, or antisocial, hours.

All our managers have an element of performance-related pay – with Executive Directors having the highest proportion of their pay at risk.



Alignment between our approach to Directors' remuneration and other colleagues

In developing the 2019 Remuneration Policy, the Remuneration Committee carefully considered the remuneration arrangements across the Group. The Committee receives information on wider workforce demographics and remuneration on a regular basis, to ensure the Committee has a good understanding of the structure and application of reward policies throughout the Group.

The Committee has agreed a set of Guiding People Principles, against which it can assess the Company's reward arrangements. Across the Group we are working towards reward arrangements that:

- Deliver both value for our people and a return on investment for the business;
- Incentivise and recognise high performance;
- Are aligned with the markets in which we operate and compete;
- Drive efficiencies by taking a consistent cross business approach; and
- Are well communicated, holistic and understood by our people.

When making decisions about executive remuneration, the Committee ensures, for example, that pay review budgets for senior managers and executives are set at levels which are typically lower than the same as those agreed with our trade unions for employees whose pay is collectively bargained. In addition, the different incentive and commission plans in operation across the Group support the delivery of the Company-wide annual bonus plan, through which the Executive Directors are incentivised. The broader workforce did not have direct input into the Policy, but its application is heavily influenced by remuneration arrangements for all employees. As well as being a Committee member, Simon Thompson is also the designated Non-Executive Director for engagement with the workforce, which allows any key themes from employee engagement activity to be fed into Committee discussions. Further information on this is set out on page 112-113.

Committee oversight of all employee remuneration

During the year, the Committee received updates on key activities and discussed material changes to all employee remuneration policies and arrangements as well as an overview of how remuneration is managed in GLS.

In addition, the Board was updated on a) proposals to implement a Collective Defined Contribution pension plan and b) remuneration arrangements in respect of the workforce represented by the Communication Workers Union and Unite/CMA.

Gender Pay Gap reporting

The Company's 2019 Gender Pay Gap report, published during the 2019-20 financial year, continues to show that average pay for men and women is broadly the same. On a mean basis, men are paid 2.1 per cent more than women, and 3.5 per cent on a median basis. This compares with a national average gender pay gap on a median basis of 17 per cent across all industries, calculated by the ONS in 2019. We would expect to see small changes in the Total Pay Gap each year due to changes in the composition of the workforce, and the payment of allowances and shift pay, which can vary between men and women year on year.

2019	Total Pay Gap	Bonus Gap
Mean	2.1%	–24.6%
Median	3.5%	0.0%

We pay bonuses equally to men and women on a median basis and in favour of women on a mean basis (i.e. -24.6 per cent in 2019), as there is a higher proportion of women in our management population, compared with the operational population. We continue to pay bonuses to the vast majority of our employees (97 per cent of men and 94 per cent of women). Those who are ineligible have typically not reached the minimum service requirement.

While we are pleased that our Gender Pay Gap reporting shows that the Company has no significant pay gap, we continue to focus on improving the representation of women at all levels of the organisation. Our gender strategy focuses on attracting, retaining, and developing female talent at all levels of the organisation. We have female representation and recruitment targets for operational roles, as well as a wide range of initiatives in place to achieve them. These include: mandatory recruitment and unconscious bias training; gender balanced shortlisting; targeted development programmes; women's networking events and campaigns, as well as employee resource groups that represent the interests of women across our LGBTQ+, Women's, Parents and Carers, Youth, BAME, and Disabled networks. We will also continue to work in partnership with external organisations, such as Business in the Community, Everywoman, Working Families, and Employers for Carers, to further enhance our gender strategy and champion best practice.

CEO pay ratio

The CEO Pay Ratio is set out below for 2020, as required under the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (Regulations), with the required explanation, and further contextual information in relation to methodology and assumptions used.

Year	Method	25th percentile pay ratio	50th percentile pay ratio	75th percentile pay ratio
2020	Option A	31:1	28:1	24:1
2019	Option A	28:1	26:1	22:1

The table below sets out the salary, full pay and benefits value received by employees identified at the 25th, 50th and 75th percentiles, during the 2019-20 financial year. There are over 88,000 operational colleagues on the salary of £23,025 on a full-time equivalent basis across the business. The difference in total pay and benefits is due to the different allowances, overtime, shift payments and pension arrangements received by these employees during the 2019-20 year.

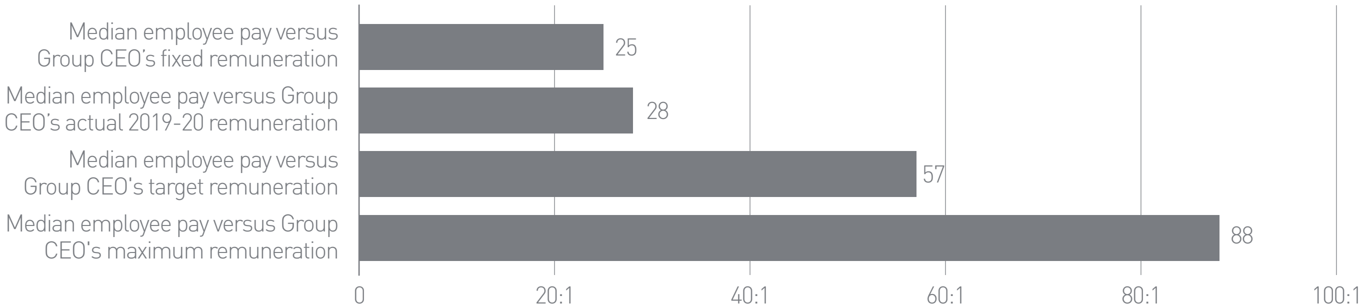
2019-20	25th percentile	50th percentile	75th percentile
Salary	£23,025	£23,025	£23,923
Total pay and benefits	£28,064	£30,947	£36,221

The reason for the small percentage point increase in the pay ratio between 2018-19 and 2019-20 is the increase in the former Group CEO's total remuneration, rather than a reduction in the remuneration of other colleagues. The former Group CEO's 2019-20 remuneration includes the value of a long-term incentive award (totalling £90,918), which has the impact of moving the pay ratio at the 50th percentile from 26:1 to 28:1.

We have also detailed the potential ratios based on the former Group CEO's theoretical fixed, target and maximum pay for the last financial year as set out in the Remuneration Policy. It is important to note that a high proportion of the former Group CEO's pay is based on performance against the short and long-term incentive plans, and their payouts can vary significantly year on year affecting the ratio going forward.

In 2019-20, the former Group CEO did not receive a salary increase or an annual bonus payment in relation to the 2019-20 financial year. As no annual bonus was awarded this year, the pay ratio was lower. This is consistent with a high proportion of the remuneration for the former Group CEO and other senior executives being variable i.e. at risk, compared with our operational colleagues.

Illustrative CEO pay ratios based on different remuneration outcomes for the former Group CEO



How we have calculated our pay ratios

Under the Regulations, companies are required to identify the employee with pay and benefits at the 25th, 50th and 75th percentiles of all UK employees for the relevant financial year and compare to the total remuneration of the former Group CEO as set out in the Single Figure Table.

The Company has chosen to use Option A to identify the employees at the 25th, 50th and 75th percentiles and their respective pay and benefits, as it is recognised that this is the most accurate approach. All UK employees as at year-end have been included in the reporting, with employees ranked based on their remuneration for the 2019-20 financial year. The data assumptions included in our reporting are set out below:

ELEMENT	DESCRIPTION
Base salary	The Regulations require that full time equivalent salaries are used to identify P25, P50 and P75 in order to ensure comparability across the organisation. At Royal Mail, over 44,000 colleagues work part-time, primarily in operational roles, and may have working hours changes through the year. We have, therefore, used the full-time equivalent salary, as at year-end, as the salary figure to rank our employees.
Allowances and overtime	This includes a range of functional, shift, location, role-based allowances, and overtime, included on an actual basis (not pro-rated for part-time colleagues, or annualised for new starters).
Taxable benefits	Taxable benefits included are car allowance and healthcare (or equivalent cash amount).
Employer pension contributions	Actual employer pension contributions have been included (not been pro-rated for part-time colleagues or annualised for new starters).
Incentives	The Regulations require that incentives relating to the relevant financial year are included. In some cases, the decision on the level of bonuses and LTIP vesting is not made until after the publication of this report. Management bonuses included a projected bonus pay-out in respect of 2019-20 for frontline managers and other junior managers, inclusive of any advance payment made during the year. The vesting for the 2017 Royal Mail LTIP is assumed to be zero. As our management population make up only a small proportion of the workforce, in practice incentives (actual or estimates) do not have any material impact on the quartile numbers.

ANNUAL REPORT ON DIRECTORS' REMUNERATION (AUDITED)

This part of the Directors' Remuneration Report sets out how the current Remuneration Policy has been applied for the Financial Year 2019-20. This detailed information, set out below, has been audited by the Company's independent auditors, KPMG LLP.

Single figure table – Executive Directors

£'000	Salary[1]		Benefits[2]		Annual Bonus Plan[3]		Long Term Incentive Plan[4]		Pension Allowance[5]		Total		Total Fixed		Total Variable	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019
R Back[6]	**640**	533	**25**	21	**0**	0	**91**	0	**112**	93	**868**	647	**777**	647	**91**	0
S Simpson	**450**	450	**15**	15	**0**	0	**0**	0	**79**	79	**544**	544	**544**	544	**0**	0

Notes

1 The Committee reviewed the Executive Directors' salaries and decided against making any increases during the 2019-20 financial year. Rico Back's and Stuart Simpson's salaries were set on their respective appointments as the Group CEO and CFO.

2 Benefits include car benefit and healthcare provision (or a cash equivalent allowance).

3 There were no annual bonus payments (cash or deferred) in relation to both 2019-20 and 2018-19.

4 As the threshold performance level over the period to 31 March 2020 was not achieved, any 2017 RMG LTIP award lapsed in full and a value of zero is included above. The 2020 figure shown for Rico Back relates to historic grants under the GLS LTIP with performance periods ending in 2019-20. There is no element attributable to share price appreciation.

5 For 2020, the full amount for Rico Back is paid as an allowance in lieu of pension. For Stuart Simpson, £10,000 is paid into the Royal Mail Defined Contribution Plan, with the balance paid as an allowance.

6 Rico Back joined the Board on 1 June 2018, and all amounts for 2018-19 above reflect his service as an Executive Director.

2019-20 annual bonus outcome (unaudited)

The performance period for the annual bonus is the same as the financial year, with achievement being assessed against financial and non-financial targets, and a set of strategic objectives. A minimum level of operating profit is required to be achieved before the annual bonus pays out. The maximum bonus opportunity for the former Group CEO and CFO was 150 per cent of salary, of which one-third is delivered in deferred shares.

Prior to its end of year review of performance and specifically achievement against the scorecard measures, the Committee decided that, in light of the Board's decision to preserve cash and not recommend a final dividend in respect of 2019-20, it was not appropriate to award annual bonuses to the Executive Directors.

	R Back	S Simpson
Maximum award (% of salary)	150%	150%
2019-20 annual bonus (£'000)	£0	£0

As the performance outturn determines the value of the deferred share award granted, no deferred share award will be granted to the Executive Directors in relation to the 2019-20 financial year. The Committee noted that the non-payment of 2019-20 bonuses would also be applied to other executives.

Notwithstanding the decision around the payment of bonuses, the Committee reviewed the formulaic outcome under the scorecard, as well as the Company's underlying financial, operational and strategic progress during the year: see broader assessment of the UK business performance in the Committee Chair's letter on page 129. A review of performance against the bonus measures is set out below. The figures in the table may differ slightly from the financials reported elsewhere in the Annual Report and Accounts (see footnote for basis of calculation)

Measure	Weighting	Threshold	Target	Max	Actual
Group operating profit[1]	30%	£309m	£363m	£417m	£353m
UKPIL costs[1]	25%	£7.72bn	£7.569bn	£7.418bn	£7.57bn
Group revenue[1]	20%	£10.44bn	£10.78bn	£11.09bn	£10.8bn
First Class Retail Quality of Service[2]	7.5%	–	93.0%	93.2%	92.8%
Reduction in Lost Time Accident Frequency Rate	7.5%	2%	5%	8%	22.3%
Strategic objectives	10%		See below		
Total	100%				

1 Financial targets and actuals are based on reported results subject to adjustments approved by the Remuneration Committee. Bonus targets and results are based on a 52-week basis, in line with audited outcomes. Group revenue and Group operating profit are calculated at budgeted foreign exchange rates and exclude the impact of GLS unbudgeted acquisitions.

2 Until the onset of the COVID-19 pandemic, the Company was forecast to exceed its First-Class target of 93.0%. However, service levels in the fourth quarter were impacted by coronavirus, resulting in an outcome for the year of 92.8%.

Details of the strategic objectives, and performance against these, is set out below:

2019-20 OBJECTIVE	PROGRESS
Progress on specific milestones in the turnaround plan. Increase the focus on productivity whilst laying the foundations of the extension of our UK network.	Despite increasing UKPIL costs, in part driven by our three-year pay deal with CWU, we have achieved costs avoided of £188 million, within our forecast range. Productivity improved by 1.0 per cent. This was lower than our target of over two per cent, reflecting necessary additional investment to support a high-quality service and delays to local change initiatives due to the industrial relations environment. In July 2019, we confirmed we had started work on the first of two state of the art parcel hubs. In March 2020, we signed a conditional agreement for a lease for our second parcel hub in the Midlands. We have also commenced trials of separate van delivery for larger and Next Day parcels. We have begun to embed digitally-enabled work tools to improve efficiency and productivity. We have completed the deployment of our route optimisation tool. In January 2020, following the conclusion of our dispute resolution procedures with CWU, we confirmed we were moving ahead with key national and much-needed local change initiatives t hat had been delayed, in some cases, by up to a year.
Scale up and grow GLS. Drive profitable revenue growth and margin improvement in GLS.	Revenues at £3,161 million were up 9.5 per cent year on year (or excluding acquisitions 6.3 per cent). Revenue growth was particularly strong in cross-border and Europe East and was supported by a good development in average prices (base price increases, mix effects and surcharges). Operating Profit margin at 6.6 per cent, within our target 6-7 per cent range. A year on year growth of 50 bps. Financial performance in GLS US and GLS Spain improved year on year. Profit improvements in GLS France will take longer to realise.
Enhance our cross-border proposition. Leverage the combined Royal Mail and GLS networks to drive profitable cross-border revenue growth.	Revenue growth was achieved despite challenging trading conditions. At the start of the year, international volumes were impacted by uncertainty relating to the UK's departure from the EU. In the fourth quarter of the year, the onset of COVID-19 impacted international volumes. Cross-border initiatives which were progressed during the year included: – Launching a new tracked and signed service, in collaboration with China Post. – RM International was able to increase it parcel weight offering from 2kg up to 5kg for 16 countries. RM Group now has four "extra-terrestrial office of exchanges" (Liège, Neuenstein, Ansfelden and Amsterdam) supporting GLS to access the postal network.

2017 LTIP outcome

Royal Mail LTIP

The 2017 LTIP was based on performance against a relative TSR measure, with a performance period from 1 April 2017 to 31 March 2020, as set out below:

Measure	Weighting		Threshold	Maximum	Achievement
TSR versus FTSE 100 (excluding mining and financial companies)	100%	Performance	Median	Top Quartile	Below Median
		Vesting	50%	100%	0%

The Remuneration Committee agreed that the performance of the 2017 LTIP was in line with the wider performance of the business and, therefore, chose not to exercise discretion on the outcome of this plan. Due to the above performance, the 2017 LTIP will not vest in July 2020. There is, therefore, no element attributable to share price appreciation.

GLS LTIP

As disclosed in previous Directors' Remuneration Reports, Rico Back was granted GLS LTIP awards prior to his appointment as Group CEO. These awards continue to vest on their normal schedule. From 2018, Rico Back has been eligible for the Royal Mail LTIP and did not receive any further grants under the GLS plan. Under the GLS LTIP, participants receive a maximum award of 98 per cent of salary, 40 per cent in shares and 60 per cent in cash. The performance conditions are based on GLS profit performance. A separate target is set for each of the three financial years of the vesting period: 25 per cent of the award is based on achievement in year one; with 37.5 per cent based on achievement in years two and three respectively. Performance is assessed annually and banked, ahead of vesting at the end of the three-year period.

The Single Figure Table, therefore, shows the third tranche of Rico Back's 2017 GLS LTIP award, his final award under this plan, for which the performance period ends in the 2019-20 year. This award formally vests in July 2020. The value shown is made up of a cash element of €77,868, which has been converted for reporting purposes using the year end exchange rate of GBP1:EUR1.1184, and a share element of 11,731 shares. The share element has been valued for the purposes of reporting in the table at £1.8152 based on the three-month average closing share price from 1 January 2020 to 31 March 2020 (£21,294 in total).

Other outstanding LTIP awards

The following grants under the 2018 RMG LTIP and 2019 RMG LTIP remain outstanding at 29 March 2020. The performance conditions are set out below:

		Threshold		Maximum	
Measure	Weighting	Performance	Vesting (% of award)	Performance	Vesting (% of award)
2018 RMG LTIP					
TSR vs FTSE 100 (excluding mining and financial companies)	100%	Median	50%	Upper Quartile	100%
2019 RMG LTIP					
TSR vs FTSE 50-150 (excluding mining and financial companies)	40%	Median	10%	Upper Quartile	40%
Group EBITDA[1]	40%	£925m	10%	£1,200m	40%
Group Parcels Revenue Growth	20%	£7.0bn	5%	£7.8bn	20%
Total	100%		25%		100%

1 Outturn of Group EBITDA after three years, adjusted back to budgeted exchange rates. Includes project costs but excludes voluntary redundancy costs and exceptional charges. Performance measure assumes £160m impact from the adoption of IFRS16 'leases'

The amount of the LTIP share awards outstanding for each of the Executive Directors is shown in the following table, as at 29 March 2020.

Award	Max value of award at grant (% of salary)	Max value of award at grant (£'000)	% vesting at threshold performance (% of salary)	Final year of performance period	Number of shares at grant
Rico Back					
2017 GLS LTIP (cash and shares)	98%	525	42%	2019–20	53,154
2018 RMG LTIP	100%	640	50%	2020–21	140,052
2019 RMG LTIP	112.5%	720	28%	2021–22	349,905
Stuart Simpson					
2017 RMG LTIP	100%	450	50%	2019–20	113,857
2018 RMG LTIP	100%	450	50%	2020–21	98,474
2019 RMG LTIP	112.5%	506	28%	2021–22	246,027

1 The level of vesting for the 2017 GLS LTIP is 42 per cent and 22,399 shares will vest in July 2020. The balance will lapse.
2 The level of vesting for the 2017 RMG LTIP is 0 per cent and shares will lapse in July 2020.
3 The 2017 LTIP award was granted on 28 July 2017 at a price of £3.95 per share.
4 The 2018 LTIP award was granted on 9 August 2018 at a price of £4.57 per share. Rico Back's 2018 LTIP will lapse on 15 August 2020.
5 The 2019 LTIP award was granted on 8 August 2019 at a price of £2.06 per share. Rico Back's 2019 LTIP will lapse on 15 August 2020.

Shareholding levels

The table below sets out details of the shareholdings of the Executive and Non-Executive Directors as at 29 March 2020 (except where noted below). There has been no change in the Directors' interests in the ordinary share capital of the Company between 29 March 2020 and 15 May 2020 except as noted below.

	Number of shares owned on 29/03/20[1]	Number of shares owned on 31/03/19	Policy shareholding requirement	Current shareholding (as a % of salary)[2]	Share awards not subject to performance[3]	Share awards subject to performance (LTIP 2017, 2018, 2019)
Executive Directors						
Rico Back	1,664,583	585,839	200%	551%	52,243	543,111
Stuart Simpson	46,294	41,112	200%	22%	89,246	458,358
Chair of the Board						
Les Owen[4]	81,058	81,058	–	–	–	–
Keith Williams	50,000	0	–	–	–	–
Non-Executive Directors						
Maria da Cunha	15,000	–	–	–	–	–
Michael Findlay	16,690	–	–	–	–	–
Rita Griffin	20,000	0	–	–	–	–
Sarah Hogg	12,000	–	–	–	–	–
Orna Ni-Chionna	14,851	14,851	–	–	–	–
Lynne Peacock	11,309	–	–	–	–	–
Simon Thompson	0	0	–	–	–	–

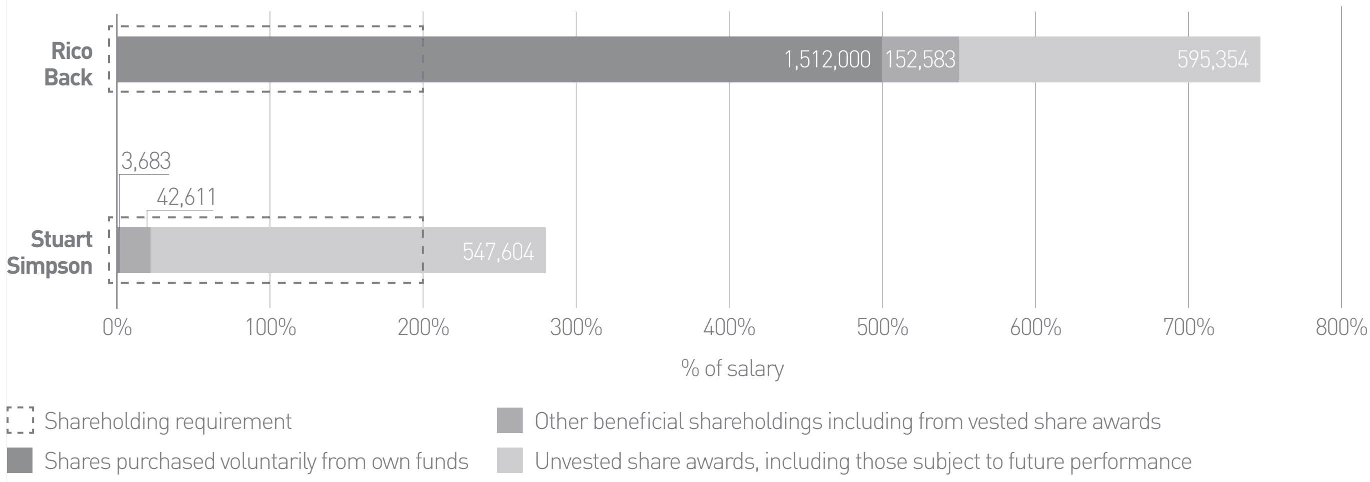
1 For Directors who have stepped down from the Board, the number of shares owned is shown as at the date they stepped down. The number of shares is based on beneficial shareholdings and excludes any unvested share awards. Rico Back's and Stuart Simpson's shareholdings as at 31 March 2019 have been restated as these inadvertently included unvested deferred share awards in the totals. The amounts shown last year were 613,528 and 88,400 respectively.

2 Value of beneficial shareholding based on the average share price during 2019-20 (211.78p), including any LTIP shares subject to a holding period. Excludes any unvested Deferred Share Bonus Plan (DSBP) awards.

3 Includes the DSBP awards and any matching shares awarded in 2019/20. During the financial year of 2019/20, Stuart Simpson was awarded 24 Matching shares through the Partnership and Matching Share Arrangement. Between the end of the financial year and 15 May 2020, Stuart Simpson acquired a further 129 Partnership shares and was awarded a further four Matching shares through the Partnership and Matching Share Arrangement.

4 Les Owen's shares were owned by a connected person.

Directors' shareholdings as at 29 March 2020



Value of shares based on average share price during 2019-20 (212p)

Payments for loss of office and payments to former Executive Directors

Sue Whalley

As was disclosed in last year's Remuneration Report, Sue Whalley stepped down from the Board on 7 November 2018 and left the Company on 31 March 2019. In line with her contractual entitlements, she was due to receive payments during 2019-20 in lieu of approximately seven months' basic salary (a total of £272,966). According to the terms of her contract, Sue Whalley confirmed that she was receiving income from alternative employment, and her final payment was reduced accordingly by £38,923.71.

Further information related to her departure is set out on page 137 of last year's Remuneration Report.

Rico Back

It was announced on 15 May 2020 that Rico Back had stepped down as Group Chief Executive with immediate effect. As outlined in the stock exchange announcement on the same date, Rico Back will remain an employee for three months until 15 August 2020. The Committee determined that the following termination arrangements were fair and reasonable, consistent with the Directors' Remuneration Policy and in line with his contractual entitlements.

- On termination Rico Back will receive nine monthly payments in lieu of notice totalling £480,000, which represents the balance of his 12-month notice period. These payments will be reduced by any amounts that Rico Back receives from alternative paid employment.
- There is no eligibility to receive any annual bonus (cash or deferred) in respect of 2019-20 or 2020-21.
- The 2018 and 2019 Royal Mail Long Term Incentive Plan awards will lapse: the total shares under award were 489,957.
- Rico Back will retain a deferred share bonus award granted in 2018 (52,243 shares). This award will continue to vest as scheduled in June 2021 i.e. there is no acceleration of vesting and the award will remain subject to malus (i.e. the potential claw-back of any unvested element). The Committee decided this was appropriate as the award related to a prior performance year (2017-18) and has already been earned.
- Rico Back will retain his unexercised GLS long-term incentive plan award which was granted to him prior to his appointment as Group CEO and which is due to vest, subject to performance, in July 2020.
  - Tranche 1 of this GLS LTIP met its performance conditions in 2017-18 and will vest in July 2020 in line with the terms of the plan (€70,812 and 10,668 shares).
  - Tranche 2, relating to performance year 2018-19, was waived by Rico Back in 2019.
  - Tranche 3, relating to performance year 2019-20, is due to vest in July 2020, subject to performance conditions and the plan rules. There are no further awards outstanding under the GLS LTIP.
- Rico Back will receive a capped contribution of £50,000 (excluding VAT) towards legal fees incurred in connection with his departure; and a capped contribution of £25,000 (excluding VAT) towards outplacement support.
- Rico Back is not eligible for any further payments for loss of office.

Under the Remuneration Policy, there is a requirement to retain certain shares for two years following termination of employment. This holding requirement applies to shares vested under share awards granted to an Executive Director under an executive share plan only. On Rico Back's termination this shareholding requirement continues to apply to his unvested Royal Mail DSBP award, as his Royal Mail LTIP awards granted to him after his appointment as an Executive Director will lapse as part of the leaving arrangements.

Executive Director fees from external positions (unaudited)

The Executive Directors are entitled to receive fees from external appointments. However, neither Rico Back nor Stuart Simpson held external appointments at other listed companies for the last reported financial year.

Executive Director terms of employment (unaudited)

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

	Date of Contract	Notice Period from RMG months
Keith Williams	15 May 2020	2
Rico Back	20 April 2018	12
Stuart Simpson	15 May 2017	12

The contracts have an indefinite term. Stuart Simpson's contract may be terminated by him with six months' written notice and the Company can terminate the contract with twelve months' notice. In view of the interim nature of Keith Williams' appointment, his contract may be terminated by either side with two months' notice. Copies of the Executive Directors' service contracts are available for inspection at the Company's AGM.

Relative importance of spend on pay (unaudited)

The table below shows the percentage change in dividends and overall expenditure on people compared with the previous financial year. The Company considers overall expenditure on staff pay in the context of its general finances. For reference, revenue has also been included because this measure represents the income the Company received during the year and provides a clear illustration of the ratio of people costs to income.

	2019-20	2018-19	% Change
Dividend per share (pps)	24.5	24.3	0.8%
People costs (£m)	5,956	5,729	4.0%
Revenue (£m)	10,840	10,444	3.8%

Note: Revenue and Costs are shown on a 52-week basis for both reporting years to make sure the comparison year on year is correct. Adjusted People Costs for 2018-19 include people transformation costs (previously reported separately).

Change in CEO pay vs average employee pay (unaudited)

The table below shows the percentage change in the former Group CEO's salary, benefits and annual bonus between 2019-20 and 2018-19, compared with the average for all UK employees.

	Salary % change[1]	Benefits % change	Annual bonus % change[5]
Former Group CEO[2]	0%	0%	N/A
UK employees	2.0%[3]	–2.9%[4]	N/A

1 Royal Mail plc is a holding company and does not have any employees. The data above is based on average salary costs for UK based employees of Royal Mail Group Limited. This is considered the most representative comparator group as it covers most employees.

2 Rico Back was appointed Group CEO during 2018-19. The annualised value of his salary and benefits has been unchanged since his appointment.

3 The salary percentage change is based on employee headcount as of the end of March 2020. The calculation takes into account the full-time equivalent employee annual salary at March year-end plus allowances, such as overtime and scheduled attendance, paid during the respective years.

4 Employee benefits are calculated on a per capita basis which includes a) car allowance or a cash equivalent and b) value of the medical cover (including any cash equivalent). There has been no material change in the underlying value of benefits year on year. The percentage reduction shown in the table has been primarily caused by two factors: a) changes in population and b) changes in employee benefit choices e.g. cash equivalent amounts are often lower than the value of a benefit in kind.

5 The Group operates a discretionary management annual bonus plan. For 2018-19, there was no pay-out to the former Group CEO or other UK managers, therefore, no year on year change is shown.

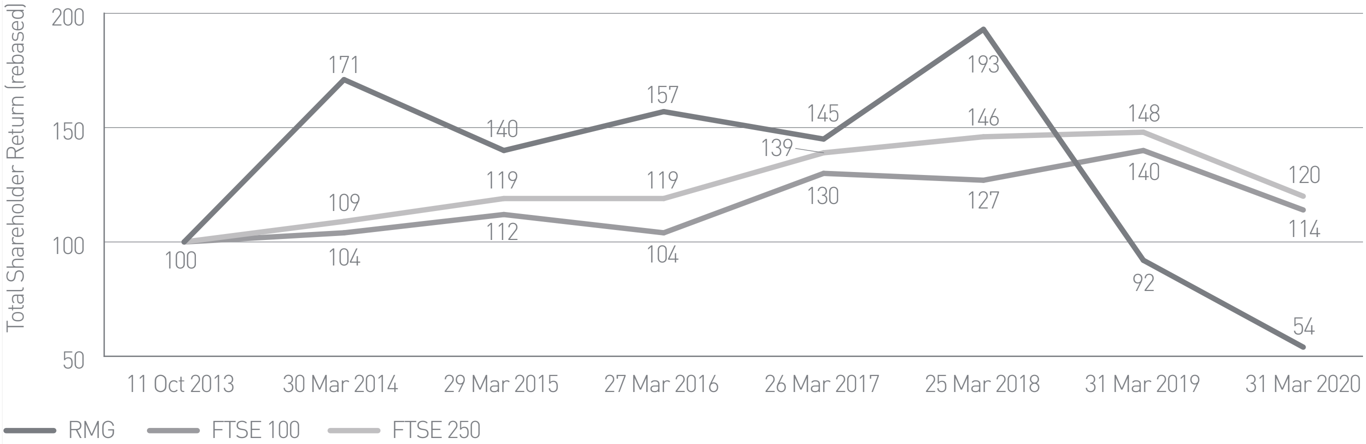
CEO pay over the last 10 years (unaudited)

The total remuneration figure for the Group CEO over the last ten years is shown in the table below. The annual bonus payout and the LTIP vesting level as a percentage of the maximum opportunity are also shown.

Chief Executive Officer	Financial Year	Total Remuneration (£'000)	Annual bonus awarded as % of maximum	Royal Mail LTIP vesting as % of maximum
Rico Back	2019–20	868	0%	N/A
Moya Greene/Rico Back	2018–19	882	0%	0%
Moya Greene	2017–18	1,790	71%	43%
	2016–17	1,901	80%	46%
	2015–16	1,529	82%	59%
	2014–15	1,522	85%	69%
	2013–14	1,360	77%	100%
	2012–13	1,962	80%	100%
	2011–12	1,107	74%	–
	2010–11	778	41%	–
Adam Crozier	2010–11	2,428	–	100%

TSR comparison (unaudited)

TSR is the measure of the returns that a company has generated for its shareholders, reflecting both movement in the share price and dividends, which are assumed to be reinvested over a period of time. The graph shows the TSR of the Company, since the date of the first day of trading, relative to both the FTSE 100 Index and the FTSE 250 Index. While the Company is currently part of the FTSE 250, the Company was a constituent of the FTSE 100 Index for part of the period, therefore both indices are shown for comparison.



Policy implementation in 2020-21 (unaudited)

The following tables sets out how the Committee proposes to operate the Policy for Executive Directors next year:

KEITH WILLIAMS

ELEMENT	IMPLEMENTATION OF POLICY IN 2020-21
Base salary	On appointment as interim Executive Chair, salary set at £300,000.
Other	There is no eligibility to any cash allowances, medical benefit or pension provision. There is no eligibility to participate in any short-term or long-term incentive plans. There is no shareholding requirement or post-cessation of employment shareholding requirement.

STUART SIMPSON

ELEMENT	IMPLEMENTATION OF POLICY IN 2020-21
Base salary	We review the salary of each Executive Director annually. Current salaries: – Interim CEO Royal Mail (Stuart Simpson) £450,000 plus, effective 15 May 2020, an acting up allowance of £75,000 per annum (non-pensionable and not applicable when determining annual bonus or LTIP opportunities).
Benefits	No change in approach to benefit provision for 2020-21.
Pension allowance	The allowance levels provision for existing Executive Directors is currently 17.5 per cent. However, from 1 April 2021, this will reduce to 15.6 per cent, which is the current employer contribution rate for the majority of the workforce.
Annual bonus	Maximum total annual incentive opportunity of 150 per cent of salary, split between a cash bonus award of up to 100 per cent of salary and a deferred share bonus award of up to 50 per cent of salary. Target opportunity of 75 per cent of salary, with 50 per cent in respect of an annual cash bonus award and 25 per cent in respect of a deferred share bonus award. In the coming months, the Remuneration Committee will consider the impact of COVID-19 on the Company's performance and ensure that measures and targets for the annual bonus are set appropriately in the context of any financial outlook. Targets will be disclosed retrospectively in next year's Annual Report. It is envisaged that 75 per cent of the measures shall be financial based on the performance of the business for which the executive is responsible. As in previous years, the Remuneration Committee will set a minimum earnings gateway which should be met before any bonus is payable to an Executive Director. This earnings gateway will be set in the context of the 2020-21 outlook for the Group or relevant business unit.

Long Term Incentive Plan	Maximum award of 150 per cent of salary. Awards are granted annually to Executive Directors in the form of a conditional share award. These will vest at the end of a three-year period subject to: – the Executive Director's continued employment at the date of vesting; and – the satisfaction of the performance conditions. The Remuneration Committee will consider the impact of COVID-19 on the Company's performance and ensure that any financial targets for the LTIP are set appropriately in the context of the outlook. The measures and any associated targets will be confirmed at the time of grant via stock exchange announcement. The grant of the 2020 LTIP awards has been postponed for the time being and is likely to be made towards the end of 2020. Threshold performance will equate to no more than 25% of the award vesting.
Shareholding guideline	200 per cent of salary for Executive Directors. Post-cessation requirement: 200 per cent of salary (or holding at the point of departure) to be held in granted shares for two years after leaving.

Single figure table – Non-Executive Directors

£'000	Fees		Other		Total		
	2020	2019	**2020**	2019	**2020**	2019	
Chair of the Board							
Les Owen	**43**	195	**0**	0	**43**	195	Les Owen stepped down as Chair of the Board
Keith Williams	**268**	66	**0**	0	**268**	66	Keith Williams was appointed as Chair on 22 May 2019
Non-Executive Directors							
Maria da Cunha	**51**	–	**0**	–	**51**	–	Maria da Cunha joined on 22 May 2019
Michael Findlay	**56**	–	**0**	–	**56**	–	Michael Findlay joined on 22 May 2019
Rita Griffin	**65**	66	**0**	0	**65**	66	
Sarah Hogg	**38**	–	**0**	–	**38**	–	Sarah Hogg joined on 1 October 2019
Orna Ni-Chionna	**21**	81	**0**	0	**21**	81	Orna Ni-Chionna stepped down on 18 July 2019
Lynne Peacock	**31**	–	**0**	–	**31**	–	Lynne Peacock joined on 1 November 2019
Simon Thompson	**71**	63	**0**	0	**71**	63	

Non-Executive Director fee levels

Non-Executive Directors are paid an annual fee and additional fees for being Chair or a member of Committees, and if appropriate, other additional time commitments. During 2019-20 the Chair of the Board did not receive any additional fees for membership of Committees. The Corporate Responsibility Committee was established on 25 September 2019. The fees for the other roles, which remained unchanged during the year, are set out below.

Non-Executive Director Fees

Chair of the Board	£300,000	
Base Fee	£50,000	
Senior Independent Director	£10,000	
Committee Fees	**Chair**	**Membership**
Audit & Risk Committee	£15,000	£6,000
Remuneration Committee	£15,000	£6,000
Nomination Committee	£0	£4,000
Corporate Responsibility Committee	£10,000	£5,000

Chair of the Board and Non-Executive Director terms of appointment

The Non-Executive Directors are appointed by rolling letters of appointment. The Non-Executive Directors are appointed for up to three years, subject to annual review and re-appointment. The fees for new Non-Executive Directors appointed will be set in accordance with the terms of the approved Remuneration Policy in force at the time of appointment.

One month's notice to terminate the appointment is required by either party. The dates of the Chair of the Board's and Non-Executive Directors' letters of appointment are set out in the following table:

	Date of Contract	Unexpired Term at 29 March 2020 (months)
Keith Williams	22 March 2019	27
Maria da Cunha	6 June 2019	27
Michael Findlay	6 June 2019	27
Rita Griffin	November 2016	3
Sarah Hogg	9 Aug 2019	39
Lynne Peacock	16 September 2019	39
Simon Thompson	1 November 2017	15

Until 15 May 2020 and prior to his appointment as an Executive Director, Keith Williams, as Chair of the Board, had a non-executive contract that could be terminated by four months' notice. He received an annual fee of £300,000. Rita Griffin signed a renewed appointment letter in June 2020. Her re-appointment shall be for a term commencing from the Annual General Meeting ('AGM') in September 2020 until the conclusion of the Company's AGM occurring approximately three years from that date.

Non-Executive Director Policy implementation in 2020-21

The following table sets out how the Committee proposes to operate the Policy for Non-Executive Directors next year:

ELEMENT	IMPLEMENTATION OF POLICY IN 2020-21
Fees	As set out under the proposed Remuneration Policy on page 140, Non-Executive Directors will be paid an annual fee and additional fees for being Chair or a member of Committees, and, if appropriate, other additional time commitments. The fees as at 25 June are shown in the table on page 151. The Non-Executive Chair of the Board (when appointed) does not receive any additional fees for membership of Committees.

Remuneration Committee (unaudited)

Remuneration Committee members and meetings

The members of the Remuneration Committee and their attendance at meetings during the 2019-20 financial year is shown on page 96. Keith Williams stood down as a member of the Remuneration Committee on 15 May 2020, following his appointment as interim Executive Chair.

Role and focus of the Remuneration Committee

The Committee is responsible for recommending to the Board the Remuneration Policy for Executive Directors and senior management, and for setting the remuneration packages for Executive Directors and other designated executives.

During the year, the activities included:

- Discussing shareholder feedback during the year in relation to Directors' remuneration;
- Determining the pay-outs from the annual bonus arrangements for 2018-19;
- Reviewing the satisfaction of the TSR performance measure attached to the legacy share awards;
- Approving the 2019-20 annual bonus plan targets;
- Approving the 2019 LTIP awards and their associated performance measures and targets;
- Reviewing senior executives' remuneration arrangements;
- Reviewing the approach to remuneration in GLS;
- Reviewing the Committee's terms of reference and performance; and
- Reviewing broader all employee remuneration arrangements including the annual salary review, Gender Pay Gap Reporting, the alignment of incentives to support the transformation of our UK business and the review of certain reward policies.

In addition, the Committee met in May and June 2020 to consider (and, where appropriate, approve):

- the draft Directors' Remuneration Report;
- the termination arrangements for the former Group Chief Executive;
- the remuneration arrangements for the new interim Executive Chair and Interim CEO of Royal Mail;

– approaches to recognise the contribution of frontline colleagues during the COVID-19 pandemic;
– salary and fixed remuneration for senior executives; and
– the extent to which the 2019-20 bonus plan performance measures had been satisfied, together with individual award levels.

Specific priorities for the Committee in the forthcoming year, in addition to its usual scheduled activities, will include:

– Finalising the measures and associated targets for both a) 2020-21 annual bonus plan and b) 2020 LTIP;
– Considering any further steps which are required to respond to the new UK Corporate Governance Code, including emerging market practice; and
– Discussing Environmental, Social and Governance measures in incentive plans: market practice among other listed companies and future use in Royal Mail's plans.

The full Terms of Reference for the Committee have been updated to reflect the changes to the UK Corporate Governance Code and can be found on our website:
→ www.royalmailgroup.com/en/about-us/management-and-committees/remuneration-committee.

Advice to the Remuneration Committee

The Committee takes information and advice from inside and outside the Company. Internal support was provided by Sally Ashford, the Chief HR Officer, Neil Cuthbertson, Director of Reward and Performance, Mark Amsden, Group General Counsel and Company Secretary, and other senior leadership as appropriate. No individual was present when matters relating to his or her own remuneration were discussed.

The Committee seeks advice from independent external advisors as appropriate. Deloitte provided information to the Committee regarding external market trends and other Committee matters during 2019-20. The total fees paid to Deloitte in respect of this advice were £91,700. Deloitte also provided tax, technology, internal audit, strategy and business consulting services to the Group during the financial year.

Deloitte are signatories to the Remuneration Consultants Group Code of Conduct, were appointed by the Committee and report directly to the Chair of the Committee. The Chair of the Committee meets regularly with advisers without Management present. The Committee is satisfied that the advice it receives is objective and independent.

Remuneration Committee evaluation

The Committee's performance was externally evaluated by Independent Board Evaluation as referred to on page 103. Committee members noted the refreshed Committee composition and new chairmanship which was functioning well. Members of the Committee are all described as highly engaged and knowledgeable on the issue of remuneration. The key priorities for 2020-21 are to:

– Work with the Secretary to continue improving the quality of Committee papers.
– Enhance the development of remuneration principles and guidelines across the organisation.

Shareholder voting and consideration of shareholder views

We undertook substantial engagement with our shareholders in 2018-19 as part of the development of our current Remuneration Policy. We are grateful for the feedback and input received which allowed us to refine our proposals. We are delighted with the strong positive vote received on both our Remuneration Policy and Report in 2019. We remain committed to ongoing dialogue with our shareholders and taking into consideration shareholder views on our Remuneration Policy and practices. The Committee Chair and Chair of the Board maintain contact as required with the Company's key shareholders about relevant remuneration issues.

The table below shows both the advisory vote on the 2018-19 Remuneration Report at the AGM on 18 July 2019, and the vote on the Remuneration Policy, which was effective from the date of the 2019 AGM for up to three years.

	Votes for	% For	Votes against	% Against	Total votes cast	Votes withheld (abstentions)
Approval of Remuneration Report	602,426,861	97.63	14,614,486	2.37	617,041,347	687,765
Approval of Remuneration Policy	580,068,473	99.64	2,124,419	0.36	582,192,892	35,526,464

Approved by the Board on 24 June 2020 and signed by

Lynne Peacock
Remuneration Committee Chair

DIRECTORS' REPORT

The Directors present their Report, together with audited financial statements for the year ended 29 March 2020.

This Directors' Report together with the Strategic Report on pages 1-87 form the Management Report for the basis of Disclosure Guidance and Transparency Rule (DTR) 4.1.5R.

The following information is incorporated in the Directors' Report by reference and can be found on the pages of the Annual Report as indicated in the table below:

Listing Rule 9.8.4R disclosures

The location of information required to be disclosed in the Annual Report under Listing Rule 9.8.4R is as follows:

Dividend waivers

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

Share capital

As at 29 March 2020, the Company's issued share capital comprised 1,000,000,000 ordinary shares of one penny each as set out in Note 6 to the accounts on page 225. Although a block listing of 5,000,000 shares was undertaken in November 2014, to date no new shares have been issued.

Subject to the Articles of Association (the Articles), any member may transfer all or any of his or her certificated shares by an instrument of transfer. The Board may decline to register a transfer of any share which is not fully paid.

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities and/or voting rights. Ordinary shareholders have the right to receive notice of, attend, vote and speak at general meetings. A holder of ordinary shares is entitled to one vote per ordinary share held when a vote is taken on a poll.

Employees allocated Free Shares under the Free Shares Offer, or who participate in the Partnership and Matching Plan, whose shares are held in trust by the Trustee of the Royal Mail Share Incentive Plan, are entitled to exercise any voting rights in respect of such shares by instructing the Trustee how to vote on their behalf.

Substantial shareholding

As at 29 March 2020, the Company had been notified, in accordance with DTR 5, of the following interests amounting to three per cent or more of the voting rights in the issued ordinary share capital of the Company. Since 29 March 2020 the Company has been notified that Vesa Equity Investment increased its shareholding to 81,953,615 and its percentage voting rights to 8.20 per cent. BlackRock decreased its percentage voting rights below 5 per cent on 23 June 2020.

Shareholder	Number of shares	% voting rights
Schroder Investment Management	147,030,405	14.7
RWC Partners	66,201,803	6.6
UBS Asset Management	60,235,332	6.0
BlackRock	57,179,679	5.7
Aberdeen Standard Investments	46,196,278	4.6
Vanguard Group	39,784,696	4.0
Vesa Equity Investment	30,500,000	3.1
Columbia Threadneedle Investments	30,386,690	3.0

Authority of the Directors to allot shares

At the 2019 AGM, the Company acquired shareholder consent to allot Ordinary Shares in the Company and to grant rights to subscribe for, or to convert any security into, shares in the Company up to a maximum nominal amount of £6,666,666 (representing approximately two-thirds of the Company's issued share capital at that time), of which one half may be allotted or made the subject of rights in any circumstances and the other half may be allotted or made the subject of rights pursuant to a rights issue. As at the date of this Directors' Report, no new shares have been allotted pursuant to the 2019 allotment authority. The Directors will be seeking to renew this authority at the 2020 AGM, although the Company has no current plans to exercise such authority if given.

Purchase of own shares by the Company

At the 2019 AGM, the Company was authorised by its shareholders to purchase up to a maximum of 100,000,000 of its Ordinary Shares. The Company's Employee Benefit Trust purchased 1,000,000 of its Ordinary shares during the year ended 29 March 2020. The Directors will be seeking to renew this authority at the 2020 AGM.

Going concern

These consolidated financial statements have been prepared on a going concern basis. The financial performance and position of the Group, its cash flows and its approach to capital management are set out in the Financial Review on page 50. The Board reviewed the Group's projections for the next 12 months and, after due consideration, considered it appropriate to continue to adopt the going concern basis of accounting. For further information, see Note 1 to the financial statements on page 173.

Special rights

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

Employee Benefit Trust (EBT)

As at 29 March 2020, a total of 1,029,706 shares (2018-19: 70,331 shares) were held by the EBT on behalf of the Company.

Company's Articles of Association (Articles)

The Articles may be amended by special resolution in accordance with the Companies Act 2006 and are available at → www.royalmailgroup.com/en/about-us/governance/.

Directors

Details of the current Directors can be found on pages 90-91. The following Board changes have occurred during the year:

Les Owen	Retired 22 May 2019
Keith Williams	Appointed Chair 22 May 2019 Appointed interim Executive Chair on 15 May 2020
Michael Findlay	Appointed 22 May 2019
Maria da Cunha	Appointed 22 May 2019
Orna Ni-Chionna	Retired 18 July 2019
Baroness Sarah Hogg	Appointed 1 October 2019
Lynne Peacock	Appointed 1 November 2019
Stuart Simpson	Appointed as interim CEO of Royal Mail 15 May 2020
Rico Back	Retired 15 May 2020

Appointment and replacement of Directors

The Company's Articles provide that the Company may by ordinary resolution at a general meeting elect any person to act as a Director, provided that, if he or she has not been recommended by the Board, written notice of the proposed appointment is given to the Company in accordance with the Articles and that the Company receives written confirmation of that person's willingness to act as a Director. The Company's Articles also provide that the Board may at any time appoint as a Director any person who is willing to act as such. Unless the Company decides otherwise, the maximum number of Directors permitted is 15.

At every Annual General Meeting, the following Directors are required to retire under the Articles: (i) any Director appointed by the Board since the previous Annual General Meeting; (ii) any Director who has been in office at the last two annual general meetings, but did not retire at either; and (iii) any Director who has held office with the Company (other than employment or executive office) for a continuous period of nine years or more at the date of the meeting. Notwithstanding the requirements of the Articles, the Company's current practice is that all its Directors retire at every Annual General Meeting in line with the recommendations of the Financial Reporting Council's UK Corporate Governance Code. Directors who retire from office at the Annual General Meeting are eligible for re-appointment by the shareholders.

In addition to any power of removal conferred by the Companies Act 2006, the Company may by special resolution remove any Director before the expiration of his or her period of office and may (subject to the Articles) by ordinary resolution appoint another person who is willing to act as a Director in his or her place. The Articles also set out the circumstances in which a Director shall vacate office.

Directors' powers

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

Directors' interests

Details of the Directors' share interests, and where applicable their connected persons, can be found in the Directors' Remuneration Report on page 148.

Directors' and officers' insurance

The Company also maintains Directors' and officers' liability insurance which is reviewed annually.

Audit information

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

Political donations

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

Financial instruments

The Group's financial risk management objectives and policies in relation to its financial instruments are summarised in Note 24 on page 214.

Change of control

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

- The Mails Distribution Agreement with Post Office Limited provides for the supply of certain services to the Group and allows for a request for renegotiation of terms in the event of a change of control of either party where such change of control is likely to have a material adverse effect on the party not undergoing the change of control.
- The Syndicated Loan Facility with various financial institutions provides the Group with a revolving credit facility for general corporate and working capital purposes. The agreement contains provision on a change of control of the Group for negotiation of the continuation of the agreement or cancellation by a lender.
- The €500 million bond issued by the Company in July 2014 contains provisions such that, on a change of control that is combined with a credit rating downgrade in certain circumstances, the noteholders may require the Company to redeem or, at the Company's option, purchase the notes for their principal amount, together with interest accrued to (but excluding) the date of redemption or repurchase.
- The €550 million bond issued by the Company in October 2019 contains provisions such that, on a change of control that is combined with a credit rating downgrade in certain circumstances, the noteholders may require the Company to redeem or, at the Company's option, purchase the notes for their principal amount, together with interest accrued to (but excluding) the date of redemption or repurchase.

The Company does not have agreements with any Director or employee that would provide compensation for loss of office or employment resulting from a takeover except that provisions of the Company's share schemes and plans may cause options and awards granted to employees under such schemes and plans to vest on a takeover.

Branches

As a global Group, our interests and activities are held or operated through subsidiaries, branches, joint arrangements or associates and subject to the laws and regulations of the relevant jurisdictions in which they operate. More details can be found on pages 226-227.

Engagement with UK employees, suppliers and customers

Disclosure on how the Company has achieved a common awareness on the part of all employees, customers, suppliers and others of the financial and economic factors affecting the performance of the Company can be found of pages 76-81.

Greenhouse gas emissions and risks associated

Information regarding the Company's greenhouse gas emissions can be found on pages 82-85. Details on key environmental, social and governance (ESG) risks faced by the business are also set out on those pages, and pages 62-72.

Streamlined Energy and Carbon Reporting (SECR)

We have complied with the SECR framework and reported on the emission sources required under the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 on pages 82-83.

By Order of the Board

Mark Amsden
Company Secretary
24 June 2020

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND FINANCIAL STATEMENTS

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

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year in accordance with applicable law and regulations. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the Parent Company financial statements in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, reliable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the Parent Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the Parent Company financial statements;
- assess the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

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

Responsibility statement of the Directors in respect of the annual financial report

We confirm that to the best of our knowledge:

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

We consider the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

This responsibility statement is approved by the Board of Directors and is signed on its behalf by:

Keith Williams
Interim Executive Chair

24 June 2020

Stuart Simpson
Interim Chief Executive Officer of Royal Mail

24 June 2020

OUR FINANCIAL SECTION

CONTENTS

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ROYAL MAIL PLC

1 Our opinion is unmodified

We have audited the financial statements of Royal Mail plc ("the Company") for the 52 week period ended 29 March 2020 which comprise the Consolidated income statement, Consolidated statement of comprehensive income, Consolidated and Parent Company balance sheet, the Consolidated and Parent Company statement of changes in equity, the Consolidated statement of cash flows and the related notes, including the accounting policies on page 233 to 246.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 29 March 2020 and of the Group's profit for the 52 weeks then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the shareholders on 23 July 2015. The period of total uninterrupted engagement is for the five financial years ended 29 March 2020. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview

Materiality: Group financial statements as a whole	£18 million (2018-19: £18 million) 7.5% (2017-18: 4.7%) of normalised Group profit before tax
Coverage	98.0% of normalised Group profit before tax (2018-19: 97.3% normalised Group profit before tax)

Risk of material misstatement vs 2018-19

Event Driven	New: Carrying value of the Royal Mail UK cash generating unit	▲
	New: Going concern	▲
Recurring risks	Deferred revenue associated with advance customer payments arising from stamps sold	◀▶
	Valuation of certain unquoted pension scheme assets	▲
	Valuation of pension scheme liabilities	◀▶
	New: Accuracy of property lease accounting	▲
	Recoverability of Parent Company's investment in subsidiaries and debt due from group entities (Parent Company only)	◀▶

2 Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Carrying value of Royal Mail UK CGU

Refer to page 121 (Audit and Risk Committee report), page 241 (accounting policy) and page 236 (financial disclosures).

The risk

Forecast based valuation

There is a risk, particularly in light of economic uncertainty (including the impact of COVID-19) and delays in implementing the transformation plan for the UK business, that the business may not meet the expected growth projections in order to support the carrying value of the Royal Mail UK cash generating unit.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ROYAL MAIL PLC

The carrying value of the Royal Mail UK cash generating unit is supported through a value in use calculation that has underlying assumptions of varying sensitivity. The estimated recoverable amount is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows.

The effect of these matters is that, as part of our risk assessment, we determined that the value in use has a high degree of estimation uncertainty, meaning that the carrying value of the Royal Mail UK cash generating unit has a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The key sources of estimation uncertainty, as set out on page 236, disclose the sensitivities estimated by the Group.

Our response

- Data comparisons: We assessed the impairment model for mathematical accuracy as well as internal consistency with the board approved 3 year budget.
- Historical comparisons: We analysed the Group's previous forecasts against actual outcomes to assess the historical reliability of forecasting.
- Benchmarking assumptions: With the assistance of our valuation specialists in respect of the discount rate applied to forecasts, we critically evaluated the risk adjusted discount rates, having regard for market observable data with regard to risk free rates and returns on equity for comparator companies.
- Sensitivity analysis: We performed sensitivity analysis over revenue growth/GDP assumptions, cost reduction assumptions and the discount rate taking into account the possible impact of COVID-19 in the value in use calculations.
- Comparing valuations: We compared the sum of the discounted cash flows for all CGUs to the Group's market capitalisation to assess the reasonableness of those cash flows.
- Assessing transparency: We considered the adequacy of the Group's disclosures with respect to the impairment analysis and the carrying value of the Royal Mail UK cash generating unit.

Our results

We found the carrying value of the assets within the Royal Mail UK CGU to be acceptable.

Going concern

Refer to page 73 (Viability statement), Going Concern on page 155 (Director's Report) and page 173 (accounting disclosures).

The risk

Disclosure quality

The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Group.

That judgement is based on an evaluation of the inherent risks to the Group's business model and how those risks might affect the Group's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements.

The risks most likely to adversely affect the Group's available financial resources over this period are:

- Deteriorating economic and market conditions, made worse by the impact of COVID-19, which could result in greater than anticipated letter volume declines, impede parcels volume growth and increases in costs of delivery.
- Industrial strike action which could exacerbate the challenges created by COVID-19 and lead to further delays in delivering the transformation plan.
- The business falling behind forecasts and the Board being unable to manage cost targets given the uncertain economic environment.

The risk for our audit was whether or not those risks were such that they amounted to a material uncertainty that may have cast significant doubt about the ability to continue as a going concern. Had they been such, then that fact would have been required to have been disclosed.

Our response

- **Funding assessment:** We examined correspondence and supporting documentation with third party funding providers, assessing the Group's existing lending arrangements and existing loan and covenant terms.
- **Historical comparisons:** We analysed the Group's previous forecasts against actual outcomes to assess the historical reliability of forecasting.
- **Benchmarking assumptions:** We challenged the appropriateness of key assumptions in the cash flow projections, applying our sector knowledge and experience based on our historical knowledge of the Group, together with market and other externally available information.
- **Sensitivity analysis:** We considered sensitivities over the level of financial resources and impact on covenants taking account of reasonably possible (but not implausible) adverse effects that could arise from the key risks posed to achieving the forecasts, individually and collectively.
- **Mathematical accuracy;** We checked the mathematical accuracy of the cash flow projections and recalculated the forecast covenant calculations based on the terms of the Group's borrowing facilities.
- **Evaluating directors' intent;** We evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise by assessing the mitigating actions they could implement
- **Assessing transparency:** We assessed the appropriateness of relevant disclosures, including both the going concern disclosure in Note 1 of the financial statements and also the commentary elsewhere in the annual report.

Our results

We found the going concern disclosure without any material uncertainty to be acceptable (2018-19: Going concern disclosure without any material uncertainty: acceptable).

Deferred revenue associated with advance customer payments arising from stamps sold

£185 million (2018-19: £188 million)

Refer to page 120 (Audit Committee Report), page 235 (*accounting policy and estimates and judgements note*)

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ROYAL MAIL PLC

The risk

Subjective estimate

Revenue is recognised on delivery of letters, not at the point stamps are sold to customers. There can be a considerable delay, because stamps held by customers remain valid indefinitely. Therefore the Group estimates the value of advance customer payments and defers revenue to reflect the value of services still to be performed.

As the Group is unable to track individual stamps, the calculation and methodology of the advanced customer payments balance is inherently subjective. The calculation is derived from a combination of data sources including ratios based on historic sales data and deferred revenue associated with advance customer payments arising from stamps sold, current sales and volumes trends. The results are challenged by a third party survey to poll independently a sample of the UK population to assess the value of stamps held. The methodology provides a data range for the stamps in the hands of the public balance. The methodology allows for management adjustments for unusual trends identified.

As part of our risk assessment, we determined that the stamps in the hands of the public balance has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount and could be subject to manipulation. The financial statements (page 235) disclose the sensitivity of the deferred revenue balance estimated by the Group.

Our response

Our procedures included:

- **Methodology choice:** We challenged the Group on the appropriateness of the new methodology in place for performing the calculation, including benchmarking the approach against that taken by other global postal service providers.
- **Independent re-performance:** We tested the individual inputs used in the Group's calculation to check the accuracy of the balance.
- **Methodology implementation:** We assessed whether the methodology had been correctly applied and we challenged adjustments made by the Group through consideration of possible alternatives.
- **Challenge of the outcome:** We challenged the Group's estimate by generating a range of plausible outcomes using internal and external data sources, alternative adjustments and alternative methods of calculating the estimate. With the support of KPMG statistical specialists, we assessed and evaluated the methodology used and recalculated the results produced by the Group's independent third party specialist and compared the outcomes to assess the appropriateness of the estimate made.
- **Assessing transparency:** We considered the adequacy of the Group's disclosures in respect of the deferred revenue adjustment, particularly the sensitivity to changes in key assumptions.

Our results

We found the estimate of deferred revenue to be acceptable (2018-19: acceptable).

Valuation of certain unquoted pension scheme assets

Refer to page 121 (Audit Committee Report), page 234 (accounting policy) and page 194 (financial disclosures).

The risk

Significant estimates are made in valuing certain unquoted pension schemes assets (which comprise properties, equity funds, mutual funds and private fixed income bonds), which are hard to value and make up a significant portion of unquoted pension scheme assets reported on page 194. Small changes in the estimates used to value these assets would have a significant effect on the financial position of the Group. The estimation uncertainty associated with the hard to value unquoted assets has increased due to the impact of COVID-19 because of the increased valuation uncertainty with certain of these assets, particularly properties

As part of our risk assessment, we determined that the valuation of the unquoted pension scheme assets include a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount.

Our response

Our procedures included:

- **Fund managers' credentials:** We assessed the competence, independence and integrity of the Group's third party expert fund managers.
- **Tests of details:** We obtained third party valuation confirmations directly from fund managers. We compared those confirmations with unaudited net asset value statements and tested the ability of fund managers to prepare accurate valuations by performing a retrospective review comparing a sample of the net asset value statements available during the year to audited financial statements.
- **Our property valuation expertise:** We obtained third party valuations and used our internal valuation specialists to assess the valuation methodology and challenge key assumptions, particularly in light of the impact of COVID-19 on property values.
- **Assessing transparency:** We considered the adequacy of the Group's disclosures in respect of the accuracy of the asset split by category and impact of COVID-19 on asset valuations.

Our results

We found the valuation of the hard to value unquoted scheme assets as mentioned above to be acceptable (2018-19 result: acceptable).

Valuation of pension scheme liabilities

Refer to page 121 (Audit Committee Report), page 234 (accounting policy) and page 188 (financial disclosures).

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ROYAL MAIL PLC

The risk

Subjective valuation

Significant estimates are made in valuing the Group's post retirement defined benefit plan obligations of £7,341 million (2018-19: £7,571 million), including in particular the discount rate, the inflation assumptions, mortality and pension increase assumptions.

Small changes in the assumptions and estimates used to value the Group's pension obligations would have a significant effect on the financial position of the Group.

As part of our risk assessment, we determined that the valuation of the Group's pension scheme liabilities include a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (Note 11) disclose the sensitivity of the liabilities to key assumptions estimated by the Group.

Our response

Our procedures included:

- **Benchmarking assumptions:** We challenged the key assumptions applied in the calculation of the liability, including the discount rate, inflation rate, mortality and pension increases with the support of our own actuarial specialists to compare key assumptions against market data, including assessing the impact of COVID-19 on key assumptions.
- **Actuary's credentials:** We assessed the competence, independence and integrity of the Group's actuarial expert.
- **Assessing transparency:** We considered the adequacy of the Group's disclosures in respect of the sensitivity of the liability to key assumptions.

Our results

We found the valuation of the pension obligation to be acceptable (2018-19 result: acceptable).

Accuracy of property lease accounting on transition to IFRS 16

Land and Buildings right of use assets – £963 million. Total lease liabilities - £1,188 million.

Refer to page 118 (Audit Committee Report), page 237 (accounting policy), page 201 (financial disclosures).

The risk

Accounting application

The application of IFRS 16 to the Group's 990 property leases for the first time represents a complex, one-off transition. A significant risk of misstatement arises due to the possibility that transition options and practical expedients may not have been completely or appropriately applied, and transition date recognition and measurement adjustments may not have been accurately recorded.

There is a risk that the lease population is not completely identified on transition and that subsequent to transition, new contracts entered into are within the scope of IFRS 16, or modifications to existing leases are not identified or accurately recorded. Judgement is required in assessing lease lengths and there is a risk that these assessments are not accurately applied.

Given the scale of the lease portfolio, there is a data integrity risk around the accuracy of input and calculation.

Our response

- Assessing principles: We evaluated management's process for identifying lease contracts, which we assessed based on the selected transition approach and practical expedients applied.
- Test of details: We tested a sample of lease contracts to assess the, accuracy and relevance of the data driving the transition adjustments and used in determining the lease liabilities on an ongoing basis.
- Our sector experience: We challenged management's assumptions with respect to lease length, extensions and the exercising of break clauses with reference to contracts and legal rights, as well as our understanding of the facts and circumstances surrounding the Group's trade. We challenged management's assumptions with respect to the discount rate applied.
- Historical comparisons: We compared assumed lease terms with actual terms of leases which have expired or been renewed during the period.
- Assessing transparency: We assessed the completeness, accuracy and relevance of the IFRS 16 disclosures.

Our results

We found the accuracy of the lease accounting to be acceptable (2018-19 lease accounting prepared under IAS 17: acceptable)

Recoverability of Parent Company's investment in subsidiaries and debt due from Group entities (Parent Company only)

Investments – £2,122 (2018-19: £2,111 million). Debt due from Group entities - £935 million (2018-19: £427 million).

Refer to page 248 (accounting policy) and page 249 (financial disclosures).

The risk

The carrying amount of the Parent Company's investments in subsidiaries and debt due from Group entities represents 100% (2018-19: 100%) of the Company's total assets.

Their recoverability is not at a high risk of significant misstatement. However, due to their materiality in the context of the Parent Company financial statements, this is considered to be the area that had the greatest effect on our overall Parent Company audit.

Our response

Our procedures included:

- **Tests of detail:** Compared the carrying amount of 100% of investments with the relevant subsidiaries' draft balance sheet to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount and assessing whether those subsidiaries have historically been profit-making.
- **Assessing subsidiary audit:** Assessing the audit work performed on the subsidiary balance sheet and considering

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ROYAL MAIL PLC

the results of that work on the subsidiary's profit and net assets.

- **Comparing valuations:** We compared the carrying amount of the Parent Company's investments to the Group's market capitalisation.
- **Assessing transparency:** Assessing the adequacy of the Parent Company's disclosures in respect of the investment in subsidiaries and Group debtor balance.

Our results

We found the carrying value of investments and the recoverability of intercompany receivables to be acceptable (2018-19: acceptable).

The judgment in determining whether the Ofcom competition investigation fine should result in the recognition of a contingent liability or a provision was identified as a key audit matter in the prior year. This is no longer considered to be a key audit matter since the Competition Appeal Tribunal announced their decision on 12 November 2019 that the fine issued by Ofcom would be upheld. Accordingly, a provision has now been recognised.

3 Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £18.0 million (2018-19: £18.0 million).

Materiality is based on profit before tax, normalised for the IFRS 2 charge for Employee Free Shares, and the profit on disposal of property plant and equipment, the regulatory fine, and the impairment charge in respect of Parcelforce. The items not included in the benchmark were all subject to audit procedures by the Group team, and the quantum of these items is disclosed in note 2 of the financial statements. Additional adjustments were made in 2018-19 for the settlement in respect of the RMSEPP pension scheme buy-in and the impairment charge in respect of GSO and Postal Express. Materiality represents 7.5% of the adjusted profit before tax measure of £241 million (2018-19: 4.7%; £385 million).

Due to the volatility in the Group's results in recent financial years, as part of our materiality assessment we also considered the scale of the business, the level of judgement and precision within the Group's key accounting judgements, as well as how the level of materiality compares to other relevant benchmarks such as revenue, of which it represents 0.2% and total assets, of which it represents 0.2%, where they provide more consistent measures year on year than Group profit before tax.

Materiality for the Parent Company financial statements as a whole was set at £3 million (2018-19: £3 million), determined with reference to a benchmark of net assets, of which it represents 1% (2018-19: 1%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £4.5 million (2018-19: £4.5 million) in respect of misstatements which relate solely to classification within the balance sheet, and £0.9 million (2018-19: £0.9 million) in respect of all other misstatements, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 24 (2018-19: 20) reporting components, we subjected four (2018-19: four) to full scope audits for Group purposes. The components within the scope of our work accounted for 99.7% of revenue, 98.0% of adjusted profit before tax and 99.8% of total assets.

The work on two (GLS and Royal Mail Property and Facilities Solutions) of the four components (2018-19: two of the four components) was performed by component auditors and the rest, including the audit of the Parent Company, by the Group team.

The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team also set the components' materialities, which ranged from £3 million to £15 million (2018-19: £3 million to £16 million), having regard to the mix of size and risk profile of the Group across the components.

On account of travel restrictions in place during the performance of the audit the Group team did not visit the component auditors and instead held virtual conference meetings with the GLS and RMPFS component auditors (2018-19: visited the GLS component and held telephone meetings with RMPFS) at the planning, execution and finalisation stages of the audit including to assess the audit risk and strategy. The Group team attended the key virtual clearance meetings and visited one of the key GLS sub-components in Spain at the planning stage of the audit. Telephone conference meetings were also held regularly with the component auditors. At these meetings the findings were reported to the Group team in more detail, and any further work required by the Group audit team was then performed by the component auditor.

4 We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the Company will continue in operation.

We identified going concern as a key audit matter (see section 2 of this report). Based on the work described in our response to that key audit matter, we are required to report to you if:

- we have anything material to add or draw attention to in relation to the Directors' statement in Note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ROYAL MAIL PLC

significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- the related statement under the Listing Rules set out on page 157 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

5 We have nothing to report on the other information in the Annual Report

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

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

Strategic report and Directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the Strategic report and the Directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' Remuneration Report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of emerging and principal risks and longer-term viability

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the Directors' confirmation within the Viability Statement on page 73 that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks disclosures describing these risks and explaining how they are being managed and mitigated; and
- the Directors' explanation in the Viability Statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the Viability Statement. We have nothing to report in this respect.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the Directors' statement that they consider that the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the section of the Annual Report describing the work of the Audit & Risk Committee does not appropriately address matters communicated by us to the Audit & Risk Committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

6 We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 157, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ROYAL MAIL PLC

Auditor's responsibilities

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

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

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the Directors and other management (as required by auditing standards), from inspection of the Group's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the Group to component audit teams of relevant laws and regulations identified at Group level.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, taxation legislation and pension legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: competition law, employment law, postal regulation, GDPR and health and safety legislation recognising the financial and regulated nature of the Group's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Through these procedures, we became aware of actual or suspected non-compliance and considered the effect as part of our procedures on the related financial statement items. The identified actual or suspected non-compliance was not sufficiently significant to our audit to result in our response being identified as a key audit matter.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

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

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Richard Pinckard (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square, London, E14 5GL
24 June 2020

CONSOLIDATED INCOME STATEMENT

FOR THE 52 WEEKS ENDED 29 MARCH 2020 AND 53 WEEKS ENDED 31 MARCH 2019

	Notes	Reported 52 weeks 2020 £m	Re-presented[1] reported 53 weeks 2019 £m
Continuing operations			
Revenue	3	**10,840**	10,581
Operating costs[2]	4/5	**(10,623)**	(10,240)
People costs		**(6,064)**	(5,869)
Distribution and conveyance costs		**(2,786)**	(2,606)
Infrastructure costs		**(991)**	(995)
Other operating costs		**(782)**	(770)
Operating profit before specific items[3]		**217**	341
Operating specific items			
Regulatory fine	6/25	**(51)**	–
RMSEPP settlement	11(c)	**–**	(64)
Employee Free Shares charge	6	**(4)**	(22)
Impairment of assets	6	**(91)**	(68)
Legacy/other credits/(costs)	6	**3**	(7)
Amortisation of intangible assets in acquisitions	6	**(19)**	(20)
Operating profit		**55**	160
Profit on disposal of property, plant and equipment (non-operating specific item[3])	6	**89**	15
Profit before interest and tax		**144**	175
Finance costs	7	**(56)**	(18)
Finance income	7	**6**	5
Net pension interest (non-operating specific item)	11(c)	**86**	79
Profit before tax		**180**	241
Tax charge	8	**(19)**	(66)
Profit for the year		**161**	175
Earnings per share			
Basic	9	**16.1p**	17.5p
Diluted	9	**16.1p**	17.5p

1 Operating costs include £130 million which would previously have been reported as 'Transformation costs'. These costs are now incorporated within their relevant operating cost categories, which better reflects the ongoing costs of the business. The comparative period costs of £133 million have therefore been re-presented.

2 Operating costs are stated before operating specific Items which Include; the Regulatory fine, RMSEPP settlement, Employee Free Shares charge, Impairment of assets, Legacy/other costs and Amortisation of intangible assets in acquisitions.

3 For further details on Alternative Performance Measures (APMs) used, see the section of the Financial Review entitled 'Presentation of Results and Alternative Performance Measures'.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE 52 WEEKS ENDED 29 MARCH 2020 AND 53 WEEKS ENDED 31 MARCH 2019

	Notes	Reported 52 weeks 2020 £m	Reported 53 weeks 2019 £m
Profit for the year		**161**	175
Other comprehensive income/(expense) for the year from continuing operations:			
Items that will not be subsequently reclassified to profit or loss:			
Amounts relating to pensions accounting		**1,122**	239
Withholding tax payable on distribution of RMPP and RMSEPP surplus	11	**(648)**	(138)
Remeasurement gains of the defined benefit surplus in RMPP and RMSEPP	11(c)	**1,773**	383
Remeasurement losses of the defined benefit deficit in DBCBS	11(d)	**(3)**	(8)
Deferred tax associated with DBCBS	8	**-**	2
Items that may be subsequently reclassified to profit or loss:			
Foreign exchange translation differences		**3**	(9)
Exchange differences on translation of foreign operations (GLS)		**20**	(16)
Net (loss)/gain on hedge of a net investment (€500 million bond)		**(15)**	5
Net (loss)/gain on hedge of a net investment (Euro-denominated lease payables)		**(2)**	1
Tax on above items	8	**–**	1
Designated cash flow hedges		**(49)**	(3)
(Losses)/gains on cash flow hedges deferred into equity		**(46)**	14
Gains on cash flow hedges released from equity to income		**(1)**	(17)
Gains on cash flow hedges released from equity to the carrying amount of non-financial assets		**–**	(1)
Loss on cross currency swap cash flow hedge deferred into equity		**(21)**	–
Loss on cross currency swap cash flow hedge released from equity to income – interest payable		**3**	–
Gain on cost of hedging deferred into equity		**6**	–
Gain on cost of hedging released from equity to income – interest payable		**(1)**	–
Tax on above items	8	**11**	1
Total other comprehensive income for the year		**1,076**	227
Total comprehensive income for the year		**1,237**	402

CONSOLIDATED BALANCE SHEET

AT 29 MARCH 2020 AND 31 MARCH 2019

	Notes	Reported at 29 March 2020 £m	Reported at 31 March 2019 £m
Non-current assets			
Property, plant and equipment	13	**3,120**	2,066
Goodwill	15	**390**	380
Intangible assets	16	**558**	631
Investments in associates	17	**5**	5
Financial assets			
Pension escrow investments	24	**201**	207
Derivatives	24	**–**	4
RMPP/RMSEPP retirement benefit surplus – net of withholding tax payable	11	**3,614**	2,408
Other receivables		**12**	12
Deferred tax assets	8	**110**	64
		8,010	5,777
Assets held for sale	19	**25**	36
Current assets			
Inventories		**19**	27
Trade and other receivables	20/24	**1,282**	1,310
Income tax receivable		**6**	7
Financial assets			
Investments	24	**30**	–
Derivatives	24	**5**	8
Cash and cash equivalents	21/24	**1,640**	236
		2,982	1,588
Total assets		**11,017**	7,401
Current liabilities			
Trade and other payables	22/24	**(2,041)**	(1,883)
Financial liabilities			
Interest-bearing loans and borrowings	23/24	**(700)**	–
Lease liabilities	14/24	**(201)**	(37)
Derivatives	24	**(35)**	(3)
Income tax payable		**(5)**	(8)
Provisions	25	**(113)**	(58)
		(3,095)	(1,989)

CONSOLIDATED BALANCE SHEET (CONTINUED)

AT 29 MARCH 2020 AND 31 MARCH 2019

	Notes	Reported at 29 March 2020 £m	Reported at 31 March 2019 £m
Non-current liabilities			
Financial liabilities			
Interest-bearing loans and borrowings	23/24	**(935)**	(431)
Lease liabilities	14/24	**(987)**	(88)
Derivatives	24	**(32)**	(2)
DBCBS retirement benefit deficit	11	**(177)**	(72)
Provisions	25	**(112)**	(104)
Other payables		**(4)**	(41)
Deferred tax liabilities	8	**(54)**	(55)
		(2,301)	(793)
Total liabilities		**(5,396)**	(2,782)
Net assets		**5,621**	4,619
Equity			
Share capital	26	**10**	10
Retained earnings		**5,625**	4,576
Other reserves		**(14)**	33
Total equity		**5,621**	4,619

The financial statements were approved and authorised for issue by the Board of Directors on 24 June 2020 and were signed on its behalf by:

Keith Williams
Interim Executive Chair

Stuart Simpson
Interim Chief Executive Officer Royal Mail

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE 52 WEEKS ENDED 29 MARCH 2020 AND 53 WEEKS ENDED 31 MARCH 2019

	Share capital £m	Retained earnings £m	Foreign currency translation reserve £m	Hedging reserve £m	Total equity £m
Reported at 25 March 2018	10	4,381	36	9	4,436
Profit for the year	–	175	–	–	175
Other comprehensive income/(expense) for the year	–	239	(9)	(3)	227
Total comprehensive income/(expense) for the year	–	414	(9)	(3)	402
Transactions with owners of the Company, recognised directly in equity					
Dividend paid to equity holders of the Parent Company	–	(242)	–	–	(242)
Reversal of put options for non-controlling interests	–	2	–	–	2
Share-based payments (see Note 18)					
Employee Free Shares issue	–	23	–	–	23
Long-Term Incentive Plan (LTIP)	–	4	–	–	4
Deferred Share Bonus Plan (DSBP)	–	3	–	–	3
Purchase of own shares[1]	–	(10)	–	–	(10)
Employee exercise of SAYE options	–	5	–	–	5
Deferred tax on share-based payments	–	(1)	–	–	(1)
Settlement of LTIP 2015	–	(3)	–	–	(3)
Reported at 31 March 2019	10	4,576	27	6	4,619
IFRS 16 transition adjustment	–	1	–	–	1
Reported at 1 April 2019 on transition to IFRS 16	10	4,577	27	6	4,620
Profit for the year	**–**	**161**	**–**	**–**	**161**
Other comprehensive income/(expense) for the year	**–**	**1,122**	**3**	**(49)**	**1,076**
Total comprehensive income/(expense) for the year	**–**	**1,283**	**3**	**(49)**	**1,237**
Transactions with owners of the Company, recognised directly in equity					
Gains on cash flow hedges released from equity to the carrying amount of non-financial assets	**–**	**–**	**–**	**(1)**	**(1)**
Dividend paid to equity holders of the Parent Company	**–**	**(244)**	**–**	**–**	**(244)**
Share-based payments (see Note 18)					
Employee Free Shares issue	**–**	**7**	**–**	**–**	**7**
Long-Term Incentive Plan (LTIP)	**–**	**2**	**–**	**–**	**2**
Deferred Share Bonus Plan (DSBP)	**–**	**2**	**–**	**–**	**2**
Purchase of own shares[1]	**–**	**(3)**	**–**	**–**	**(3)**
Deferred tax on share-based payments	**–**	**1**	**–**	**–**	**1**
Reported at 29 March 2020	**10**	**5,625**	**30**	**(44)**	**5,621**

1 Shares required for employee share schemes.

A description of the reserves in the above table is included in Note 26.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE 52 WEEKS ENDED 29 MARCH 2020 AND 53 WEEKS ENDED 31 MARCH 2019

	Notes	Reported 52 weeks 2020 £m	Re-presented[1] reported 53 weeks 2019 £m
Cash flow from operating activities			
Profit before tax		**180**	241
Adjustment for:			
Net pension interest	11(c)	**(86)**	(79)
Net finance costs	7	**50**	13
Profit on disposal of property, plant and equipment	6	**(89)**	(15)
Regulatory fine	6	**51**	–
RMSEPP settlement	11(c)	**–**	64
Employee Free Shares charge	6	**4**	22
Impairment of assets	6	**91**	68
Legacy/other (credits)/costs	6	**(3)**	7
Amortisation of intangible assets in acquisitions	6	**19**	20
Operating profit before specific items[2]		**217**	341
Adjustment for:			
Depreciation and amortisation	13/16	**516**	391
EBITDA before specific items[2]		**733**	732
Working capital movements		**162**	(221)
Increase in inventories		**(1)**	(2)
Decrease/(increase) in receivables		**13**	(176)
Increase/(decrease) in payables		**126**	(51)
Net decrease in derivative assets		**19**	2
Increase in provisions (non-specific items)		**5**	6
Pension charge to cash difference adjustment	11	**108**	70
Share-based awards (LTIP and DSBP) charge		**4**	7
Cash cost of operating specific items		**(2)**	(6)
Cash inflow from operations		**1,005**	582
Income tax paid		**(69)**	(91)
Research and development expenditure credit		**14**	2
Net cash inflow from operating activities		**950**	493
Cash flow from investing activities			
Finance income received	7	**6**	5
Proceeds from disposal of property (excluding London Development Portfolio), plant and equipment (non-operating specific item)		**12**	25
London Development Portfolio net proceeds (non-operating specific item)		**97**	7
Purchase of property, plant and equipment[3]		**(265)**	(264)
Acquisition of business interests, net of cash acquired		**(15)**	(212)
Purchase of intangible assets (software)[3]		**(77)**	(100)
Payment of deferred consideration in respect of prior years' acquisitions		**(2)**	(4)
Purchase of financial asset investments		**(30)**	–
Net cash outflow from investing activities		**(274)**	(543)
Net cash inflow/(outflow) before financing activities		**676**	(50)

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE 52 WEEKS ENDED 29 MARCH 2020 AND 53 WEEKS ENDED 31 MARCH 2019

	Notes	Reported 52 weeks 2020 £m	Re-presented reported 53 weeks 2019 £m
Cash flow from financing activities			
Finance costs paid		**(53)**	(17)
Acquisition of non-controlling interests		**–**	(4)
Purchase of own shares		**(3)**	(10)
Employee exercise of SAYE options		**–**	5
Payment of capital element of obligations under lease contracts		**(172)**	(56)
Cash received on sale and leasebacks		**6**	13
Proceeds from loans and borrowings		**1,189**	-
Repayment of loans and borrowings		**(1)**	(1)
Dividends paid to equity holders of the Parent Company	10	**(244)**	(242)
Net cash inflow/(outflow) from financing activities		**722**	(312)
Net increase/(decrease) in cash and cash equivalents		**1,398**	(362)
Effect of foreign currency exchange rates on cash and cash equivalents		**6**	(2)
Cash and cash equivalents at the beginning of the year	21	**236**	600
Cash and cash equivalents at the end of the year	21	**1,640**	236

1 Transformation costs are no longer presented as a separate line item and are included in 'operating profit before specific items'. The transformation costs to cash difference is now presented in working capital (provisions). The comparative period cash flows have therefore been re-presented on this basis.
2 For further details on Alternative Performance Measures (APMs) used, see the section of the Financial Review entitled 'Presentation of Results and Alternative Performance Measures'.
3 Items comprise total gross capital expenditure within 'In-year trading cash flow' measure (see Financial Review).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation

This Note explains how these consolidated financial statements have been prepared, including details of; the basis of preparation; use of non-IFRS performance measures; and the Directors' going concern assessment.

General information

Royal Mail plc (the Company) is incorporated in the United Kingdom (UK). The consolidated financial statements are produced in accordance with the Companies Act 2006 and applicable International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). The UK is the Company's country of domicile.

The consolidated financial statements of the Company for the 52 weeks ended 29 March 2020 (2018-19: 53 weeks ended 31 March 2019) comprise the Company and its subsidiaries (together referred to as 'the Group') and the Group's interest in its associate undertakings.

The consolidated financial statements for the 52 weeks ended 29 March 2020 were authorised for issue by the Board on 24 June 2020.

Basis of preparation and accounting

The consolidated financial statements are presented in Sterling (£) as that is the currency of the primary economic environment in which the Group operates. All values are rounded to the nearest whole £million except where otherwise indicated. The consolidated financial statements have been prepared on an historic cost basis, except for pension assets and derivative financial instruments which are measured at fair value.

Accounting reference date

The Group's financial reporting year ends on the last Sunday in March and, accordingly, these financial statements are prepared for the 52 weeks ended 29 March 2020 (2018-19: 53 weeks ended 31 March 2019). GLS' reporting year end date is 31 March each year. No adjustment is made in the financial statements in this regard on the basis that, irrespective of the Group's reporting year end date of the last Sunday in March, a full year of GLS results is consolidated into the Group.

Presentation of results and accounting policies

The Group's significant accounting policies, including details of new and amended accounting standards adopted in the reporting year, can be found at the end of the Notes to the consolidated financial statements.

The consolidated financial statements and associated Notes have been prepared in accordance with IFRS as adopted by the EU, i.e. on a 'reported' basis. In some instances, Alternative Performance Measures (APMs) are used by the Group to provide 'adjusted' results. This is because Management is of the view that these APMs provide a more meaningful basis on which to analyse business performance and is consistent with the way that financial performance is measured by Management and reported to the Board. Details of the APMs used by the Group are provided on page 58.

The consolidated income statement and consolidated statement of cash flows have been re-presented for the comparative period. This is to reflect the Group's decision to no longer report transformation costs as a separate line item, instead including them within their relevant operating costs categories.

Going concern

In assessing the going concern status of the Group, the Directors are required to look forward a minimum of 12 months from the date of approval of these financial statements to consider whether it is appropriate to prepare the financial statements on a going concern basis.

The Directors have prepared business projections which are consistent with a lifting of the current COVID-19 lockdown restrictions from early July 2020, but with a GDP decline of 10 per cent in the 2020-21 reporting year, followed by a recovery thereafter, affecting both the UK business and GLS.

The Directors have also considered a severe, yet plausible, downside scenario that assumes a second wave of COVID-19 in the UK resulting in a further three-month lockdown during the autumn/winter in the UK, and a further deterioration in economic conditions impacting the UK and GLS. Whilst letter volumes could decline at a faster rate under this scenario, parcel volumes would be expected to remain broadly flat, or slightly ahead and overall margin would decline. This downside also assumes the potential impact of industrial action and continued spend on Protective Equipment and social distancing measures to protect our workforce. The scenario also takes into account the mitigating actions that are in the control of the Directors, such as suspending the dividend or reducing variable hours and cost of sales.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1. Basis of preparation (continued)

The Directors have reviewed both the business projections consistent with a lifting of the current COVID-19 lockdown restrictions from early July 2020 and the downside scenario business projections and assessed these against committed and undrawn funding facilities of £225 million at 29 March 2020 through the syndicated bank loan facility and other liquid resources available to the Group (cash at bank £209 million and cash equivalent/current asset investments of £1,440 million at 29 March 2020). The Directors have obtained a covenant waiver from its syndicate bank which removes the syndicated bank loan facility net debt/EBITDA and EBITDA/interest covenant tests for September 2020, March 2021 and September 2021, but which are replaced by a minimum liquidity covenant of £250 million. The Directors have also received approval from the Bank of England for the COVID Corporate Financing Facility (the 'CCFF') of up to £600 million. The CCFF can be drawn by the Group up to March 2021, and is available for a period of up to 12 months from the draw down date.

The downside case indicates that the Group would not need to draw on both the CCFF and the syndicated bank loan facility at the same time in order to maintain sufficient liquidity.

The Directors are satisfied that these facilities, coupled with business projections, show that the Group will continue to operate for a minimum of twelve months from the date of approval of these financial statements.

The financial statements do not include any adjustments that would result from the going concern basis of preparation being inappropriate.

The Group's Viability Statement can be found on page 73.

2. Segment information

The Group's revenue, costs and profit before interest and tax are segmented in this Note to align with how business performance is managed and reported to the Royal Mail plc Board.

The Group's operating segments are based on geographic business units whose primary services and products relate to the delivery of parcels and letters. These segments are evaluated regularly by the Royal Mail plc Board – the Chief Operating Decision Maker (CODM) as defined by IFRS 8 'Operating Segments' – in deciding how to allocate resources and assess performance.

A key measure of segment performance is operating profit before specific items (used internally for the Corporate Balanced Scorecard). This measure of performance is disclosed on an 'adjusted' basis, a non-IFRS measure, excluding specific items and the pension charge to cash difference adjustment (see APMs section on page 58). This is consistent with how financial performance is measured internally and reported to the CODM.

Segment revenues have been attributed to the respective countries based on the primary location of the service performed. Transfer prices between segments are set at an arm's length/fair value on the basis of charges reached through negotiation between the relevant business units that form part of the segments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. Segment information (continued)

52 weeks 2020	Adjusted				Specific items, and pension adjustment in people costs		Reported
Continuing operations	UKPIL (UK operations) £m	GLS (Non-UK operations) £m	Eliminations[1] £m	Group £m	UKPIL (UK operations) £m	GLS (Non-UK operations) £m	Group £m
Revenue	7,720	3,161	(41)	10,840	–	–	10,840
People costs	(5,234)	(722)	–	(5,956)	(108)		(6,064)
Non-people costs	(2,369)	(2,231)	41	(4,559)	–	–	(4,559)
Operating profit before specific items	117	208	–	325	(108)	–	217
Operating specific items							
Regulatory fine	–	–	–	–	(51)	–	(51)
Employee Free Shares charge	–	–	–	–	(4)	–	(4)
Impairment of assets	–	–	–	–	(91)	–	(91)
Legacy/other (costs)/credits	–	–	–	–	(2)	5	3
Amortisation of intangible assets in acquisitions	–	–	–	–	(1)	(18)	(19)
Operating profit	117	208	–	325	(257)	(13)	55
Profit on disposal of property, plant and equipment (non-operating specific item)	–	–	–	–	88	1	89
Profit before interest and tax	117	208	–	325	(169)	(12)	144
Finance costs	(49)	(18)	11	(56)	–	–	(56)
Finance income	15	2	(11)	6	–	–	6
Net pension interest (non-operating specific item)	–	–	–	–	86	–	86
Profit before tax	83	192	–	275	(83)	(12)	180

1 Revenue and non-people costs eliminations relate to intragroup trading between UKPIL and GLS, due to Parcelforce Worldwide being GLS' partner in the UK. Finance costs/income eliminations relate to intragroup loans between UKPIL and GLS.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. Segment information (continued)

Re-presented[2] 53 weeks 2019	Adjusted				Specific items, and pension adjustment in people costs		Reported
Continuing operations	UKPIL (UK operations) £m	GLS (Non-UK operations) £m	Eliminations[3] £m	Group £m	UKPIL (UK operations) £m	GLS (Non-UK operations) £m	Group £m
Revenue	7,732	2,888	(39)	10,581	–	–	10,581
People costs	(5,132)	(667)	–	(5,799)	(70)	–	(5,869)
Non-people costs	(2,366)	(2,044)	39	(4,371)	–	–	(4,371)
Operating profit before specific items	234	177	–	411	(70)	–	341
Operating specific items							
RMSEPP settlement	–	–	–	–	(64)	–	(64)
Employee Free Shares charge	–	–	–	–	(22)	–	(22)
Impairment of assets	–	–	–	–	–	(68)	(68)
Legacy/other costs	–	–	–	–	(5)	(2)	(7)
Amortisation of intangible assets in acquisitions	–	–	–	–	(1)	(19)	(20)
Operating profit	234	177	–	411	(162)	(89)	160
Profit on disposal of property, plant and equipment (non-operating specific item)	–	–	–	–	15	–	15
Profit before interest and tax	234	177	–	411	(147)	(89)	175
Finance costs	(17)	(10)	9	(18)	–	–	(18)
Finance income	12	2	(9)	5	–	–	5
Net pension interest (non-operating specific item)	–	–	–	–	79	–	79
Profit before tax	229	169	–	398	(68)	(89)	241

2 The comparative period has been re-presented to incorporate changes to the presentation of costs (see the income statement for more details).
3 Revenue and non-people costs eliminations relate to intragroup trading between UKPIL and GLS, due to Parcelforce Worldwide being GLS' partner in the UK. Finance costs/income eliminations relate to intragroup loans between UKPIL and GLS.

The depreciation and amortisation below are included within 'operating profit before specific items' in the income statement.

The non-current assets below exclude financial assets, retirement benefit surplus and deferred tax and are included within non-current assets on the balance sheet.

52 weeks 2020	UKPIL (UK operations) £m	GLS (Non-UK Operations) £m	Total £m
Depreciation[4]	**(306)**	**(106)**	**(412)**
Amortisation of intangible assets (mainly software)	**(90)**	**(14)**	**(104)**
Non-current assets	**2,695**	**1,390**	**4,085**

4 Includes £156 million resulting from the adoption of IFRS 16.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. Segment information (continued)

53 weeks 2019	UKPIL (UK operations) £m	GLS (Non-UK Operations) £m	Total £m
Depreciation	(213)	(45)	(258)
Amortisation of intangible assets (mainly software)	(120)	(13)	(133)
Non-current assets	2,103	991	3,094

3. Revenue

This disclosure provides a disaggregation of Group revenue by type. Revenue is recognised net of Value Added Tax and principally relates to the rendering of services derived from contracts with customers.

52 weeks 2020	**UKPIL £m**	**GLS £m**	**Intragroup revenue[1] £m**	**Group £m**
Letters and other revenue	**3,409**	**–**	**–**	**3,409**
Advertising Letters	**612**	**–**	**–**	**612**
Parcels	**3,699**	**3,161**	**(41)**	**6,819**
Total	**7,720**	**3,161**	**(41)**	**10,840**

Re-presented[2] 53 weeks 2019	UKPIL £m	GLS £m	Intragroup revenue[1] £m	Group £m
Letters and other revenue	3,431	–	–	3,431
Advertising Letters	705	–	–	705
Parcels	3,596	2,888	(39)	6,445
Total	7,732	2,888	(39)	10,581

1 Eliminations relate to intragroup revenue from trading between UKPIL and GLS. This is due to Parcelforce Worldwide being GLS' partner in the UK.
2 UK letters and parcels revenue and volumes have been allocated using a new methodology which reduces our reliance on sampling by using Post Office traffic data. This change only impacts the allocation of revenue between stamped letters and parcels and some international export products. Total UKPIL revenue remains unchanged.

During the year, around £290 million (2018-19: £280 million) of revenue was recognised which was previously held as a deferred revenue balance at 31 March 2019 (2018-19: 25 March 2018). This balance mainly relates to stamps held and not yet used by customers and is recognised as 'advance customer payments' within 'current trade and other payables' (see Note 22).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. Operating costs

This analysis of operating costs in the income statement includes amounts that require either separate disclosure under IFRS or have been disclosed because of their nature and/or materiality.

Operating profit before specific items is stated after charging the following operating costs:

	52 weeks 2020 £m	Re-presented[1] reported 53 weeks 2019 £m
People costs (see Note 5)	**(6,064)**	(5,869)
Distribution and conveyance costs		
Charges from overseas postal administrations	**(361)**	(348)
Fuel costs	**(183)**	(156)
Infrastructure costs		
Depreciation, amortisation and impairment	**(516)**	(391)
Charge for property, plant and equipment (see Note 13)	**(412)**	(258)
Charge for intangible assets (see Note 16)[2]	**(104)**	(133)

1 The comparative period has been re-presented to incorporate changes to the presentation of costs (see the income statement for more details).
2 Excludes £19 million (2018-19: £20 million) amortisation of intangible assets in acquisitions, presented as an operating specific item in the income statement.

	52 weeks 2020 £m	Re-presented[1] reported 53 weeks 2019 £m
Other operating costs		
Post Office Limited charges	**(351)**	(354)
Inventory expensed	**(41)**	(34)

Regulatory body costs

The following disclosure is relevant in understanding the extent of ongoing compliance costs in relation to the regulation of the Group.

	52 weeks 2020 £m	53 weeks 2019 £m
Ofcom administrative charge	**(5)**	(3)
Citizens Advice/Citizens Advice Scotland/Consumer Council for Northern Ireland	**(1)**	(2)
Total	**(6)**	(5)

Statutory audit costs

Disclosure of statutory audit costs is a requirement of the Companies Act 2006.

Auditor's fees	52 weeks 2020 £000	53 weeks 2019 £000
Audit of Group statutory financial statements	**(1,247)**	(988)
Other fees to Auditor:		
Audit of the accounts of subsidiaries	**(1,453)**	(1,396)
Review of the interim financial information	**(219)**	(215)
Regulatory audit	**(128)**	(125)
Other assurance	**(100)**	–
Total	**(3,147)**	(2,724)

The 2019-20 fees relate to the services of the Group's appointed auditor KPMG LLP. In addition to the above amounts, KPMG LLP was paid by the respective Trustees, £102,500 for the audit of the Royal Mail Pension Plan (2018-19: £165,000) and £29,000 for the audit of the Royal Mail Defined Contribution Plan (RMDCP) (2018-19: £35,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5. People information

People costs account for 57 per cent (2018-19: 57 per cent) of total Group operating costs (before specific items). The analysis below provides details of people costs and numbers as well as specific disclosures in relation to Directors' remuneration. Further details on Directors' remuneration paid can be found in the Directors' Remuneration Report.

People costs	52 weeks 2020 £m	Re-presented[1] reported 53 weeks 2019 £m
Wages and salaries	**(4,904)**	(4,753)
UKPIL	**(4,267)**	(4,173)
GLS	**(637)**	(580)
Pensions (see Note 11)	**(679)**	(635)
Defined benefit UK	**(397)**	(374)
Defined contribution UK	**(97)**	(82)
Defined benefit and defined contribution Pension Salary Exchange (PSE) UK	**(178)**	(172)
GLS	**(7)**	(7)
Social security	**(481)**	(481)
UKPIL	**(403)**	(401)
GLS	**(78)**	(80)
Total people costs	**(6,064)**	(5,869)

Defined benefit pension plan rates:			
Income statement	– RMPP	**–**	41.0%
	– DBCBS	**20.8%**	18.9%
Cash flow	– RMPP	**–**	17.1%
	– DBCBS	**15.6%**	15.6%
Defined contribution pension plan average rate:			
Income statement and cash flow[2]		**8.6%**	8.0%

1 The comparative period has been re-presented to incorporate changes to the presentation of costs (see the income statement for more details).
2 Employer contribution rates are three per cent for employees in the entry level category and ten per cent for the majority of those in the standard level category. For the remaining standard level employees, the employer contribution is either eight or nine per cent, depending on the employees' selected contribution rate.

People numbers

The number of people employed, expressed as both full-time equivalents and headcount, during the reporting year was as follows:

	Full-time equivalents[3]				Headcount[4]			
	Year end		Average		Year end		Average	
	52 weeks 2020	53 weeks 2019	52 weeks 2020	53 weeks 2019	52 weeks 2020	53 weeks 2019	52 weeks 2020	53 weeks 2019
UKPIL	**146,445**	147,148	**149,351**	149,212	**141,466**	142,757	**142,444**	141,792
GLS	**15,818**	14,969	**15,721**	14,954	**19,306**	19,221	**19,191**	19,198
Total	**162,263**	162,117	**165,072**	164,166	**160,772**	161,978	**161,635**	160,990

3 These people numbers relate to the total number of paid hours (including part-time, full-time and agency hours) divided by the number of standard full-time working hours in the same year.
4 These people numbers are based on permanent employees.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5. People information (continued)

Directors' remuneration

	52 weeks 2020 £000	53 weeks 2019 £000
Directors' remuneration[5]	**(1,964)**	(2,300)
Amounts earned under Long-Term Incentive Plans (LTIP)	**(91)**	–
Number of Directors accruing benefits under defined contribution plans	**1**	2

5 These amounts include any cash supplements received in lieu of pension, details of the pension contributions are included in the Single Figure Tables of the Director's Remuneration Report on page 144. The highest paid Director details are included in the Single Figure Tables of the Directors' Remuneration Report on page 144.

6. Specific items and pension cost to cash difference adjustment

These are both recurring and non-recurring income/expense items which in Management's view should be disclosed separately to provide greater understanding of the underlying performance of the business. The definitions for these items are provided in the section on Alternative Performance Measures on page 58.

	52 weeks 2020 £m	53 weeks 2019 £m
Pension charge to cash difference adjustment (within People costs)	**(108)**	(70)
Operating specific items:		
Impairment of assets	**(91)**	(68)
Legacy/other credits/(costs)	**3**	(7)
Regulatory fine	**(51)**	–
Amortisation of intangible assets in acquisitions	**(19)**	(20)
Employee Free Shares charge	**(4)**	(22)
RMSEPP settlement	**–**	(64)
Total operating specific items	**(162)**	(181)
Non-operating specific items:		
Profit on disposal of property, plant and equipment	**89**	15
Net pension interest	**86**	79
Total non-operating specific items	**175**	94
Total specific items	**13**	(87)
Tax credit on certain specific items and the pension charge to cash difference	**60**	27

The difference between the pension charge and cash cost (pension charge to cash difference adjustment) largely comprises the difference between the IAS 19 income statement pension charge rate of 20.8 per cent of pensionable pay for the Defined Benefit Cash Balance Scheme (DBCBS) from 1 April 2019 and the actual employer cash payments agreed with the Trustee of 15.6 per cent.

An impairment review of the Parcelforce Worldwide business identified that the carrying value of the assets exceeded their value in use, resulting in a £91 million impairment (see 'Key sources of estimation uncertainty' within the 'Significant accounting policies' section).

Following the Competition Appeal Tribunal judgment of 12 November 2019, a provision for a fine from Ofcom of £50 million and £1 million associated interest has been made in the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. Net finance costs

This Note provides details of interest payable on loans and lease obligations and interest received from investments and loans. This analysis excludes net pension interest which is a non-cash item and is derived to comply with the requirements of the accounting standard IAS 19 'Employee Benefits'.

	52 weeks 2020 £m	53 weeks 2019 £m
Unwinding of discount relating to industrial diseases claims provision	(2)	(2)
Interest payable on financial liabilities	(54)	(16)
Syndicated bank loan facility		
Unused facility fees	(1)	(2)
Arrangement fees	(2)	(1)
€500 million and €550 million bonds	(14)	(11)
Interest rate swap costs on €550 million bond	(3)	–
Leases	(30)	(3)
Loss on RMPP pension escrow investments	(6)	–
Capitalisation of borrowing costs on specific qualifying assets	4	2
Other finance costs	(2)	(1)
Total finance costs	**(56)**	(18)
Total finance income – interest receivable on financial assets	**6**	5
Total net finance costs	**(50)**	(13)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8. Taxation

This Note provides details about current tax on profit and deferred tax relating to the impact of past events on expected future tax.

	52 weeks 2020 £m	53 weeks 2019 £m
Tax charged in the income statement		
Current income tax:		
Current UK income tax charge	**(5)**	(21)
Foreign tax	**(55)**	(48)
Current income tax charge	**(60)**	(69)
Amounts over-provided in previous years	**5**	5
Total current income tax charge	**(55)**	(64)
Deferred income tax:		
Effect of change in tax rates	**6**	–
Relating to origination and reversal of temporary differences	**35**	3
Amounts under-provided in previous years	**(5)**	(5)
Total deferred income tax credit/(charge)	**36**	(2)
Tax charge in the consolidated income statement	**(19)**	(66)

	52 weeks 2020 £m	53 weeks 2019 £m
Tax credited to other comprehensive income		
Current tax:		
Tax credit on foreign currency translation	**–**	1
Deferred tax:		
Tax credit in relation to remeasurement gains of the defined benefit pension schemes	**–**	2
Tax credit on revaluation of cash flow hedges	**11**	1
Total deferred income tax credit	**11**	3
Total tax credit in the consolidated statement of other comprehensive income	**11**	4

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8. Taxation (continued)

In addition to the amount charged to the income statement and other comprehensive income, the following amount relating to tax has been recognised directly in equity:

	52 weeks 2020 £m	53 weeks 2019 £m
Deferred tax:		
Change in estimated excess tax deductions related to share-based payments	**1**	(1)
Total deferred income tax credit/(charge) recognised directly in equity	**1**	(1)

Reconciliation of the total tax charge

A reconciliation of the tax charge in the income statement and the UK rate of corporation tax applied to accounting profit for the 52 weeks ended 29 March 2020 and 53 weeks ended 31 March 2019 is shown below.

	52 weeks 2020 £m	53 weeks 2019 £m
Profit before tax	**180**	241
At UK statutory rate of corporation tax of 19% (2018-19: 19%)	**(34)**	(46)
Effect of different tax rates on non-UK profits and losses	**(5)**	3
Tax under-provided in previous years[1]	**–**	(3)
Non-deductible expenses	**(4)**	(6)
Impairment of goodwill	**–**	(13)
Tax reliefs and incentives (including previous years)[2]	**(13)**	6
Tax effect of property disposals (including previous years)	**21**	5
Tax effect of closure of RMPP to future accrual	**(2)**	(2)
Net pension interest credit	**17**	15
Insurance policy settlement for the RMSEPP	**–**	(12)
Regulatory Fine	**(10)**	–
Net decrease/(increase) in tax charge resulting from non-recognition of certain deferred tax assets and liabilities	**6**	(8)
Share-based payments - deferred tax-only adjustments	**(1)**	(5)
Effect of change in tax rates	**6**	–
Tax charge in the consolidated income statement	**(19)**	(66)

1 In 2018-19 the tax under-provided of £3 million is different to the total tax underprovided in the income statement of £5 million as certain items have been disaggregated, specifically, tax overprovided of £2 million related to tax reliefs and incentives and tax overprovided of £1 million relating to the tax effect of property disposals.
2 Tax reliefs and incentives of £(13) million includes £(16) million in relation to an increase in an uncertain tax provision for tax relief claimed in prior years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8. Taxation (continued)

Deferred tax

Deferred tax by balance sheet category 52 weeks 2020	At 1 April 2019 £m	(Charged)/ credited to income statement £m	Credited to other comprehensive income £m	Credited to changes in equity £m	Charged to foreign exchange reserve £m[3]	Jurisdictional right of offset £m	At 29 March 2020 £m
Liabilities							
Accelerated capital allowances	(6)	(2)	–	–	–	–	(8)
Employee share schemes	(1)	–	–	1	–	–	–
Intangible assets	(57)	4	–	–	(1)	–	(54)
Hedging derivatives temporary differences	(1)	–	1	–	–	–	–
	(65)	2	1	1	(1)	–	(62)
Jurisdictional right of offset	10	–	–	–	–	(2)	8
Deferred tax liabilities	(55)	2	1	1	(1)	(2)	(54)
Assets							
Deferred capital allowances	6	8	–	–	–	–	14
Pensions temporary differences	13	20	–	–	–	–	33
Provisions and other	18	7	–	–	–	–	25
Losses available for offset against future taxable income	35	(1)	–	–	–	–	34
R&D expenditure credit	2	–	–	–	–	–	2
Hedging derivative temporary differences	–	–	10	–	–	–	10
	74	34	10	–	–	–	118
Jurisdictional right of offset	(10)	–	–	–	–	2	(8)
Deferred tax assets	64	34	10	–	–	2	110
Net deferred tax asset	9	36	11	1	(1)	–	56

3 Included in foreign exchange translation differences - exchange differences on translation of foreign operations within Other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8. Taxation (continued)

Deferred tax by balance sheet category 53 weeks 2019	At 26 March 2018 £m	(Charged)/ credited to income statement £m	Credited to other comprehensive income £m	Charged directly to equity £m	Acquisition of subsidiaries £m	At 31 March 2019 £m
Liabilities						
Accelerated capital allowances	(3)	–	–	–	(3)	(6)
Pensions temporary differences	(1)	1	–	–	–	–
Employee share schemes	(1)	1	–	(1)	–	(1)
Intangible assets	(48)	6	–	–	(15)	(57)
Hedging derivatives temporary differences	(2)	–	1	–	–	(1)
	(55)	8	1	(1)	(18)	(65)
Jurisdictional right of offset	10	–	–	–	–	10
Deferred tax liabilities	(45)	8	1	(1)	(18)	(55)
Assets						
Deferred capital allowances	14	(8)	–	–	–	6
Pensions temporary differences	–	11	2	–	–	13
Provisions and other	19	(1)	–	–	–	18
Losses available for offset against future taxable income	48	(13)	–	–	–	35
R&D expenditure credit	1	1	–	–	–	2
	82	(10)	2	–	–	74
Jurisdictional right of offset	(10)	–	–	–	–	(10)
Deferred tax assets	72	(10)	2	–	–	64
Net deferred tax asset	27	(2)	3	(1)	(18)	9

Deferred tax assets and liabilities are offset within the same jurisdiction where the Group has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for balance sheet presentation purposes.

Deferred tax – balance sheet presentation	**At 29 March 2020 £m**	At 31 March 2019 £m
Liabilities		
GLS group	**(54)**	(55)
Deferred tax liabilities	**(54)**	(55)
Assets		
GLS group	**8**	7
Net UK position	**102**	57
Deferred tax assets	**110**	64
Net deferred tax asset	**56**	9

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8. Taxation (continued)

The deferred tax position shows an increased overall asset in the reporting year to 29 March 2020. This is primarily due to the increase in accounting deficit of the DBCBS pension scheme, the effect of the increased UK corporation tax rate from 17 per cent to 19 per cent and the deferred tax asset recognition from losses on derivatives used for hedging.

GLS has deferred tax assets and liabilities in various jurisdictions which cannot be offset against one another. The main elements of the liability relate to goodwill and intangible assets in GLS Germany, for which the Group has already taken tax deductions, and intangible assets in relation to acquisitions in Canada and Spain.

At 29 March 2020, the Group had unrecognised tax losses and temporary differences of £278 million (2018-19: £333 million) with a tax value of £80 million (2018-19: £85 million). Unrecognised deferred tax in relation to tax losses comprises £73 million (2018-19: £63 million) relating to losses of £249 million (2018-19: £215 million) in GLS, that are available for offset against future profits if generated in the relevant GLS companies, and £1 million (2018-19: £9 million) in relation to £7 million (2018-19: £51 million) of historical UK non-trading and capital losses carried forward. Other unrecognised amounts comprise £6 million (2018-19: £5 million) relating to GLS other temporary differences of £22 million (2018-19: £18 million) and £nil (2018-19: £8 million) relating to UK other temporary differences of £nil (2018-19: £49 million). The Group has not recognised these deferred tax assets on the basis that it is not sufficiently certain of its capacity to utilise them in the future.

The Group also has temporary differences in respect of £187 million (2018-19: £191 million) of capital losses, the tax effect of which is £35 million (2018-19: £32 million) in respect of assets previously qualifying for industrial buildings allowances. Further temporary differences exist in relation to £388 million (2018-19: £421 million) of gains for which rollover relief has been claimed, the tax effect of which is £74 million (2018-19: £72 million). No tax liability would be expected to crystallise on the basis that, were the assets (into which the gains have been rolled over) to be sold at their residual values, no capital gain would arise.

Changes to UK corporation tax rate

The UK corporation tax rate is 19 per cent. The previously announced reduction to 17 per cent has been redacted following the Budget 2020. In accordance with accounting standards the deferred tax balances in these financial statements have been adjusted to effect this change.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. Earnings per share

This Note explains the calculation of the Group's earnings per share. The adjusted earnings per share (a non-IFRS measure) is a key indicator used by Management to assess earnings performance.

	52 weeks 2020			53 weeks 2019		
	Reported	**Specific items and pension adjustment[1]**	**Adjusted**	Reported	Specific items and pension adjustment[1]	Adjusted
Profit for the year (£million)	**161**	**(35)**	**196**	175	(130)	305
Weighted average number of shares issued (million)	**999**	**n/a**	**999**	1,000	n/a	1,000
Basic earnings per share (pence)	**16.1**	**n/a**	**19.6**	17.5	n/a	30.5
Diluted earnings per share (pence)	**16.1**	**n/a**	**19.6**	17.5	n/a	30.5

1 Further details of the specific items and pension adjustment total can be found in the Financial Review on page 45.

The diluted earnings per share for the year ended 29 March 2020 is based on a weighted average number of shares of 1,001,079,845 (2018-19: 1,000,375,291) to take account of the potential issue of 658,250 (2018-19: 445,534) ordinary shares resulting from the Deferred Share Bonus Plans (DSBP) and 1,451,301 (2018-19: nil) ordinary shares resulting from the Long Term Incentive Plans (LTIP). These plans are for certain senior management and are discussed in more detail in Note 18.

No ordinary shares (2018-19: 88) were issued in respect of the Save As You Earn (SAYE) scheme which ceased in the prior year.

The 1,029,706 (2018-19: 70,331) shares held in an Employee Benefit Trust for the settlement of options and awards to current and former employees are treated as treasury shares for accounting purposes (see Note 26). The Company, however, does not hold any shares in treasury.

10. Dividends

This Note provides details on the amount of dividends paid to equity holders of the Parent Company during the year. Details are also provided on the amount of dividends per share which have been paid.

Dividends on ordinary shares	**52 weeks 2020 Pence per share**	53 weeks 2019 Pence per share	**52 weeks 2020 £m**	53 weeks 2019 £m
Final dividends paid	**17.0**	16.3	**169**	162
Interim dividends paid	**7.5**	8.0	**75**	80
Total dividends paid	**24.5**	24.3	**244**	242

In view of the current economic uncertainty, the Board believes it is prudent not to recommend a final dividend for the financial year ended 29 March 2020 (31 March 2019: 17.0 pence per share).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. Retirement benefit plans

This Note explains the pension plans in the Group and sets out the accounting, surplus valuation, key assumptions and sensitivities in accordance with IAS 19 'Employee Benefits'. In applying IAS 19, the Group has recognised a RMPP/RMSEPP pension asset of £3,614 million at 29 March 2020, compared with £2,408 million at 31 March 2019, and a DBCBS pension liability of £177 million at 29 March 2020 (at 31 March 2019: £72 million).

Summary pension information

	52 weeks 2020 £m	53 weeks 2019 £m
Ongoing UK pension service costs		
UK defined benefit plans (including administration costs)[1]	**(397)**	(374)
UK defined contribution plan	**(97)**	(82)
UK defined benefit and defined contribution plans' Pension Salary Exchange (PSE) employer contributions[2]	**(178)**	(172)
Total UK ongoing pension service costs	**(672)**	(628)
GLS pension costs accounted for on a defined contribution basis	**(7)**	(7)
Total Group ongoing pension service costs	**(679)**	(635)
Cash flows relating to ongoing pension service costs		
UK defined benefit plans' employer contributions[3]	**(288)**	(304)
Defined contribution plans' employer contributions	**(104)**	(89)
UK defined benefit and defined contribution plans' PSE employer contributions	**(178)**	(172)
Total Group cash flows relating to ongoing pension service costs	**(570)**	(565)
RMSEPP death in service and administration expenses	**(1)**	(2)
Pension-related accruals (timing difference)	**–**	2
Pension charge to cash difference adjustment	**(108)**	(70)

	At 29 March 2020 '000	At 31 March 2019 '000
UK pension plans – active members		
UK defined benefit plan	**79**	83
UK defined contribution plan	**54**	51
Total	**133**	134

1 These pension service costs are charged to the income statement. They represent the cost (as a percentage of pensionable payroll – 20.8 per cent (2018-19: 41.0 per cent for the RMPP until 31 March 2018 and 18.9 per cent for the DBCBS from 1 April 2018) of the increase in the defined benefit obligation due to members earning one more year's worth of pension benefits. They are calculated in accordance with IAS 19 and are based on market yields (high quality corporate bonds and inflation) at the beginning of the reporting year. Pensions administration costs for the RMPP of £9 million (2018-19: £8 million) and the DBCBS of £4 million (2018-19: £2 million) continue to be included within the Group's ongoing UK pension service costs.

2 Eligible employees who are enrolled into Pension Salary Exchange (PSE) opt out of making employee contributions to their pension and the Group makes additional contributions in return for a reduction in basic pay.

3 The employer contribution cash flow rate of 15.6 per cent forms part of the payroll expense and is paid in respect of the DBCBS (2018-19 contributions included RMPP contributions of 17.1 per cent to 31 March 2018 and DBCBS contributions of 15.6 per cent from 1 April 2018). These contribution rates are set following each actuarial funding valuation, usually every three years. These actuarial valuations are required to be carried out on assumptions determined by the Trustee and agreed by Royal Mail, and will be required in respect of the DBCBS, the first full valuation for this will be performed as at 31 March 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. Retirement benefit plans (continued)

In the period, the Group operated the following plans.

UK Defined Contribution plan

Royal Mail Group Limited, the Group's main operating subsidiary, operates the Royal Mail Defined Contribution Plan (RMDCP). This plan was launched in April 2009 and is open to employees who joined the Group from 31 March 2008, following closure of the RMPP to new members.

Ongoing UK defined contribution plan costs have increased from £135 million in 2018-19 to £169 million (including £72 million PSE costs). This is mainly due to the continued increase in plan membership and an increase in the average employer's contribution rate from 8.0 per cent in 2018-19 to 8.6 per cent in 2019-20. This increase is largely as a result of members electing to transfer to the standard section which is subject to higher Group contribution rates, following a Government-mandated increase in contribution rates for members not in the standard section from 3 per cent to 5 per cent on 6 April 2019.

UK Defined Benefit plans

Royal Mail Pension Plan (RMPP)[4]

The RMPP is funded by the payment of contributions to separate trustee administered funds. The RMPP includes sections A, B and C, each with different terms and conditions.

- Section A is for members (or beneficiaries of members) who joined before 1 December 1971;
- Section B is for members (or beneficiaries of members) who joined on or after 1 December 1971 and before 1 April 1987, or for members of Section A who chose to receive Section B benefits; and
- Section C is for members (or beneficiaries of members) who joined on or after 1 April 1987 and before 1 April 2008.

Section A/B members built up a pension of 1/80th of pensionable salary plus a tax-free lump sum of 3/80ths of pensionable salary for each year of pensionable service, until 31 March 2018.

Section C members built up a pension of 1/60th of pensionable salary for each year of pensionable service, until 31 March 2018. If they want to take a tax-free lump sum at retirement they do so by exchanging some of their pension.

From 1 April 2018, Section A/B and C members began building up benefits on a DBCBS basis.

Royal Mail Pensions Trustees Limited acts as the corporate Trustee to the RMPP. Within the Trustee, there is a Trustee Board of nine nominated Trustee Directors. The Trustee Board is supported by an executive team of pension management professionals. They provide day to day plan management, advise the Trustee on its responsibilities and ensure that decisions are fully implemented.

The Trustee has several responsibilities. It must always act in the best interests of all RMPP beneficiaries – including active members, deferred members, pensioners and beneficiaries. Specifically, it must pay all benefits as they fall due under the Trust Deed and Rules. The Trustee is responsible for:

- monitoring the RMPP – to help protect benefits, the Trustee monitors the financial strength of the participating employers;
- investing contributions – the Trustee invests the member and employer contributions in a mix of equities, bonds, property and other investments including derivatives. It holds the contributions and investments on behalf of the members; and
- keeping members informed – the Trustee sends active members an annual benefit illustration together with a summary of the RMPP's annual report and accounts.

No RMPP service contributions were made during 2019-20. One week of service contributions was paid during 2018-19 up to when the scheme closed on 31 March 2018. This payment was paid at 17.1 per cent in accordance with the 8 May 2017 Schedule of Contributions. As the March 2018 valuation continued to show the scheme in surplus, no deficit correction payments are expected to be made.

An agreement has been made with the Pension Trustee to ringfence certain employer contributions in an escrow arrangement in order to give the Trustee and the Group more flexibility over how these assets are best used for the benefit of members in future. These contributions are not considered to be Plan assets as the Trustee does not have control over the assets. This balance is included within non-current financial assets. Further information on the classification and carrying value of these assets is disclosed within Note 24 to the Financial Statements, 'Financial assets and liabilities and risk management'.

4 Any references to the RMPP relate to the scheme's defined pension liabilities built up to 31 March 2018. Members built up DBCBS benefits from 1 April 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. Retirement benefit plans (continued)

Defined Benefit Cash Balance Scheme (DBCBS)

A Defined Benefit Cash Balance Scheme (DBCBS) has been in place since 1 April 2018. This is a transitional arrangement until the proposed Collective Defined Contribution (CDC) scheme can be established. Active former Section A/B and C members are accruing benefits under the DBCBS from 1 April 2018. Section F of the RMPP is for active former RMDCP members who became eligible to join the RMPP and have accrued DBCBS benefits from 1 April 2018.

DBCBS members build up a guaranteed lump sum benefit of 19.6 per cent of their pensionable pay each year. Although there are no guaranteed increases to this lump sum the aim is to provide above inflation increases, and the Trustee invests the scheme assets accordingly. If the value of the DBCBS assets were to fall below the value of the members' guaranteed lump sum benefits then no increases would be awarded until asset values had recovered as the Group has a legal obligation to prevent a decrease in the asset value. From an assessment of announcements and internal communications made to members of the scheme to date and taking into account the first increase granted in March 2020, Management is of the view that there is a constructive obligation to provide an increase to the lump sum, as scheme members would have a reasonable expectation of returns of CPI plus two per cent.

The Group signed a Schedule of Contributions on 19 July 2019. This covers a period of five years from the date of certification of the schedule i.e. until July 2024. In accordance with this schedule, the Group is required to make payments totalling 15.6 per cent per annum of pensionable payroll in respect of DBCBS.

Royal Mail Senior Executives Pension Plan (RMSEPP)

Royal Mail Group Limited also contributes to a smaller defined benefit plan for executives: RMSEPP. This closed in December 2012 to future accrual, therefore the Group makes no regular future service contributions. In accordance with the Schedule of Contributions agreed as part of the 2018 triennial valuation, a final deficit payment of £1 million was paid in 2018-19, together with £1 million in respect of death-in-service lump sum benefits and administration expenses. In accordance with the new Schedule of Contributions signed on 25 March 2019, £500,000 has been paid in 2019-20 and is due to be paid per annum for the period 1 April 2020 to 31 March 2025.

Following the purchase of an additional insurance policy in September 2018 in respect of all remaining pensioners and deferred members it was decided to proceed to buy-out and wind-up the Plan. As a result, the purchase of the insurance policy was treated as a settlement in the 2018-19 financial statements. The difference between the IAS 19 surplus before and after the transaction resulted in £64 million being charged to the income statement as an operating specific item. Further progress towards buy-out and winding-up of the Plan has been made in the current year, and the target is to have the process completed in 2021.

All benefit payments due from the RMSEPP remain unchanged. The insurance policies held by the RMSEPP exactly match the value and timing of the benefits payable to individual members and the fair value is deemed to be the present value of the related obligations. The total value of the buy-in annuity policies in place is £296 million (31 March 2019: £335 million) and is included as a pension asset and a pension liability at 29 March 2020[5].

A liability of £2 million (2018-19: £2 million) has been recognised for future payment of pension benefits to a past Director.

Accounting and actuarial funding surplus position (RMPP, RMSEPP and DBCBS)

In addition to the accounting valuations calculated in accordance with IAS 19, actuarial funding valuations are carried out every three years by actuaries commissioned by trustees for the purposes of calculating contributions and funding requirements. The main difference between the accounting and actuarial funding valuations is that different rates are used to discount the projected scheme liabilities. The accounting valuation uses yields on high quality corporate bonds and the actuarial funding valuation uses gilt yields. As the accounting discount rate is higher than the actuarial funding discount rate, this leads to a lower computed liability.

The triennial valuation of RMPP at 31 March 2018 was agreed on 19 July 2019. Based on this set of assumptions rolled forward, the RMPP actuarial surplus at 29 March 2020 was estimated to be around £575 million. The DBCBS will be subject to triennial actuarial valuations in the future and the first full valuation for this will be performed as at 31 March 2021. A draft DBCBS funding position has however been calculated based on the assumption that the funding surplus is equal to the amount held in respect of the risk reserve. Under this method, the DBCBS actuarial surplus was estimated to be around £18 million.

Below is a summary of the combined plans' assets and liabilities on an accounting (IAS 19) and actuarial funding basis.

5 In accordance with IAS 19.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. Retirement benefit plans (continued)

	DBCBS Accounting (IAS 19)		DBCBS Actuarial funding		RMPP and RMSEPP Accounting (IAS 19)		RMPP and RMSEPP Actuarial funding	
	At 29 March 2020 £m	At 31 March 2019 £m	**At 31 March 2020 £m**	At 31 March 2019 £m	**At 29 March 2020 £m**	At 31 March 2019 £m	**At 31 March 2020 £m**	At 31 March 2019 £m
Fair value of plans' assets (11(b) below)[6]	**730**	402	**735**	402	**11,989**	10,803	**11,700**	10,877
Present value of plans' liabilities	**(907)**	(474)	**(717)**	(393)	**(6,429)**	(7,097)	**(11,116)**	(10,818)
(Deficit)/surplus in plans (pre withholding tax payable)[7]	**(177)**	(72)	**18**	9	**5,560**	3,706	**584**	59
Withholding tax payable	**n/a**	n/a	**n/a**	n/a	**(1,946)**	(1,298)	**n/a**	n/a
(Deficit)/surplus in plans[8]	**(177)**	(72)	**18**	9	**3,614**	2,408	**584**	59

6 The difference between accounting and actuarial funding asset fair values on 29 and 31 March 2020 arises from the different year end dates used for the valuation of the assets, and in both years due to the valuation of the RMSEPP buy-in assets under both methods.
7 Any reference to a withholding tax adjustment relates to withholding tax payable on distribution of a pension surplus.
8 On an actuarial funding basis, the excess of DBCBS assets over liabilities is as a result of the risk reserve.

There is no element of the present value of the plans' liabilities above that arises from plans that are wholly unfunded.

Having taken legal advice with regard to the rights of the Group under the Trust deeds and rules, the Directors believe there is a right to recognise a pension surplus on an accounting basis. The Directors do not believe that the surplus in the RMPP on an accounting basis will result in a surplus on an actuarial funding basis. However, the Directors are required to account for the plans based on the Group's legal right to benefit from a surplus, using long-term actuarial funding assumptions current at the reporting date, as required by IFRS. As the Group has a legal right to benefit from a surplus in the RMPP and RMSEPP, under IAS 19 and IFRIC 14, it must recognise the economic benefit it considers to arise from either a reduction to its future contributions or a refund of the surplus. This is a technical adjustment made on an accounting basis. There is no cash benefit from the surplus.

The legal right to benefit from a surplus has not changed as a result of the Group's decision to close the RMPP, however any surplus is no longer considered to be recoverable as a reduction to future employer contributions. Therefore the surplus is considered to be available as a refund. This surplus is presented net of a withholding tax adjustment of £1,942 million (at 31 March 2019: £1,294 million) on the balance sheet, which represents the tax that would be withheld on the surplus amount.

Included in the IAS 19 figures in the table above is a RMSEPP surplus at 29 March 2020 of £10 million (pre-withholding tax payable) (at 31 March 2019: £10 million surplus). Any actuarial surplus will remain in the RMPP for the benefit of members until the point at which all benefits have been paid out or secured.

As the RMSEPP is also closed to future accrual, the surplus is considered to be available as a refund as per IFRIC 14 and, as such, is shown net of a withholding tax adjustment of £4 million (at 31 March 2019: £4 million) on the balance sheet, which represents the tax that would be withheld on the surplus amount.

The Company does not currently expect that the total cash contribution rate for all of the schemes as a percentage of pensionable pay will materially change over the next five years nor does it expect any deficit payments to be required.

Guaranteed Minimum Pensions (GMP)

Pension schemes are now under an obligation to address the issue of unequal Guaranteed Minimum Pensions (GMP). From Royal Mail's perspective, the transfer of RMPP's historical pension liabilities to HM Government in 2012, in accordance with the Postal Services Act 2011, included all of the Plan's GMP liabilities. The requirement to remove the inequality in former RMPP benefits deriving from GMPs therefore rests with Government.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. Retirement benefit plans (continued)[1]

Guaranteed Minimum Pensions (GMP) (continued)

The RMSEPP, however, does still have its GMP liabilities and will be required to take action to equalise benefits. The Trustees' actuaries estimate that the cost of GMP equalisation will be less than £0.5 million. This is still subject to further legal clarification on exact equalisation requirements, and also to the actual equalisation approach adopted.

The following disclosures relate to the major assumptions, sensitivities, assets and liabilities in the RMPP, RMSEPP and DBCBS.

a) Major long-term assumptions used for accounting (IAS 19) purposes – RMPP, RMSEPP and DBCBS

IAS 19 assumptions will be derived separately for the legacy RMPP and DBCBS, in particular taking into account the different weighted durations of the future benefit payments. The RMSEPP will continue in line with legacy RMPP benefits.

The major assumptions used to calculate the accounting position of the pension plans are as follows:

	At 29 March 2020	At 31 March 2019
Retail Price Index (RPI)	**2.5%**	3.2%
Consumer Price Index (CPI)	**1.7%**	2.2%
Discount rate – RMPP/RMSEPP[9]		
– nominal	**2.2%**	2.4%
– real (nominal less RPI)	**(0.3%)**	(0.8%)
Discount rate – DBCBS[10]		
– nominal	**2.2%**	2.2%
– real (nominal less RPI)	**(0.4%)**	(1.0%)
Rate of increase in pensionable salaries[11]	**RPI–0.1%**	RPI–0.1%
Rate of increase for deferred pensions	**CPI**	CPI
Rate of pension increases – RMPP Sections A/B	**CPI**	CPI
Rate of pension increases – RMPP Section C[11]	**RPI–0.1%**	RPI–0.1%
Rate of pension increases – RMSEPP members transferred from Section A or B of RMPP	**CPI**	CPI
Rate of pension increases – RMSEPP all other members[11]	**RPI–0.1%**	RPI–0.1%
Rate of pension increases – DBCBS benefits	**CPI+2.0%**	CPI+2.0%
Life expectancy from age 60 – for a current 40/60 year old male RMPP member	**28/26 years**	28/26 years
Life expectancy from age 60 – for a current 40/60 year old female RMPP member	**30/28 years**	29/27 years

9 The discount rate reflects the average duration of the RMPP benefits of around 27 years
10 The discount rate reflects the average duration of the DBCBS benefits of 15 years. The pension service cost applicable from 1 April 2019 is based on 31 March 2019 assumptions.
11 The rate of increase in salaries, and the rate of pension increase for Section C members (who joined the RMPP on or after April 1987) and RMSEPP 'all other members', is capped at five per cent, which results in the average long-term pension increase assumption being 10 basis points lower than the RPI long-term assumption.

Retail Price Index

Historically the Group's calculations have been based on an assumed gap of 100bps between RPI and CPI rates. The UK Statistics Authority and HM Treasury are however currently jointly consulting on reforming the methodology of the Retail Price Index (RPI) with a view to abolishing this measure and replacing this with something close to CPI as a universal measure of inflation. As a result, the market appears to be pricing in a narrower gap between RPI and CPI, particularly after 2030. The Group has therefore adjusted its assumption for this measure to an 80bps gap, being the weighted average of the expected gap over the duration of the liabilities. The impact of this adjustment is approximately £65 million for RMPP and £25 million for DBCBS. It is expected that the RPI CPI gap will continue to decrease in future periods.

Mortality

The RMPP assumptions are based on the latest Self-Administered Pension Scheme (SAPS) S2 mortality tables with appropriate scaling factors (118 per cent for male pensioners (2018-19: 118 per cent) and 116 per cent for female pensioners (2018-19: 116 per cent)). Future improvements are based on the CMI 2017 core projections (smoothing factor 8.0 (2018-19: 8.0)) with a long-term trend of 1.5 per cent per annum (2018-19: 1.5 per cent). These assumptions were adopted following a mortality study undertaken as part of the March 18 actuarial valuation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. Retirement benefit plans (continued)

Sensitivity analysis for RMPP and DBCBS liabilities

The RMPP and DBCBS liabilities are sensitive to changes in key assumptions. The potential impact of the largest sensitivities on the RMPP and DBCBS liabilities is as follows:

Key assumption change	Potential increase in DBCBS liabilities £m 2019-20	Potential increase in RMPP liabilities £m 2019-20
Additional one year of life expectancy	–	230
Increase in inflation rate (both RPI and CPI simultaneously) of 0.1% p.a.	13	155
Decrease in discount rate of 0.1% p.a.	13	155
Increase in CPI assumption (assuming RPI remains constant) of 0.1% p.a.	13	30
Increase in constructive obligation of 0.1% p.a.	13	–
Increase in inflation rate (both RPI and CPI simultaneously) of 0.5% p.a.	70	780
Decrease in discount rate of 0.5% p.a.	65	680
Increase in CPI assumption (assuming RPI remains constant) of 0.5% p.a.	70	170

This sensitivity analysis has been determined based on a method that assesses the impact on the defined benefit obligation, resulting from reasonable changes in key assumptions occurring at the end of the reporting year. The discount rate and RPI sensitivities are calculated using the mean term of the relevant section to derive the impact of a 0.1 per cent / 0.5 per cent change in assumption. For the RPI/CPI gap, the approach is the same for DBCBS, but for legacy RMPP, the liabilities as at 31 March 2019 are considered to derive an accurate impact in percentage terms. This percentage is then applied to the liabilities at March 2020. This approach is unchanged from the prior year, although any change in mean terms will impact the sensitivities. Changes inverse to those in the table (e.g. an increase in discount rate) would have the opposite effect on liabilities.

As a result of the current COVID-19 pandemic, there has been significant volatility in these assumptions in recent months. At the end of May corporate bond yields had fallen significantly and as a result the discount rate was 100 basis points lower than the rate at the year end date for the DBCBS scheme and 90 basis points lower than the rate at year end for the RMPP scheme. The majority of the scheme's liabilities are however, hedged with government gilts, and yields in these have decreased from 2.35 per cent to 1.52 per cent in the same period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. Retirement benefit plans (continued)

b) RMPP, RMSEPP and DBCBS assets

	At 29 March 2020			At 31 March 2019		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Equities						
UK	–	21	21	10	–	10
Overseas	21	33	54	319	74	393
Bonds						
Fixed interest – UK	292	18	310	268	69	337
– Overseas	137	82	219	56	394	450
Pooled investments						
Absolute return	–	496	496	–	649	649
Equity	–	86	86	–	152	152
Private equity	–	163	163	–	80	80
Fixed interest	–	402	402	–	501	501
Private debt	–	455	455	–	202	202
Property	–	59	59	–	52	52
Liability-driven investments[12]	9,104	234	9,338	7,126	270	7,396
Property (UK)	–	343	343	–	295	295
Cash and cash equivalents	468	–	468	385	–	385
Other	3	–	3	1	(6)	(5)
Derivatives	–	6	6	(7)	(20)	(27)
RMSEPP buy-in annuity policies	–	296	296	–	335	335
Total plans' assets	10,024	2,695	12,719	8,158	3,047	11,205

12 A portfolio of largely gilt and swap contracts that is designed to hedge the majority of the interest rate and inflation risk associated with the Plans' obligations. At 29 March 2020 it included £9.3 billion of index-linked gilts, £353 million in short-term money market funds and £132 million of swaps, offset by negative fair value investments of £505 million of repurchase agreements and £77 million of cash and similar instruments.

There were no open equity futures or options derivatives within this portfolio at 29 March 2020 (2018-19: £nil). £8.8 billion (2018-19: £7 billion) of HM Government bonds are primarily included in the liability-driven investments balance above. The plans' assets do not include property or assets used by the Group or shares of Royal Mail plc at 29 March 2020 (2018-19: £nil).

Risk exposure and investment strategy

The investment strategy of the RMPP Trustee aims to safeguard the assets of the Plan and to provide, together with contributions, the financial resource from which benefits are paid. Investments are inevitably exposed to risks. The risks inherent in the investment markets are partially mitigated by pursuing a widely diversified approach across asset classes and investment managers. The RMPP uses derivatives (such as swaps, forwards and options), from time to time to reduce risks whilst maintaining expected investment returns. The RMPP Trustee recognises that there is a natural conflict between improving the potential for positive return and limiting the potential for poor return. The RMPP Trustee has specified objectives for the investment policy that seeks to balance these requirements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. Retirement benefit plans (continued)

The RMPP's liabilities and assets are impacted by movements in interest rates and inflation. In order to reduce the risk of movements in these rates driving the RMPP into a funding deficit, the RMPP Trustee has hedged the funding liabilities which it was estimated would be built up by March 2018. It has done this predominantly through investment in index-linked gilts and derivatives (interest rate and inflation rate swaps and gilt repurchase agreements) held in liability-driven investments providing economic exposure to gilts and swap rates. The nature of risks and their mitigation process are similar for the DBCBS.

The change in value of the liability-hedging assets is predominantly reflected in the liability-driven investment values, which have increased from £7,396 million at 31 March 2019 to £9,338 million at 29 March 2020.

The notional value covered by the inflation rate swaps (full exposure to the relevant asset class incurred by entering into a derivative contract) held in a specific managed portfolio for this purpose at 29 March 2020 was £2.4 billion (2018-19: £2.4 billion). The notional value covered by the interest rate swaps at 29 March 2020 was £0.3 billion (2018-19: £1.5 billion).

The equity exposure of the RMPP has been reduced by means of a short Total Return Swap (TRS). This is a derivative that can be used to reduce exposure to a particular asset class without selling the physical assets held. TRS were introduced in order to reduce downside risk whilst broadly maintaining the existing expected returns. The TRS has a market value as at 29 March 2020 of £9 million (2018-19: £(20) million) included in the derivative values above. The TRS economically offsets £62 million at 29 March 2020 (2018-19: £303 million) of the Plan's global equity market exposure.

The RMPP's liabilities are impacted by longer than expected life expectancy resulting in higher than expected payout levels. Although this risk is not hedged, mortality studies are undertaken as part of actuarial funding valuations and where appropriate updated assumptions are adopted for accounting valuations.

A fall in yields on AA- rated corporate bonds, used to set the IAS 19 discount rates, will lead to an increase in the IAS 19 liabilities. The RMPP's assets included corporate bonds, HM Government bonds and interest rate derivatives that are expected to partly offset the impact of movements in the discount rate. However, yields on these assets may diverge compared with the discount rate in some scenarios.

In the pension schemes, many of the Inflation linked increases that apply are restricted to a maximum increase of five per cent in any year. Therefore, the pension schemes give some protection from this risk of significantly higher levels of inflation (i.e. above five per cent a year), as many of the increases in the schemes would be restricted to five per cent in this scenario.

The spread of investments continues to balance security and growth in order to pay the RMPP benefits when they become due.

In addition to property and cash, the RMSEPP holds two buy-in annuity policies totalling £296 million at 29 March 2020 (2018-19: £335 million) to match its liabilities.

Further details on key sources of estimation uncertainty relating to pension assets can be found in the significant accounting policies section, 'Key sources of estimation uncertainty and critical accounting judgments', including details on how the assets have been valued.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. Retirement benefit plans (continued)

c) Movement in RMPP and RMSEPP assets, liabilities and net position

Changes in the value of the defined benefit pension liabilities, fair value of the plans' assets and the net defined benefit surplus are analysed as follows:

	Defined benefit asset		Defined benefit liability		Net defined benefit surplus	
	2020 £m	2019 £m	**2020 £m**	2019 £m	**2020 £m**	2019 £m
Retirement benefit surplus (before withholding tax payable) at 1 April 2019 and 26 March 2018	**10,803**	10,361	**(7,097)**	(7,038)	**3,706**	3,323
Amounts included in the income statement:						
Ongoing UK defined benefit pension plan and administration costs (included in people costs)	**(9)**	(8)	**–**	(5)	**(9)**	(13)
RMSEPP settlement – operating specific item	**–**	(64)	**–**	–	**–**	(64)
Pension interest income/(cost)[13]	**258**	247	**(169)**	(168)	**89**	79
Total included in profit before tax	**249**	175	**(169)**	(173)	**80**	2
Amounts included in other comprehensive income – remeasurement gains/(losses)						
Actuarial gain/(loss) arising from:						
Financial assumptions	**–**	–	**751**	(197)	**751**	(197)
Demographic assumptions	**–**	–	**(17)**	169	**(17)**	169
Experience assumptions	**–**	–	**19**	67	**19**	67
Return on plans' assets (excluding interest income)	**1,020**	344	**–**	–	**1,020**	344
Total remeasurement gains of the defined benefit surplus	**1,020**	344	**753**	39	**1,773**	383
Other						
Employer contributions[14]	**1**	3	**–**	–	**1**	3
Employee contributions	**–**	–	**–**	–	**–**	–
Benefits paid	**(84)**	(78)	**84**	78	**–**	–
Curtailment costs	**–**	–	**–**	–	**–**	–
Movement in pension-related accruals	**–**	(2)	**–**	(3)	**–**	(5)
Total other movements	**(83)**	(77)	**84**	75	**1**	(2)
Retirement benefit surplus (before withholding tax payable) at 29 March 2020 and 31 March 2019	**11,989**	10,803	**(6,429)**	(7,097)	**5,560**	3,706
Withholding tax payable	**n/a**	n/a	**n/a**	n/a	**(1,946)**	(1,298)
Retirement benefit surplus (net of withholding tax payable) at 29 March 2020 and 31 March 2019	**n/a**	n/a	**n/a**	n/a	**3,614**	2,408

13 Pension interest income results from applying the plans' discount rate at 31 March 2019 to the plans' assets at that date. Similarly, the pension interest cost results from applying the plans' discount rate as at 31 March 2019 to the plans' liabilities at that date.
14 Excludes payments into pension escrow investments of £nil (2018-19: £7 million) but includes PSE contributions of £nil (2018-19: £1 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. Retirement benefit plans (continued)

d) Movement in DBCBS assets, liabilities and net position

Changes in the value of the defined benefit pension liabilities, fair value of the plans' assets and the net defined benefit deficit since the start of the scheme on 1 April 2018 are analysed as follows:

	Defined benefit asset		Defined benefit liability		Net defined benefit deficit	
	2020 £m	2019 £m	**2020 £m**	2019 £m	**2020 £m**	2019 £m
Retirement benefit at 1 April 2019 and 26 March 2018	**402**	–	**(474)**	–	**(72)**	–
Amounts included in the income statement						
Ongoing UK defined benefit pension plan and administration costs (included in People costs)	**(4)**	(2)	**(485)**	(465)	**(489)**	(467)
Pension interest income/(cost)[15]	**13**	–	**(16)**	–	**(3)**	–
Total included in profit before tax	**9**	(2)	**(501)**	(465)	**(492)**	(467)
Amounts included in other comprehensive income – remeasurement losses						
Actuarial gain/(loss) arising from:						
Financial assumptions	**–**	–	**49**	(16)	**49**	(16)
Experience assumptions	**–**	–	**(1)**	–	**(1)**	–
Return on plan assets	**(51)**	8	**–**	–	**(51)**	8
Total remeasurement (losses)/gains of the defined benefit deficit	**(51)**	8	**48**	(16)	**(3)**	(8)
Other						
Employer contributions[16]	**390**	403	**–**	–	**390**	403
Employee contributions	**4**	4	**(4)**	(4)	**–**	–
Benefits paid	**(24)**	(11)	**24**	11	**–**	–
Total other movements	**370**	396	**20**	7	**390**	403
Retirement benefit deficit at 29 March 2020 and 31 March 2019	**730**	402	**(907)**	(474)	**(177)**	(72)

15 Pension interest income results from applying the plans' discount rate at 31 March 2019 to the plans' assets at that date. Similarly, the pension interest cost results from applying the plans' discount rate as at 31 March 2019 to the plans' liabilities at that date.
16 Includes PSE contributions of £106 million (2018-19 £110 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12. Acquisition of businesses

This Note provides details of the acquisition of 100 per cent of the share capital of Mountain Valley Express (MVE) and Mountain Valley Freight Solutions (MVFS) by GLS.

On 30 September 2019, General Logistics Systems North America Inc., a subsidiary of General Logistics Systems (GLS), acquired MVE and MVFS, leading overnight and second day freight service providers based in California. This information includes the fair value of the identifiable assets and liabilities recognised as at the date of acquisition. Costs related to this acquisition recognised as an expense within other operating costs in the income statement amounted to £0.4 million.

	MVE and MVFS Total £m
Tangible assets acquired	17
Intangible assets recognised on acquisition	7
Trade and other receivables	5
Cash and cash equivalents	2
Goodwill recognised on acquisition	2
Total assets acquired	**33**
Trade and other payables	(3)
Loans and leases	(10)
Net assets acquired	**20**
Cash paid during the year	17
Consideration deferred	3
Total consideration	**20**

The fair value of trade debtors is equal to the gross contractual amounts receivable. A review of trade debtors did not indicate any recoverability issues.

The intangible assets recognised relate to customer lists and brands. The goodwill of £2 million arising on this acquisition is non-tax deductible.

No material fair value adjustments have been identified in respect of the remaining assets and liabilities acquired in the year.

Revenue generated from these entities since the date of acquisition is £22 million and profit is £1 million. If these combinations had taken place at the beginning of the financial year, revenue generated would have been £47 million and the profit would have been £3 million.

There are no non-controlling interests in relation to this acquisition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

13. Property, plant and equipment

Below are details of the Group's property, equipment and vehicle assets, including 'right of use assets' recognised on adoption of IFRS 16 'Leases', which are recorded at their historic cost less accumulated depreciation, reflecting their usage within the business over their useful life. Further information about the right-of use assets can be found in Note 14.

	Land and buildings £m	Plant and machinery £m	Motor Vehicles £m	Fixtures and equipment £m	Total £m
Cost					
At 31 March 2019	**3,008**	**1,180**	**763**	**424**	**5,375**
Adoption of IFRS 16	**944**	**14**	**83**	**4**	**1,045**
At 1 April 2019	**3,952**	**1,194**	**846**	**428**	**6,420**
Exchange rate movements	**23**	**7**	**2**	**5**	**37**
Reclassification[1]	**3**	**9**	**–**	**(2)**	**10**
Modifications	**15**	**2**	**–**	**–**	**17**
Additions	**234**	**63**	**126**	**26**	**449**
Disposals[2]	**(18)**	**(19)**	**(61)**	**(18)**	**(116)**
Acquisition of business (Note 12)	**8**	**1**	**8**	**–**	**17**
Reclassification to non-current assets held for sale	**(29)**	**–**	**–**	**–**	**(29)**
At 29 March 2020	**4,188**	**1,257**	**921**	**439**	**6,805**
Depreciation and impairment					
At 31 March 2019	**1,800**	**815**	**377**	**317**	**3,309**
At 1 April 2019	**1,800**	**815**	**377**	**317**	**3,309**
Exchange rate movements	**5**	**4**	**2**	**4**	**15**
Reclassification	**2**	**(2)**	**–**	**–**	**–**
Charge for the year	**213**	**78**	**88**	**33**	**412**
Impairment[3]	**34**	**18**	**-**	**6**	**58**
Disposals[2]	**(17)**	**(16)**	**(55)**	**(18)**	**(106)**
Reclassification to non-current assets held for sale	**(3)**	**–**	**–**	**–**	**(3)**
At 29 March 2020	**2,034**	**897**	**412**	**342**	**3,685**
Net book value:					
At 29 March 2020	**2,154**	**360**	**509**	**97**	**3,120**
At 1 April 2019	2,152	379	469	111	3,111
At 31 March 2019	1,208	365	386	107	2,066

1 Includes a £10 million balance sheet reclassification from inventories to plant and machinery.
2 Includes £31 million relating to the clear-down of balances relating to certain GLS assets that have been fully depreciated and are no longer in use.
3 Relates to the impairment of the Parcelforce Worldwide CGU outlined in Note 6.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

13. Property, plant and equipment (continued)

	Land and buildings £m	Plant and machinery £m	Motor vehicles £m	Fixtures and equipment £m	Total £m
Cost					
At 26 March 2018	2,886	1,152	724	400	5,162
Exchange rate movements	(6)	(3)	(1)	(1)	(11)
Reclassification	2	(2)	–	–	–
Additions	127	57	79	35	298
Disposals	(12)	(26)	(51)	(10)	(99)
Acquisition of business	3	2	12	–	17
Reclassification from non-current assets held for sale	8	–	–	–	8
At 31 March 2019	3,008	1,180	763	424	5,375
Depreciation and impairment					
At 26 March 2018	1,724	770	361	291	3,146
Exchange rate movements	(1)	(1)	(1)	(1)	(4)
Reclassification	2	(2)	–	–	–
Charge for the year[4]	89	72	60	37	258
Impairment	–	1	2	1	4
Disposals	(9)	(25)	(45)	(11)	(90)
Reclassification to non-current assets held for sale	(5)	–	–	–	(5)
At 31 March 2019	1,800	815	377	317	3,309
Net book value:					
At 31 March 2019	1,208	365	386	107	2,066
At 25 March 2018	1,162	382	363	109	2,016
Net book value comprises:					
Owned assets	1,194	296	167	107	1,764
Finance leased assets	14	69	219	–	302
At 31 March 2019	1,208	365	386	107	2,066

4 Includes £12 million accelerated depreciation relating to a reassessment of the remaining useful lives of letters sorting machinery, recognised prospectively in 'infrastructure costs' in the income statement.

Depreciation rates are disclosed within 'significant accounting policies'. No depreciation is provided on land, which represents £232 million (2018-19: £229 million) of the total cost of properties.

The net book value of the Group's property, plant and equipment includes £231 million (2018-19: £207 million) in respect of assets in the course of construction. The net book value of the Group's land and buildings includes £303 million (2018-19: £362 million) in respect of building fit-out.

The £459 million (2018-19: £298 million) additions include £3 million (2018-19: £1 million) borrowing costs capitalised at a rate of 2.5 per cent in relation to specific qualifying assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

14. Leases

This Note provides details of the Group's leased assets, including those 'right of use' (ROU) assets and corresponding liabilities recognised on the balance sheet on the adoption of IFRS 16 'Leases' on 1 April 2019, the first day of the reporting year.

The adoption of IFRS 16 significantly impacts the Group balance sheet at the 1 April 2019 transition date, ROU assets have been recognised as 'property, plant and equipment' along with the associated lease liabilities. Certain prepayment, onerous lease provision and rent incentive balances have also been impacted. The table below shows the line by line impact on the balance sheet.

IFRS 16 transition impact on the Group balance sheet

	Reported at 31 March 2019 £m	IFRS 16 impact £m	Reported at 1 April 2019 £m
Non-current assets			
Property, plant and equipment	2,066	**1,045**	**3,111**
Deferred tax assets	64	**–**	**64**
Other non-current assets	3,647	**–**	**3,647**
	5,777	**1,045**	**6,822**
Assets held for sale	36	**–**	**36**
Current assets			
Trade and other receivables	1,310	**(20)**	**1,290**
Other current assets	278	**–**	**278**
	1,588	**(20)**	**1,568**
Total assets	7,401	**1,025**	**8,426**
Current liabilities			
Trade and other payables	(1,883)	**4**	**(1,879)**
Lease liabilities	(37)	**(118)**	**(155)**
Provisions	(58)	**1**	**(57)**
Other current liabilities	(11)	**–**	**(11)**
	(1,989)	**(113)**	**(2,102)**
Non-current liabilities			
Lease liabilities	(88)	**(944)**	**(1,032)**
Deferred tax liabilities	(55)	**–**	**(55)**
Provisions	(104)	**1**	**(103)**
Other non-current liabilities	(546)	**32**	**(514)**
	(793)	**(911)**	**(1,704)**
Total liabilities	(2,782)	**(1,024)**	**(3,806)**
Net assets	4,619	**1**	**4,620**
Equity			
Retained earnings	4,576	**1**	**4,577**
Other equity	43	**–**	**43**
Total equity	4,619	**1**	**4,620**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

14. Leases (continued)

Reconciliation of operating lease commitments to the equivalent IFRS 16 lease liabilities at 31 March 2019

	£m
Undiscounted operating lease future minimum lease payments at 31 March 2019	(1,327)
Irrecoverable VAT included in future minimum lease payments at 31 March 2019[1]	88
Impact of discounting[2]	182
Short-term/low-value leases[3]	18
Other reconciling items (net)	(23)
IAS 17 operating lease liabilities at 31 March 2019 in scope for IFRS 16	**(1,062)**

1 Irrecoverable VAT was included in the operating lease commitments at 31 March 2019, under IFRS 16 this irrecoverable VAT is not included in the lease liability.
2 The previously disclosed lease commitments are undiscounted, whilst the IFRS 16 obligations have been discounted using RMG's incremental borrowing rate.
3 The Group has elected to apply the exemption from recognising leases for short-term and low value assets on the balance sheet.

The Group primarily leases office buildings and letter and parcel processing facilities. At 29 March 2020 the Group held approximately 1,110 land and building leases (994 at 1 April 2019 on transition to IFRS 16). The Group also has leases for some of its vehicle fleet and plant and equipment used in the operation. Leases are negotiated on an individual basis and may include extension or termination options.

The lease liabilities are reported as follows in the balance sheet:

	At 29 March 2020	At 31 March 2019
Lease liabilities	**Present value of lease payments £m**	Present value of lease payments £m
Current liabilities		
Lease liabilities due within one year	**(201)**	(37)
Non-current liabilities		
Lease liabilities due between one and five years	**(575)**	(74)
Lease liabilities due beyond five years	**(412)**	(14)

The right of use assets resulting from lease agreements are detailed below.

Right of use assets	Land and Buildings £m	Plant and machinery £m	Motor vehicles £m	Fixtures and equipment £m	Total £m
At 29 March 2020					
Cost	**1,096**	**195**	**504**	**4**	**1,799**
Additions	109	3	29	–	141
Accumulated depreciation and impairment losses	**(133)**	**(125)**	**(275)**	**(1)**	**(534)**
Depreciation charge	(128)	(25)	(55)	(1)	(209)
Carrying amount	**963**	**70**	**229**	**3**	**1,265**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

14. Leases (continued)

Leases in the income statement

Leases are presented in the income statement as detailed below.

	52 weeks 2020 £m
Other operating income	
Sublease income	**3**
Material expenses	
Expenses from short-term/low-value leases	**(44)**
Variable lease payments not included in the measurement of lease liabilities	**(10)**
Depreciation and impairment losses	
Depreciation of right-of-use assets	**(209)**
Net finance costs	
Interest expense on lease liabilities	**(30)**

The Group engages in sale and leaseback transactions for plant and machinery and vehicles, cash received from these transactions in the year was £6 million (2018-19: £13 million).

The Group has £6 million of lease liabilities and right of use assets that are unrecognised at 29 March 2020 resulting from leases that have been signed but are yet to commence.

At 29 March 2020, the Group have signed a conditional agreement for a lease. Subject to discharge of the conditions, the intention is to complete the lease during the 2021-22 financial year. When completed, the lease liability and right of use asset to be recognised is expected to be approximately £80 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15. Goodwill

This Note provides details of the Group's goodwill, which mostly relates to its overseas subsidiary, GLS.

	2020 £m	2019 £m
Cost		
At 1 April 2019 and 26 March 2018	**821**	715
Exchange rate movements	**25**	(7)
Acquisition of businesses	**2**	113
At 29 March 2020 and 31 March 2019	**848**	821
Impairment		
At 1 April 2019 and 26 March 2018	**441**	391
Exchange rate movements	**17**	(3)
Impairments (Operating specific item)	**–**	53
At 29 March 2020 and 31 March 2019	**458**	441
Net book value:		
At 29 March 2020 and 31 March 2019	**390**	380
At 31 March 2019 and 25 March 2018	**380**	324

GLS Europe

The carrying value of goodwill of £390 million (2018-19: £380 million) at the balance sheet date includes £270 million (2018-19: £257 million) in relation to GLS' European network (GLS Europe CGU - cash generating unit). The carrying value of the GLS European network, is £787 million. The CGU has been assessed for impairment by comparing the carrying value of the CGU to its recoverable amount, being the CGU's value in use. The value in use has been calculated by discounting cash flows for a five year period with the period beyond five years assumed to have a perpetuity growth rate of 0.4 per cent. All cash flows of the CGU have been discounted to present value at the CGU's post-tax WACC of 9.0 per cent. The pre-tax discount rate was 10.0 per cent. The recoverable amount was deemed to be significantly in excess of the carrying value of the CGU.

GLS US excluding Mountain Valley Express (MVE)

The GLS US businesses represent two separate CGUs, comprising the US West coast operations (Golden State Overnight Delivery Services Inc. (GSO) and Postal Express Inc. (PEX)), and the newly acquired Mountain Valley Express and Mountain Valley Freight Solutions businesses. In the prior year, all the goodwill in the GSO/PEX CGU was fully impaired, along with other tangible and intangible fixed assets. The GLS US turnaround plan, initiated last year, is progressing well with losses in GSO and PEX reduced by £7m during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15. Goodwill (continued)

Mountain Vallley Express (MVE)

During the reporting year, GLS acquired Mountain Valley Express and Mountain Valley Freight Solutions (together 'MVE') which resulted in the recognition of £2 million goodwill. An impairment review was performed comparing the carrying amount of the MVE CGU of £20 million, to its recoverable amount. The recoverable amount has been calculated by discounting cash flows for a five year period with the period beyond five years assumed to have a perpetuity growth rate of 0.7 per cent. All cash flows of the CGU have been discounted to present value at the CGU's post-tax WACC of 13.0 per cent. The pre-tax discount rate was 18.0 per cent. This impairment assessment identified that the CGU has headroom of £9 million.

GLS Canada

In the prior reporting year, GLS acquired Dicom Canada which resulted in the recognition of £110 million goodwill. The value of the goodwill at 29 March 2020 is £106 million. The carrying value of this CGU is £211 million.

To assess the CGU for impairment, the carrying amount has been compared to its value in use which has been calculated by discounting cash flows covering a period of five years with the period beyond five years assumed to have a perpetuity growth rate of 1.4 per cent. All cash flows have been discounted to present value using a post-tax discount rate of 10.0 per cent. The pre-tax discount rate was 13.0 per cent. Based on these assumptions the CGU has a headroom of £29 million.

For the MVE and GLS Canada CGUs, sensitivity analysis has been conducted on the impairment tests for each of the key assumptions. The assumptions used and the impact of sensitivities on these assumptions are shown below.

				Used in impairment assessment		Rate required to erode headroom	
	Carrying value	Goodwill	Value in use	Discount rate (post tax)	Perpetuity growth rate	Discount rate (post tax)	Perpetuity (decline) rate
CGU	£m	£m	£m	%	%	%	%
Mountain Valley Express (MVE)	20	2	29	13.0	0.7	17.4	(8.3)
GLS Canada	211	106	240	10.0	1.4	11.1	(0.1)

The remaining goodwill of £13 million (2018-19: £13 million) arising from an aggregation of goodwill on business acquisitions, each being a separate CGU within the UKPIL segment, is supportable but not material in the context of the Group's total goodwill.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16. Intangible assets

Intangible assets, mainly software, are recorded in the same way as the Group's physical assets such as property and vehicles, but with shorter useful lives over which they are amortised (one to ten years).

	2020					2019				
	Master franchise licences £m	**Customer listings £m**	**Software £m**	**Brands £m**	**Total £m**	Master franchise licences £m	Customer listings £m	Software £m	Brands £m	Total £m
Cost										
At 1 April 2019 and 26 March 2018	**21**	**157**	**1,025**	**27**	**1,230**	21	76	945	18	1,060
Exchange rate movements	**3**	**2**	**3**	**1**	**9**	–	(6)	(2)	2	(6)
Additions	**–**	**–**	**75**	**–**	**75**	–	–	94	–	94
Disposals[1]	**–**	**(36)**	**(16)**	**–**	**(52)**	–	–	(22)	–	(22)
Acquisition of business	**–**	**6**	**–**	**1**	**7**	–	87	10	7	104
At 29 March 2020 and 31 March 2019	**24**	**129**	**1,087**	**29**	**1,269**	21	157	1,025	27	1,230
Amortisation and impairment										
At 1 April 2019 and 26 March 2018	**21**	**62**	**495**	**21**	**599**	21	48	373	10	452
Exchange rate movements	**3**	**3**	**2**	**–**	**8**	–	(3)	(1)	2	(2)
Charge for the year[2]	**–**	**12**	**110**	**1**	**123**	–	10	138	5	153
Impairment[3]	**–**	**–**	**33**	**–**	**33**	–	7	7	4	18
Disposals[1]	**–**	**(36)**	**(16)**	**–**	**(52)**	–	–	(22)	–	(22)
At 29 March 2020 and 31 March 2019	**24**	**41**	**624**	**22**	**711**	21	62	495	21	599
Net book value:										
At 29 March 2020 and 31 March 2019	**–**	**88**	**463**	**7**	**558**	–	95	530	6	631
At 31 March 2019 and 25 March 2018	–	95	530	6	631	–	28	572	8	608

1 Includes £26 million relating to the clear-down of balances relating to certain GLS assets that have been fully depreciated and are no longer in use.
2 Includes £nil (2018-19: £30 million) impairment relating to certain operational assets, recognised in 'infrastructure costs' in the income statement.
3 Relates to the impairment of the Parcelforce Worldwide CGU discussed in Note 6.

The intangible assets detailed above have finite lives and are being written down on a straight-line basis. The net book value of the Group's intangible assets includes £60 million (2018-19: £81 million) in respect of assets in the course of construction. The £75 million (2018-19: £94 million) additions include £1 million (2018-19: £1 million) of borrowing costs capitalised at a rate of 2.5 per cent (2018-19: 2.5 per cent) in relation to specific qualifying assets.

The Group holds individually material intangible assets totalling £162 million (2018-19: £212 million). These assets relate to various IT initiatives taking place across the business. They have an average remaining useful life of seven years (2018-19: eight years).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17. Investments in associates

This Note provides details of the Group's associate companies, including the Group's share of the revenue, profit and net assets of these entities.

Details of the associates of the Group are listed below. To ensure that the reported share of the results of these companies aligns with the Group's reporting year ended 29 March 2020 (2018-19: 31 March 2019), information provided by each of the respective companies is analysed and an estimate of profit/loss accrued as appropriate.

	Principal activities	Country of incorporation	Reporting date	**% ownership 2020**	% ownership 2019
Associate company					
JICMAIL Limited	Market research	United Kingdom	31 March	**20.0**	20.0
Quadrant Catering Limited	Catering services	United Kingdom	30 September	**51.0**	51.0
Market Engine Global Pty Limited	Software development	Australia	30 June	**34.5**	34.5

The majority of board membership and voting power to direct relevant activities in Quadrant Catering Limited (Quadrant) is held by the other investor company. For this reason, it is Management's view that the Group does not have control over Quadrant. It is therefore not considered to be a subsidiary in line with IFRS 10 'Consolidated Financial Statements'.

Movements in interests in associates

	2020 £m	2019 £m
Cost		
At 1 April 2019 and 26 March 2018	**5**	5
At 29 March 2020 and 31 March 2019	**5**	5

There are no significant restrictions on the ability of the associates to transfer funds to the Group in the form of cash dividends or repayment of loans and advances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18. Share-based payments

This Note provides details about the Free Shares awarded to employees, including the associated accounting charge to the Group's income statement under IFRS 2 'Share-based Payment', and the number of shares held at the end of the reporting year. Details of shares awarded under the Long-Term Incentive Plan (LTIP) and Deferred Shares Bonus Plan (DSBP) are also included.

Employee Free Shares

Employee Free Shares are held on behalf of employees in a tax-advantaged Share Incentive Plan (SIP).

The shares are held in a Trust administered by Equiniti Share Plan Trustees Limited (Equiniti) and may only be distributed to, or for the benefit of, eligible employees. The Trust is funded by the Company and has therefore been consolidated within these financial statements.

2016 SIP

On 6 October 2016, ordinary shares representing one per cent of the Company were granted free of charge to eligible full-time employees by HM Government. Accordingly, each eligible full-time employee received 81 shares as their 2016 SIP allocation with part-time eligible employees being allocated a pro-rata number of shares. The vesting period for the award is three years from the award date with all allocated shares to be equity-settled.

Partnership and matching shares

Beginning in October 2018, a partnership and matching share scheme was introduced for eligible employees. Under the terms of the scheme employees may elect to purchase a limited number of Royal Mail plc shares through monthly payroll deductions at the current market price (partnership shares). For every five partnership shares purchased, the employee receives one unallocated SIP share (matching shares), up to a maximum of two matching shares per month, free of charge.

At 29 March 2020 there had been eighteen (2018-19: six) such monthly awards and a total of 587,056 (2018-19: 191,468) matching shares had been awarded to eligible staff members at a weighted average market price of 239.8 pence (2018-19: 295.7 pence). The vesting period for each award is three years from the award date with all allocated shares to be equity-settled.

A charge to the income statement of £4 million (including a net £3 million National Insurance credit) has been made for the year ended 29 March 2020 (2018-19: £22 million charge including a net £1 million National Insurance credit) for all SIP allocations

A reconciliation of the ordinary shares held in the SIP at 29 March 2020 and 31 March 2019 is shown below.

	Number of shares 2019-20	Number of shares 2018-19
Total shares remaining in SIP at 1 April 2019 and 26 March 2018	**75,183,435**	81,917,180
Shares sold/transferred out of SIP during the reporting year (fully vested)	**(2,897,538)**	(2,368,290)
Shares transferred out of SIP during the reporting year ('good leavers')[1]	**(4,103,624)**	(4,365,455)
Total shares remaining in SIP at 29 March 2020 and 31 March 2019	**68,182,273**	75,183,435

1 'Good leavers' refers to former employees whose shares vested under specific circumstances, in accordance with the rules of the scheme.

Of the total shares remaining in the scheme, 65,863,180 (2018-19: 72,589,514) have been allocated to current employees. The remaining 2,319,093 (2018-19: 2,593,921) shares are unallocated and have arisen as a result of forfeitures.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18. Share-based payments (continued)

Award of shares under the Long-Term Incentive Plan (LTIP)

2017 LTIP

LTIP awards were granted to senior management on 28 July 2017 and 11 December 2017 (together the 2017 LTIP). The vesting period of three years from 1 April 2017, and the performance conditions, are identical for both awards. These awards are equity-settled with the fair value of the shares awarded being calculated using a Monte-Carlo simulation, taking into account dividend accrual, and set at 203.0 pence and 283.0 pence, respectively. The 2017 LTIP did not vest, as the threshold performance level over the period to 29 March 2020 was not achieved and has lapsed in full.

2018 LTIP

LTIP awards were granted to senior management on 9 August 2018 (2018 LTIP) with a vesting period of three years from 1 April 2018. This award is equity-settled with the fair value of the shares awarded being calculated using a Monte-Carlo simulation, taking into account dividend accrual, and set at 160.0 pence. The maximum number of shares that have the potential to vest under the 2018 LTIP are 893,551.

2019 LTIP

LTIP awards were granted to senior management on 8 August 2019 and 12 December 2019 (together the 2019 LTIP) with a vesting period of three years from 1 April 2019. This award is equity-settled with the fair value of the shares awarded being calculated using a Monte-Carlo simulation, taking into account dividend accrual, and set at 84.0 pence (August 2019 award) and 211.0 pence (December 2019 award) for market based conditions and 100.0 pence (August 2019 award) and 232.0 pence (December 2019 award) for non-market based conditions. The maximum number of shares that have the potential to vest under the 2019 LTIP are 2,298,348.

A charge to the income statement of £2 million (including £nil million for National Insurance) has been made for the year ended 29 March 2020 in relation to all LTIP schemes (2018-19: £3 million, including £1 million credit for National Insurance).

The LTIP shares are not part of the SIP explained above. Further details of each LTIP plan, including performance conditions, can be found in the Directors' Remuneration Report on page 128.

Deferred Shares Bonus Plan (DSBP)

2016 DSBP

DSBP awards were granted to senior management on 20 June 2017. The vesting period is three years from grant date. This award is equity-settled with the fair value of the shares awarded, being set at the grant date market value of 441.4 pence. The maximum number of shares that have the potential to vest under the scheme are 557,261.

2017 DSBP

DSBP awards were granted to senior management on 20 June 2018. The vesting period is three years from grant date. This award is equity-settled with the fair value of the shares awarded, being set at the grant date market value of 506.5 pence. The maximum number of shares that have the potential to vest under the scheme are 453,212.

2018 DSBP

DSBP awards were granted to senior management on 18 July 2019. This award is equity-settled with the fair value of the shares awarded, being set at the grant date market value of 218.7 pence. Some awards vest two years after the grant date (the maximum number of shares that have the potential to vest under this tranche are 916,234) and 109,737 shares vest three years after the grant date.

A charge to the income statement of £2 million (including £nil million for National Insurance) has been made for the year ended 29 March 2020 in relation to all DSBP schemes (2018-19: £3 million, including £nil million credit for National Insurance).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

19. Non-current assets held for sale

This Note provides details of the assets classified as held for sale at the beginning and end of the reporting year. Assets and liabilities are classified in this way when their carrying value is to be recovered principally through a sale transaction and a sale is considered highly probable. Their value in the balance sheet is the lower of their carrying amount and fair value less costs to sell. At the reporting date of 29 March 2020, only certain surplus property assets are held for sale.

The balance sheet values of the assets held for sale during the reporting year are shown below.

	At 29 March 2020 £m	At 31 March 2019 £m
Property assets held for sale	**25**	36
Total	**25**	36

Property assets held for sale

Non-current assets held for sale of £25 million (2018-19: £36 million) relate to land and buildings in UKPIL which are being actively marketed with a view to a sale within 12 months. The carrying value mainly relates to the remaining plots at the Nine Elms site.

The decrease in the carrying value results primarily from the sale of certain property in the period, most notably two plots at the Nine Elms site. An assessment of the fair value of all of the properties was made at the time of their reclassification to 'held for sale' and no adjustment to the carrying amount of these properties was necessary.

20. Current trade and other receivables

The following information relates to amounts owed to the Group by third parties and also the loss allowance for bad and doubtful debts that the Group has provided for in the financial statements.

	At 29 March 2020 £m	At 31 March 2019 £m
Trade receivables	**1,165**	1,176
Accrued income	**27**	31
Prepayments	**90**	103
Total	**1,282**	1,310

Movements in the loss allowance for bad and doubtful debts are shown below.

	2020 £m	2019 £m
At 1 April 2019 and 26 March 2018	**(39)**	(36)
Receivables provided for during the year	**(64)**	(17)
Release of allowance	**14**	5
Utilisation of allowance	**20**	10
Acquisition of business	**–**	(1)
At 29 March 2020 and 31 March 2019	**(69)**	(39)

The Group's approach to loss allowance for bad and doubtful Debts is explained in 'Statutory accounting policies'.

The age profile of the trade receivables balance is shown below.

	At 29 March 2020 £m	At 31 March 2019 £m
Not yet overdue	**1,039**	1,046
Past due not more than one month	**105**	101
Past due more than one month and not more than two months	**13**	16
Past due more than two months	**8**	13
Total	**1,165**	1,176

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

21. Cash and cash equivalents

This Note details the Group's cash balance and other short-term investments that can be readily converted into cash.

	At 29 March 2020 £m	At 31 March 2019 £m
Cash at bank and in hand	**209**	141
Client cash	**21**	20
Cash equivalent investments: Short-term bank and money market fund investments	**1,410**	75
Total	**1,640**	236

Cash and cash equivalents comprise amounts held physically in cash, bank balances available on demand and deposits for three months or less, dependent on the immediate cash requirements of the Group. Where interest is earned, this is either at floating or short-term fixed rates based upon bank deposit rates.

Client cash is cash collected from consignees by GLS on behalf of its posting customers. It is maintained in separate bank accounts to the cash of the business so it can be tracked and reconciled.

22. Current trade and other payables

The following details relate to amounts owed by the Group to third-parties and deferred revenue for services still to be provided.

	At 29 March 2020 £m	At 31 March 2019 £m
Trade payables and accruals	**(1,490)**	(1,369)
Advance customer payments (mainly for stamps held, not yet used by customers)	**(294)**	(291)
Social security	**(128)**	(126)
Client creditors	**(31)**	(28)
Capital expenditure payables	**(83)**	(60)
Other	**(15)**	(9)
Total	**(2,041)**	(1,883)

The fair value of trade and other payables is not materially different from the carrying value. The average credit period taken for trade purchases is 41 days (2018-19: 40 days).

The Group operates a supply chain finance arrangement for small and medium suppliers. This form of reverse financing allows suppliers to obtain early access to funding. Suppliers may choose to access payment as soon as their invoices are processed rather than Royal Mail standard payment terms by paying a financing fee to the scheme provider. The Group pays the provider of the scheme on the due date of the invoices, therefore this scheme does not assist the Group in the management of working capital.

As the scheme has not led to a substantial modification in the terms of the financial liability, the Group continues to treat the amounts owed within trade payables. All cash flows associated with the programme are included within operating cash flows as they continue to be part of the normal operating cycle of the Group. There is no impact on net debt, as amounts owed continue to be reported within trade payables.

The balance owed on the facility at 29 March 2020 was £25 million (31 March 2019: £27 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

23. Loans and borrowings

Details of loans and borrowings, including interest rates, additional loan facilities available and any security provided against the loans, are provided below.

At 29 March 2020	Loans and borrowings £m	Further committed facility £m	Total facility £m	Average interest rate of loan drawn down %	Basis of interest rate chargeable	Average maturity date of loan drawn down Year	Average maturity date of loan facility Year
Syndicated bank loan facilities	**700**	**225**	**925**	**0.9**	**LIBOR plus 0.70%[1]**	**2020**	**2024**
€500 million bond – 2.375% Senior Fixed Rate Notes	**446**	**–**	**446**	**2.5**	**Fixed at 2.5%**	**2024**	**2024**
€550 million bond – 1.25% Senior Fixed Rate Notes	**489**	**–**	**489**	**2.7[2]**	**Fixed at 2.7%[2]**	**2026**	**2026**
Total	**1,635**	**225**	**1,860**	**1.9**		**2023**	**2025**

1 The total margin over LIBOR consists of a 0.40 per cent margin and a utilisation fee of 0.30% (as the facility was over two thirds drawn at 29 March 2020, the utilisation fee is 0.075 per cent when the facility is under one third drawn).
2 On 8 October 2019, Royal Mail plc issued a €550 million bond with coupon of 1.25 per cent and maturity date of 8 October 2026. To hedge the foreign exchange risk, Royal Mail chose to take out a cross currency swap. The combined interest rate of the coupon and the cross currency swap is 2.7 per cent.

At 31 March 2019	Loans and borrowings £m	Further committed facility £m	Total facility £m	Average interest rate of loan drawn down %	Basis of interest rate chargeable	Average maturity date of loan drawn down Year	Average maturity date of loan facility Year
Syndicated bank loan facilities	–	1,050	1,050	n/a	LIBOR plus 0.55%	n/a	2022
€500 million bond – 2.375% Senior Fixed Rate Notes	430	–	430	2.5	Fixed at 2.5%	2024	2024
Loans in overseas subsidiaries	1	–	1	0.9	Fixed at 0.9%	2022	2022
Total	431	1,050	1,481	2.5		2024	2022

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

23. Loans and borrowings (continued)

The €500 million bond, issued in July 2014, is shown net of issue discount and fees and at a closing spot rate of £1/€1.118 (2018-19: £1/€1.158). The effective interest rate on the bond of 2.5 per cent (2018-19: 2.5 per cent) consists of the interest coupon of 2.375 per cent (2018-19: 2.375 per cent) plus the unwinding of the discount and fees on issuing the bond of 0.08 per cent (2018-19: 0.08 per cent). The bond is designated as a hedge of the net investment in GLS, which has the Euro as its functional currency. During the year, a loss of £15 million (2018-19: £5 million gain) on the retranslation of this borrowing was transferred to other comprehensive income, which offsets the gains on translation of the net investment in GLS. There was no hedge ineffectiveness in the current or comparative reporting years.

On 8 October 2019, Royal Mail plc issued a €550 million bond with coupon of 1.25 per cent and maturity date of 8 October 2026. To hedge the foreign exchange risk, Royal Mail chose to take out a cross currency swap. The combined interest rate of the coupon and the cross currency swap is 2.7 per cent. The €550 million bond is shown net of issue discount and fees and at a closing spot rate of £1/€1.118. The effective interest rate on the bond plus the cross currency swap (2.7 per cent) consists of the interest coupon of 1.25 per cent plus the effects of the cross currency swap (1.00 per cent) and the unwinding of the discount and fees on issuing the bond (0.40 per cent). The revaluation of the bond is hedged by the cross currency swap. The exchange rate on the Bond on issue in October 2019 of £1/€1.120 was similar to the closing spot rate of £1/€1.118, meaning that there was no material loss on the retranslation of this borrowing and no corresponding movements on the cross currency swap. There was no hedge ineffectiveness in the current year.

The syndicated bank loan facility can be cancelled and any loans drawn under the facility can become repayable immediately on the occurrence of an event of default under the loan agreements. These events of default include non-payment, insolvency and breach of covenants. On 24 June 2020, a covenant amendment was agreed that waived the financial covenants relating to interest (excluding arrangement fees), adjusted net debt and EBITDA until March 2022, replacing them with a quarterly minimum liquidity covenant. It is not anticipated that the Group is at risk of breaching any of these amended obligations.

The existing financial covenants require the Group to maintain the (leverage) ratio of adjusted net debt to EBITDA below 3.5:1 and EBITDA to interest (excluding certain arrangement fees) above 3.5:1. The covenant ratios are calculated on an IAS 17 basis for leases. Adjusted net debt consists of net debt less leases capitalised under IFRS 16, plus Letters of Credit (contingent liabilities in respect of the UKPIL insurance programme, where the possibility of an outflow of economic benefits is considered remote) and is adjusted for exchange rate movements during the year. EBITDA is adjusted to deduct operating lease expense on leases capitalised under IFRS 16 and to remove transformation costs and certain specific items (the pension charge to cash difference is not removed). Interest is adjusted to remove interest on leases capitalised under IFRS 16. The Group's leverage ratio at 29 March 2020 is 0.2:1 (2018-19: 0.5:1). The Group's ratio of EBITDA to interest at 29 March 2020 is 36.0:1 (2018-19: 72.8:1). Accordingly, the Group comfortably meets the covenants tests within its syndicated bank loan facilities agreement. The minimum liquidity covenant requires the Group to maintain at least £250 million of liquidity defined as cash, cash equivalent, current asset investments and undrawn, committed facilities (excluding the Covid Corporate Financing Facility).

The interest rate chargeable on the syndicated bank loan facility would increase if more than one third of the facility was drawn and also if the Group's leverage ratio exceeded 1:1. Under the loan agreement, the maximum interest rate chargeable would be LIBOR plus 2.05 per cent. The €500 million bond and the €550 million bond become repayable immediately on the occurrence of an event of default under the bond agreements. These events of default include non-payment and insolvency. It is not anticipated that the Group is at risk of breaching any of these obligations.

The undrawn committed facilities, in respect of which all conditions precedent had been met at the balance sheet date, were £225 million maturing in September 2024 (2018-19: £1,050 million of which £952 million maturing in March 2020 and £98 million maturing in March 2020).

There is no security in place under the syndicated bank loan facilities or the bonds.

The syndicated bank loan facility contains provision on a change of control of the Group for negotiation of the continuation of the agreement or cancellation by a lender. The €500 million bond and the €550 million bond both contain provisions such that, on a change of control that is combined with a credit rating downgrade in certain circumstances, the noteholders may require the Group to redeem or, at the Group's option, purchase the notes for their principal amount, together with interest accrued to (but excluding) the date of redemption or repurchase.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

24. Financial assets and liabilities and risk management

In considering the financial assets and liabilities of the Group, Management use judgement to assess the materiality to users of the financial statements, at a Group level, of each of the disclosure areas highlighted in IFRS 7 'Financial instruments: Disclosures'. This assessment is based on both the magnitude and nature of the financial instruments involved and informs the level of disclosure of the risk management objectives and policies in place across the Group provided in this Note.

The following table summarises the disclosures:

Disclosure requirement
a) Classification, carrying amount and fair values of financial assets and liabilities – Carrying amounts and fair value of each category of financial assets and liabilities.
b) Movement in liabilities arising from financing activities – A reconciliation of the opening and closing balances of liabilities arising from financing activities.
c) Foreign currency risk management – How Management addresses the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.
d) Commodity price risk management – How Management addresses the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.
e) Interest rate risk management – How Management addresses the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.
f) Liquidity risk management – How Management addresses the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.
g) Credit risk management – How Management addresses the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.
h) Sensitivity analysis – How the income statement and balance sheet would have been affected by changes in commodity prices and exchange rates in the reporting year.

a) Classification, carrying amount and fair value of financial assets and liabilities

The following table shows the classification, carrying amount and fair value of the Group's financial assets.

	Level	Classification	At 29 March 2020 Carrying amount £m	At 29 March 2020 Fair value £m	At 31 March 2019 Carrying amount £m	At 31 March 2019 Fair value £m
Financial assets						
Cash	1		**230**	**230**	161	161
Cash equivalent investments	1		**1,410**	**1,410**	75	75
Money market funds		FVTPL	**1,370**	**1,370**	35	35
Short-term deposits – bank		Amortised cost	**40**	**40**	40	40
Cash and cash equivalents	1		**1,640**	**1,640**	236	236
Current asset investments – short-term deposits – bank	1	Amortised cost	**30**	**30**	–	–
Pension escrow investments	1	FVTPL	**201**	**201**	207	207
Trade and other receivables	2	Amortised cost	**1,282**	**1,282**	1,310	1,310
Derivative assets (current)	2	FVTPL	**5**	**5**	8	8
Derivative assets (non-current)	2	FVTPL	**–**	**–**	4	4
Total financial assets			**3,158**	**3,158**	1,765	1,765

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

24. Financial assets and liabilities and risk management (continued)

The following table shows the classification, carrying amount and fair value of the Group's financial liabilities.

	Level	Classification	At 29 March 2020 Carrying Amount £m	At 29 March 2020 Fair Value £m	At 31 March 2019 Carrying Amount £m	At 31 March 2019 Fair Value £m
Financial liabilities						
Sydicated bank loans (current loans and borrowings)	2	Amortised cost	**(700)**	**(701)**	–	–
Obligations under leases (current)	2	Amortised cost	**(201)**	**(201)**	(37)	(37)
€500 million bond	2	Amortised cost	**(446)**	**(467)**	(430)	(454)
€550 million bond	2	Amortised cost	**(489)**	**(465)**	–	–
Loans in overseas subsidiaries (non-current loans and borrowings)	2	Amortised cost	**–**	**–**	(1)	(1)
Obligations under leases (non-current)	2	Amortised cost	**(987)**	**(982)**	(88)	(95)
Trade and other payables	2	Amortised cost	**(2,041)**	**(2,041)**	(1,883)	(1,883)
Derivative liabilities (current)	2	FVTPL	**(35)**	**(35)**	(3)	(3)
Derivative liabilities (non-current)	2	FVTPL	**(32)**	**(32)**	(2)	(2)
Total financial liabilities			**(4,931)**	**(4,924)**	(2,444)	(2,475)
Net total financial liabilities			**(1,773)**	**(1,766)**	(679)	(710)

Derivatives that do not qualify for hedge accounting are classified as fair value through profit and loss (FVTPL) and any gains or losses arising from changes in fair value are taken directly to the income statement in the year. The 'Level' classification in the above table is explained in the 'Fair value measurement of financial instruments' section of 'Significant accounting policies'.

The main purpose of these financial instruments is to raise finance and manage the liquidity needs of the business' operations. The Group has various other financial instruments such as trade receivables and trade payables which arise directly from operations and are not considered further in this Note.

No speculative trading in financial instruments has been undertaken during the current or comparative reporting years, in line with Group policy.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

24. Financial assets and liabilities and risk management (continued)

b) Movement in liabilities arising from financing activities

The following table reconciles the opening and closing balances of liabilities arising from financing activities.

	Interest-bearing loans and borrowings (current) £m	Interest-bearing loans and borrowings (non-current) £m	Obligations under leases (current) £m	Obligations under leases (non-current) £m	Total £m
At 1 April 2019	–	(431)	(155)	(1,032)	(1,618)
Movements through income statement					
Interest payable on financial liabilities	–	(17)	–	(30)	(47)
Movements through cash flow					
Finance costs paid	–	16	–	30	46
Drawdown of loan facility	(700)	–	–	–	(700)
Bond Issue	–	(489)	–	–	(489)
Repayment of loans and borrowings	–	1	–	–	1
Payment of capital element of lease contracts	–	–	172	–	172
Cash received on sale and leasebacks	–	–	–	(6)	(6)
Other movements					
Reclassification between categories	–	–	(218)	218	–
Increase in lease obligations (non-cash)	–	–	–	(156)	(156)
Effect of foreign currency exchange rates	–	(15)	–	(11)	(26)
At 29 March 2020	**(700)**	**(935)**	**(201)**	**(987)**	**(2,823)**

	Interest-bearing loans and borrowings (current) £m	Interest-bearing loans and borrowings (non-current) £m	Obligations under finance leases (current) £m	Obligations under finance leases (non-current) £m	Total £m
At 26 March 2018	(1)	(436)	(59)	(110)	(606)
Movements through income statement					
Interest payable on financial liabilities	(2)	(11)	–	(3)	(16)
Movements through cash flow					
Finance costs paid	2	11	–	3	16
Repayment of loans and borrowings	1	–	–	–	1
Payment of capital element of finance lease contracts	–	–	56	–	56
Cash received on sale and leasebacks	–	–	–	(13)	(13)
Other movements					
Reclassification between categories	–	–	(34)	34	–
Effect of foreign currency exchange rates	–	5	–	1	6
At 31 March 2019	–	(431)	(37)	(88)	(556)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

24. Financial assets and liabilities and risk management (continued)

c) Foreign currency risk management

Foreign currency transaction risk

UKPIL is exposed to foreign currency risk due to interest payments on the €500 million and €550 million bonds, certain obligations under Euro-denominated leases, trading with overseas postal administrations and various purchase contracts denominated in foreign currency. GLS' functional currency is the Euro. It also has some exposure to non-Euro currencies, principally in emerging European markets, to the US Dollar and the Canadian Dollar.

Where possible, exposures are netted internally. Any remaining exposure is hedged using a combination of external spot and forward purchase and sale contracts. Hedging will not normally be considered for exposures of less than £1 million. Hedging is normally confined to 80 per cent of the forecast exposure, where forecast cash flows are highly probable.

The following table shows, for each hedge programme, the risk and the percentage hedged of the next 12 months' exposure:

		Percentage of next 12 months' exposure that has been hedged	
Hedge programme	Risk	At 29 March 2020	At 31 March 2019
Capital programmes	€/£ exchange rate movements	**98%**	82%
Overseas postal administrations	SDR/£ exchange rate movements	**26%**	84%

The next 12 months' exposure is calculated as the combination of the cost of settling liabilities during the next 12 months and the cost of revaluing unsettled liabilities at the end of 12 months.

Foreign currency translational risk

The Group's functional currency is Sterling (£). GLS Euro profits are converted at the average exchange rate for the year which can result in reported growth or decline that does not relate to underlying performance. GLS' balance sheet is converted at year end exchange rates and movements related to foreign currency translation are taken to equity.

The €500 million bond issued in July 2014 acts as a hedge of part of the translation exposure created by the net assets of GLS. Royal Mail also entered into €6 million of UKPIL Euro-denominated leases during the year (2018-19: €15 million). This similarly acts as a hedge of the net assets of GLS. The remaining net assets of GLS in excess of the €500 million bond and lease payables are not hedged. Foreign currency exchange differences arising from the translation of the net assets of GLS, the €500 million bond and the UKPIL Euro-denominated lease payables, at closing Sterling/Euro exchange rates, are recognised in the statement of comprehensive income. These exchange differences would be released to the income statement as part of the gain or loss if GLS was sold. During the year, foreign currency exchange losses on the bond of £15 million (2018-19: £5 million gain) and foreign exchange losses on the lease payables of £2 million (2018-19: £1 million gain) were recognised in the statement of comprehensive income. There was no hedge ineffectiveness in the current or prior reporting years.

The €550 million bond issued in October 2019 is perfectly hedged for foreign currency risk by a cross currency swap.

The net total financial assets and liabilities are held in various different currencies as summarised in the table below. The majority of the non-Sterling financial assets and liabilities (other than the €500 million and €550 million bonds and £393 million of leases) are held within cash or derivatives.

	Sterling £m	US$ £m	Euro £m	Other £m	Total £m
Net total financial liabilities at 29 March 2020	**(554)**	**(43)**	**(1,141)**	**(35)**	**(1,773)**
Net total financial (liabilities)/assets at 31 March 2019	(259)	17	(446)	9	(679)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

24. Financial assets and liabilities and risk management (continued)

d) Commodity price risk management

UKPIL is exposed to fuel price risk arising from operating one of the largest vehicle fleets in Europe - which consumes over 130 million litres of fuel per year – and a jet fuel price risk arising from the purchasing of air freight services. The Group's fuel risk management strategy aims to reduce uncertainty created by the movements in the oil and foreign currency markets. The strategy uses forward commodity price swaps in US Dollar or Sterling and forward currency purchase contracts to manage these exposures.

In addition, the Group is exposed to the commodity price risk of purchasing electricity and gas. The Group's risk management strategy aims to reduce uncertainty created by the movements in the electricity and gas markets. These exposures are managed by locking into fixed price contracts with suppliers and using forward commodity price swaps in Sterling.

As the GLS business relies on the use of subcontractors, responsible for purchasing their own fuel, GLS has no direct exposure to diesel costs. The only other significant commodity exposure within GLS is electricity, which is fragmented across its European bases. In view of the other highly hedged positions, the Group takes the view that the unhedged exposure arising from the commodities in GLS does not add significant risk to the Group.

e) Interest rate risk management

The Group's policy is to manage its net interest expense using an appropriate mix of fixed and floating rate financial instruments, combined with external hedging of interest rate risk, as appropriate, to keep a high percentage of its gross debt fixed. At 29 March 2020, there was no external hedge of interest rate risk (2018-19: none). Interest on financial instruments classified as floating rate is re-priced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

24. Financial assets and liabilities and risk management (continued)

The analysis below sets out the carrying amount of the Group's financial instruments that are exposed to interest rate risk.

	At 29 March 2020					
	Average effective interest rate %	Within one year £m	One to two years £m	Two to five years £m	More than 5 years £m	Total £m
Fixed rate						
Current asset investments – short-term deposits – bank	1.1	30	–	–	–	30
Financial liabilities						
Syndicated bank loan	0.9	(700)	–	–	–	(700)
€500 million bond	2.5	–	–	(446)	–	(446)
€550 million bond	2.7	–	–	–	(489)	(489)
Lease obligations	2.6	(201)	(187)	(388)	(412)	(1,188)
Total		(871)	(187)	(834)	(901)	(2,793)
Floating rate						
Cash at bank	0.0	116	–	–	–	116
Cash equivalent investments – money market funds	0.6	1,370	–	–	–	1,370
Cash equivalent investments – bank deposits	0.2	40	–	–	–	40
Financial assets - Pension escrow investments (non-current)	(0.9)	–	–	–	201	201
Total		1,526	–	–	201	1,727
Non-interest bearing						
Cash at bank or in hand		114	–	–	–	114
Trade and other receviables		1,282	–	–	–	1,282
Trade and other payables		(2,041)	–	–	–	(2,041)
Derivative assets		5	–	–	–	5
Derivative liabilities		(35)	(16)	(3)	(13)	(67)
Total		(675)	(16)	(3)	(13)	(707)
Total financial assets		2,957	–	–	201	3,158
Total financial liabilities		(2,977)	(203)	(837)	(914)	(4,931)
Net total financial liabilities		(20)	(203)	(837)	(713)	(1,773)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

24. Financial assets and liabilities and risk management (continued)

	At 31 March 2019					
	Average effective interest rate %	Within one year £m	One to two years £m	Two to five years £m	More than 5 years £m	Total £m
Fixed rate						
Financial liabilities						
Loans in overseas subsidiaries	0.9	–	–	(1)	–	(1)
€500 million bond	2.5	–	–	–	(430)	(430)
Obligations under leases	2.7	(37)	(30)	(44)	(14)	(125)
Total		(37)	(30)	(45)	(444)	(556)
Floating rate						
Cash at bank	0.1	70	–	–	–	70
Cash equivalent investments – money market funds	0.8	35	–	–	–	35
Cash equivalent investments – bank deposits	0.9	40	–	–	–	40
Financial assets - Pension escrow investments (non-current)	0.9	–	–	–	207	207
Total		145	–	–	207	352
Non-interest bearing						
Cash at bank or in hand		91	–	–	–	91
Trade and other receivables		1,310	–	–	–	1,310
Trade and other payables		(1,883)	–	–	–	(1,883)
Derivative assets		8	4	–	–	12
Derivative liabilities		(3)	(2)	–	–	(5)
Total		(477)	2	–	–	(475)
Total financial assets		1,554	4	–	207	1,765
Total financial liabilities		(1,923)	(32)	(45)	(444)	(2,444)
Net total financial liabilities		(369)	(28)	(45)	(237)	(679)

Drawings under the syndicated bank loan facilities are at fixed rate to maturity (which must be six months or less). At 29 March 2020 there were drawings of £700 million (2018-19 £nil). The total interest-bearing financial assets of the Group (excluding the RMPP and RMSEPP pension escrow investments) of £1,556 million (2018-19: £145 million), which consist of the fixed and floating rate cash and cash equivalent investments, plus current financial asset investments, are at short-dated fixed or variable interest rates with an average maturity of three days (2018-19: an average maturity of three days). These short-dated financial instruments are maturity-managed to obtain the best value out of the interest yield curve.

Obligations under leases are either unsecured or secured on the leased assets. The average interest rate is 2.6 per cent (2018-19: 2.7 per cent). The average maturity date is more than five years (2018-19: more than five years).

Net debt excludes £180 million (2018-19: £187 million) related to the RMPP pension scheme of the total £207 million (2017-18: £198 million) pension escrow investments on the balance sheet which is not considered to fall within the definition of net debt.

The RMPP pension escrow investment of £180 million (2018-19: £187 million) represents a money market fund investment, established with the agreement of the Pension Trustee for the benefit of members. The RMPP escrow agreement specifies that the funds must be used for the benefit of members, on a basis to be agreed between the Plan Trustee and the company. The funds are therefore not available to management for corporate purposes (outside of pension arrangements) and so the RMPP escrow is excluded from net debt.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

24. Financial assets and liabilities and risk management (continued)

The RMSEPP pension escrow investment of £21 million (2018-19: £20 million) was established to provide security to the RMSEPP. The next scheduled review point in the agreement is in 2025 and the investment is therefore disclosed as maturing in more than five years. The escrow investment comprises a money market investment of £21 million (2018-19: £20 million comprising £14 million money market investment and a loan of £6 million to the Plan Trustees. The RMSEPP escrow agreement specifies that the funds will be returned to the company once they are no longer required for security purposes and therefore the RMSEPP escrow is included within net debt.

f) Liquidity risk management

The Group's primary objective is to ensure that it has sufficient funds available to meet its financial obligations as they fall due. This is achieved by aligning short-term investments and borrowing facilities with forecast cash flows. Borrowing facilities are regularly reviewed to ensure continuity of funding. The unused committed facilities of the Group of £225 million expire in 2024 (2018-19: £1,050 million expiring in 2020-22).

Below is a summary of the gross (undiscounted) contractual cash flows of the Group's financial liabilities. The cash flows for the €500 million and €550 million bonds and non-sterling-denominated leases represent the undiscounted total amounts payable (interest and nominal repayment) which have been converted to Sterling at 29 March 2020 market forward exchange rates. For derivatives that are settled gross (including the cross currency swap), these cash flows represent the undiscounted gross payment due and do not reflect the accompanying inflow. For derivatives that are settled net, these cash flows represent the undiscounted forecast outflow.

	At 29 March 2020						
	Gross loans and borrowings commitments £m	Gross lease instalments £m	Gross trade and other payables £m	Sub-total £m	Gross payments on derivatives settled gross £m	Gross payments on derivatives settled net £m	Total £m
Amounts falling due in:							
One year or less or on demand (current)	719	210	2,041	2,970	101	29	3,100
More than one year (non-current)	1,066	1,192	–	2,258	569	19	2,846
More than one year but not more than two years	17	198	–	215	13	16	244
More than two years but not more than five years	516	426	–	942	39	3	984
More than five years	533	568	–	1,101	517	–	1,618
Total	1,785	1,402	2,041	5,228	670	48	5,946
Less interest	(101)	(214)	–	(315)	n/a	n/a	n/a
Less exchange rate adjustment	(49)	–	–	(49)	n/a	n/a	n/a
Net total	1,635	1,188	2,041	4,864	n/a	n/a	n/a

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

24. Financial assets and liabilities and risk management (continued)

	At 31 March 2019						
	Gross loans and borrowings commitments £m	Gross finance lease instalments £m	Gross trade and other payables £m	Sub-total £m	Gross payments on derivatives settled gross £m	Gross payments on derivatives settled net £m	Total £m
Amounts falling due in:							
One year or less or on demand (current)	10	39	1,883	1,932	91	3	2,026
More than one year (non-current)	514	207	–	721	–	2	723
More than one year but not more than two years	11	35	–	46	–	2	48
More than two years but not more than five years	32	51	–	83	–	–	83
More than five years	471	121	–	592	–	–	592
Total	524	246	1,883	2,653	91	5	2,749
Less interest	(63)	(119)	–	(182)	n/a	n/a	n/a
Less exchange rate adjustment	(30)	(2)	–	(32)	n/a	n/a	n/a
Net total	431	125	1,883	2,439	n/a	n/a	n/a

g) Credit risk management

The level of credit granted to customers is based on a customer's risk profile, assessed by an independent credit referencing agent. The credit policy is applied rigidly within the regulated products area to ensure that UKPIL is not in breach of compliance legislation. Assessment of credit for non-regulated products is based on commercial factors, commensurate with the Group's appetite for risk. An analysis of aged debt is included within Note 20.

The Group's exposure to credit risk from other financial assets arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. At 29 March 2020, 96 per cent (2018-19: 83 per cent) of financial assets were held with AA or above rated counterparties.

GLS operates a decentralised credit management model, with each country responsible for managing the credit risk associated with its customers. Where appropriate, external credit checks are performed for new and existing customers, taking into account the customer profile, expected volume of business and consequent risk to the respective GLS companies.

None of the financial assets is either past due or considered to be impaired.

h) Sensitivity analysis

As a result of the mix of fixed and variable rate financial instruments and the currency and commodity hedge programmes in place, the Group has no material exposure to 2019-20 profit for the year from interest rate risk or commodity price risk (2018-19: £nil risk). Further details of the Group's exposure to commodity price risk can be found in the Financial Review.

The Group has an exposure to the exchange rate risk on translating the GLS profits; on trading with overseas postal administrations; on various purchase contracts; and on the interest on the €500 million bond and UKPIL Euro-denominated leases. The impact of a ten per cent strengthening of Sterling across all currencies on forecast profits/trade during 2019-20 would be to reduce the Group operating profit by £2 million (2018-19: £13 million). However, changes in exchange rates could also cause other impacts on operating profit, including a change in import/export volumes.

The Group has an exposure to the exchange rate risk on translating the GLS net assets into Sterling on consolidation. This is partially offset by an exposure on translating the €500 million bond and Euro-denominated leases into Sterling at each balance sheet date. The impact of a ten per cent strengthening of Sterling against all currencies at 29 March 2020 would have been to reduce the Group net assets by £38 million (2018-19: £27 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

25. Provisions

This Note provides an analysis of the Group's constructive or legal obligations, resulting from a past event, that have been provided for in the financial statements.

	Specific items £m	Other £m	Total £m
Reported at 31 March 2019	**(100)**	**(62)**	**(162)**
IFRS 16 opening adjustments	**-**	**2**	**2**
Reported at 1 April 2019 on transition to IFRS 16	**(100)**	**(60)**	**(160)**
Arising during the year:			
Charged in operating specific items	**(45)**	**-**	**(45)**
Charged in other operating costs	**-**	**(62)**	**(62)**
Amounts reclassified in the period[1]	**-**	**(16)**	**(16)**
Utilised in the year	**2**	**57**	**59**
Unwinding of discount – industrial diseases claims	**(1)**	**–**	**(1)**
At 29 March 2020	**(144)**	**(81)**	**(225)**
Disclosed as:			
Current	**(57)**	**(56)**	**(113)**
Non-current	**(87)**	**(25)**	**(112)**
At 29 March 2020	**(144)**	**(81)**	**(225)**
Disclosed as:			
Current	(9)	(49)	(58)
Non-current	(91)	(13)	(104)
At 31 March 2019	(100)	(62)	(162)

	Specific items £m	Other £m	Total £m
At 26 March 2018	(106)	(56)	(162)
Arising during the year:			
Charged in operating specific items	(1)	–	(1)
Charged in other operating costs	–	(73)	(73)
Unused amounts released	3	4	7
Utilised in the year	6	63	69
Unwinding of discount – industrial diseases claims	(2)	–	(2)
At 31 March 2019	(100)	(62)	(162)
Disclosed as:			
Current	(9)	(49)	(58)
Non-current	(91)	(13)	(104)
At 31 March 2019	(100)	(62)	(162)
Disclosed as:			
Current	(13)	(46)	(59)
Non-current	(93)	(10)	(103)
At 25 March 2018	(106)	(56)	(162)

1 £16 million was reclassified to Other provisions during the period (previously presented within accruals) in respect of GLS liabilities, mainly in respect of employee benefits and litigation claims.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

25. Provisions (continued)

Below is a summary of the ageing profile of specific items and other provisions.

	At 29 March 2020					At 31 March 2019				
	Expected period of settlement					Expected period of settlement				
	Within one year £m	One to two years £m	Two to five years £m	After five years £m	Total £m	Within one year £m	One to two years £m	Two to five years £m	After five years £m	Total £m
Specific items										
Industrial diseases claims	**(5)**	**(3)**	**(9)**	**(68)**	**(85)**	(3)	(3)	(9)	(68)	(83)
German property tax	**–**	**–**	**–**	**–**	**–**	–	(5)	–	–	(5)
Employee Free Shares – NI	**–**	**–**	**–**	**–**	**–**	(4)	–	–	–	(4)
Legacy property costs	**–**	**–**	**(1)**	**(6)**	**(7)**	–	–	(1)	(5)	(6)
Regulatory fine	**(51)**	**–**	**–**	**–**	**(51)**	–	–	–	–	–
Other	**(1)**	**–**	**–**	**–**	**(1)**	(2)	–	–	–	(2)
Total	**(57)**	**(3)**	**(10)**	**(74)**	**(144)**	(9)	(8)	(10)	(73)	(100)
Other										
Voluntary redundancy	**(12)**	**–**	**–**	**–**	**(12)**	(11)	–	–	–	(11)
Property decommissioning obligations	**(3)**	**(2)**	**(5)**	**(4)**	**(14)**	(5)	(3)	(3)	(5)	(16)
Litigation claims	**(38)**	**(2)**	**–**	**–**	**(40)**	(30)	(1)	–	–	(31)
LTIP – NI	**–**	**(1)**	**–**	**–**	**(1)**	–	(1)	–	–	(1)
Employee benefits	**(2)**	**(1)**	**(7)**	**–**	**(10)**	–	–	–	–	–
Other	**(1)**	**–**	**(3)**	**–**	**(4)**	(3)	–	–	–	(3)
Total	**(56)**	**(6)**	**(15)**	**(4)**	**(81)**	(49)	(5)	(3)	(5)	(62)

On 14 August 2018, Ofcom published its decision following its investigation into whether Royal Mail had breached competition law. The investigation was launched in February 2014, following a complaint brought by TNT Post UK (now Whistl). Ofcom found that Royal Mail had abused its dominant position in the market for bulk mail delivery services in the United Kingdom by issuing Contract Change Notices on 10 January 2014 which introduced discriminatory prices. It fined Royal Mail £50 million. Royal Mail lodged an appeal with the Competition Appeal Tribunal (CAT) on 12 October 2018 to have both Ofcom's decision and fine overturned. On 12 November 2019, the CAT issued its judgment, which upheld Ofcom's decision and fine. In light of the CAT judgment, a provision has been made for £51 million, charged to operating specific items, representing the fine and associated interest.

In January 2020, RMG requested permission to appeal the CAT's judgment to the Court of Appeal (CoA). On 30 March 2020, the CoA granted Royal Mail permission and indicated that a hearing would be held over one-to-two days in mid-2021.

The potential liability for industrial diseases claims relating to both current and former employees of the Group arose in 2010 as a result of a Court of Appeal judgement that held the Group liable for diseases claims brought by individuals who were employed in the General Post Office Telecommunications division and whose employment ceased prior to October 1981. Consequently, a provision was first recognised in 2010-11. The Group has derived its current provision by using estimates and ranges calculated by its actuarial adviser, which are based on current experience of claims, and an assessment of potential future claims, the majority of which are expected to be received over the next 25 to 30 years. The Group has a rigorous process of ensuring that only valid claims are accepted.

Provisions for litigation claims mainly comprise outstanding liabilities in relation to road traffic accident and personal injury claims.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

26. Share capital and reserves

This Note details the number of shares Royal Mail plc has issued, and any special features of the issued shares. A description of certain reserves that form part of total equity is also included.

Authorised and issued	At 29 March 2020 £m	At 31 March 2019 £m
1,000,000,000 ordinary shares of £0.01 each	**10**	10
Total	**10**	10

Of the issued ordinary shares, a total of 1,029,706 (2018-19: 70,331) are held by an Employee Benefit Trust (EBT) administered by Sanne Fiduciary Services Limited. These shares are treated as treasury shares for accounting purposes in accordance with IAS 32 'Financial Instruments: Presentation'. The Company, however, does not hold any shares in treasury. The EBT is funded by the Company and has been consolidated within these financial statements.

Reserves included in the consolidated statement of changes in equity

Foreign currency translation reserve

The Foreign currency translation reserve is used to record the gains and losses arising since 29 March 2004 on translation of assets and liabilities of subsidiaries denominated in currencies other than the reporting currency.

Hedging reserve

The Hedging reserve is used to record gains and losses arising since 28 March 2005 from cash flow hedges.

27. Commitments

The information below relates to committed capital expenditure and lease agreements that have not yet been recognised on the balance sheet.

Capital commitments

The Group has commitments of £52 million (2018-19: £73 million) for property, plant and equipment, £26 million (2018-19: £8 million) for vehicles and £nil (2018-19: £3 million) for intangible assets, which are contracted for but not provided for in the financial statements.

Lease commitments

The Group has £6 million of lease commitments relating to leases that have been signed but not yet commenced at the year end date. The Group has also signed a conditional agreement for a lease that when completed, is expected to result in the recognition of an £80 million lease liability and right of use asset. These commitments have not been provided for in the financial statements.

28. Contingent liabilities

Contingent liabilities are possible obligations depending on the outcome of uncertain future events, or present obligations where outflows of resources are not certain or cannot be measured reliably.

In October 2018, Whistl filed a damages claim against Royal Mail at the High Court relating to Ofcom's decision of 14 August 2018, which found that Royal Mail had abused its dominant position (see Note 25). Whistl's High Court claim is on hold until after the completion of any further appeal process. Royal Mail believe Whistl's claim is without merit and will defend it robustly if Whistl decides to pursue it.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

29. Related party information

This Note provides details of amounts owed to and from related parties, which include the Group's defined benefit pension plans (RMPP and RMSEPP), the Group's associate companies, and payments to key management personnel. Details of the Group's principal subsidiaries and associates are also provided.

Related party transactions

During the reporting year the Group entered into transactions with related parties as follows:

	52 weeks 2020 £m	53 weeks 2019 £m
Sales/recharges to:		
RMPP (administration and investment service recharge)	**6**	5
Purchases/recharges from:		
Associate undertaking (Quadrant Catering Limited)	**(7)**	(7)
Amounts owed to:		
Associate undertaking (Quadrant Catering Limited)	**(1)**	(1)
Amounts owed from:		
RMSEPP[1]	**–**	6

1 In December 2018 Royal Mail Group Ltd, a subsidiary of Royal Mail plc, agreed to a loan of £7,750,000 being made from the RMSEPP escrow to the Trustees of that Pension Plan. This facilitated completion of the purchase of an insurance policy settlement. This loan was unsecured and was repaid with the proceeds from the sale of Plan investments, as they were received by the Trustees. The loan was fully repaid during the reporting year.

Balances outstanding at the reporting year end are unsecured, interest free and settlement is made by cash.

Key management compensation

	52 weeks 2020 £000	53 weeks 2019 £000
Short-term employee benefits	**(5,083)**	(4,999)
Post-employment benefits	**(30)**	(23)
Other long-term benefits	**(272)**	(135)
Share-based payments	**(1,004)**	(1,531)
Total	**(6,389)**	(6,688)

Key management are considered to be the Executive and Non-Executive Directors of Royal Mail plc, all other members of the Executive Board and the remainder of the Persons Discharging Managerial Responsibilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

29. Related party information (continued)

The ultimate parent and principal subsidiaries

Royal Mail plc is the ultimate Parent Company of the Group. The consolidated financial statements include the financial results of Royal Mail Group Limited and the other principal subsidiaries listed below. The reporting year end for these entities is 29 March 2020 unless otherwise indicated.

Company	Principal activities	Country of incorporation	% equity interest 2020	% equity interest 2019
General Logistics Systems B.V.[2]	Parcel services holding company	Netherlands	**100**	100
Royal Mail Estates Limited	Property holdings	United Kingdom	**100**	100
Royal Mail Investments Limited	Holding company	United Kingdom	**100**	100
RM Property and Facilities Solutions Limited	Facilities management	United Kingdom	**100**	100

2 GLS' reporting year end date is 31 March each year. No adjustment is made in the financial statements in this regard on the basis that, irrespective of the Group's reporting year end date (last Sunday in March) a full year of GLS results is consolidated into the Group.

The Company has complied with section 410 of the Companies Act 2006 by including, in these financial statements, a schedule of interests in all undertakings (see Note 31).

30. Events after the reporting period

This Note confirms whether or not there have been any material events occurring between the end of the financial reporting year on 29 March 2020 and the publication date of the Annual Report and Financial Statements.

Covid Corporate Financing Facility

On 30 April 2020 the Bank of England approved Royal Mail plc's application for the Covid Corporate Financing Facility. This provides a £600 million facility in line with other corporates of the same credit rating. There have been no drawings of this facility since the balance sheet date.

Management changes

On 15 May 2020 the Royal Mail plc Board and Rico Back agreed that he would step down as Group CEO and from the Board with immediate effect and leave Royal Mail on 15 August 2020.

Keith Williams assumed the role, with immediate effect, of interim Executive Chair to lead discussions with stakeholders about an accelerated pace of change across the business. He is expected to remain in this executive role until a permanent CEO of Royal Mail is appointed. Stuart Simpson has been appointed interim CEO of Royal Mail. This is a Board appointment. Michael Jeavons was appointed as interim Group CFO.

A comprehensive internal and external search for a permanent CEO of Royal Mail will be undertaken. In order to ensure greater focus, this permanent CEO of Royal Mail will report directly to the Board once Keith Williams returns to the role of non-executive Chairman.

Loan covenant amendment

On 24 June 2020, a covenant amendment was agreed that waived the financial covenants relating to interest (excluding arrangement fees), adjusted net debt and EBITDA until March 2022, replacing them with a quarterly minimum liquidity covenant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31. Related undertakings of Royal Mail plc

This Note provides a full list of the related undertakings of Royal Mail plc in line with Companies Act requirements.

In accordance with Section 409 of the Companies Act 2006 a full list of related undertakings, the country of incorporation, registered office address and the effective percentage of equity owned, as at 29 March 2020 is disclosed below. Unless otherwise stated, the share capital disclosed comprises ordinary or common shares which are held by subsidiaries of Royal Mail plc Group.

Subsidiary undertakings included in the consolidation

Company Name	Share Class	% held by Group
Austria		
Traunuferstrasse 105A, A-4052 Ansfelden, Austria		
General Logistics Systems Austria GmbH	Ordinary shares	100.000
Belgium		
Humaniteitslaan 233, 1620 Drogenbos, Belgium		
General Logistics Systems Belgium N.V.	€100.00 Ordinary shares	100.000
GLS Belgium Distribution S.A/N.V.	€4.27 Ordinary shares	100.000
China		
Suite 966, 9F, No.2 bldg, China Central Place, No.79, Jian Guo Rd, Chao Yang District, Beijing		
EBP Consultancy (Beijing) Co. Ltd	–	100.000
Canada		
10500, av. Ryan Dorval Quebec H9P 2T7		
Dicom Dedicated Fleet, Inc.	Common shares, no par value	100.000
1055, West Hastings Street, Suite 1700, Vancouver BC V6E 2E9		
GLS Logistics Systems Canada Ltd	Common shares, no par value	100.000
Croatia		
10010360 Popovec, Varazdinska ulica 116, Croatia		
General Logistics Systems Croatia d.o.o	Ordinary shares	100.000
Czech Republic		
Průmyslová 5619/1, 58601 Jihlava, Czech Republic		
General Logistics Systems Czech Republic s.r.o	Ordinary shares	100.000
Denmark		
Kokmose 3, 6000 Kolding, Denmark		
General Logistics Systems Denmark A/S	DKK100.00 Ordinary shares	100.000
Kokholm 13, 6000 Kolding, Denmark		
General Logistics Systems Express A/S	DKK1,000.00 Ordinary shares	100.000
Finland		
Rydöntie 6, 20360 Turku, Finland		
General Logistics Systems Finland Oy	€50.00 Ordinary shares	100.000
France		
14 Rue Michel Labrousse, CS 93730, 31037 Toulouse Cedex 01, France		
General Logistics Systems France S.A.S	€50.00 Ordinary shares	100.000
GLS Invest France S.A.S	€271.21 Ordinary shares	100.000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31. Related undertakings of Royal Mail plc (continued)

Company Name	Share Class	% held by Group
Germany		
Doerrwiese 2, 36286 Neuenstein, Germany		
Der Kurier Beteiligungsgesellschaft mbH	Ordinary shares	100.000
Der Kurier GmbH & Co. KG	€2,561,572.32 Cash contribution	100.000
GLS Germany-Str. 1-7, 36286 Neuenstein, Germany		
General Logistics Systems Germany GmbH & Co. OHG	€47,968,004.75 Cash contribution	100.000
GLS IT Services GmbH	Ordinary shares	100.000
GLS Beteiligungs GmbH	Ordinary shares	100.000
GLS Verwaltungs-und Service GmbH	Ordinary shares	100.000
GLS eCom Lab GmbH	Ordinary shares	100.000
Wendenstraße 349, 20537 Hamburg, Germany		
Overnight Services GmbH Vermittlung Ueberregionaler Kurierdienste	Ordinary shares	100.000
Guernsey		
PO BOX 160, Dixcart House, St Peter Port, GY1 4EY, Guernsey		
Postcap (Guernsey) Limited	£1.00 Ordinary shares	100.000
Hungary		
GLS Europa utca 2, 2351 Alsonemedi, Hungary		
GLS General Logistics Systems Hungary Kft.	Ordinary shares	100.000
Ireland		
Unit 1 Stadium Business Park, Ballycoolin Road, Ballycoolin, Dublin, D11 DK24, Ireland		
RM Financing Operations Limited	€1.00 Ordinary shares	100.000
	€1.00 Redeemable Preference shares	100.000
RMF Operations Designated Activity Company	US$1.00 Ordinary shares	100.000
	US$1.00 Redeemable Preference shares	–
General Logistics Systems Ireland Limited	Ordinary shares	100.000
Italy		
Via Basento No. 19, 20098 San Giuliano Milanese, Italy		
Agone S.r.L	€10,000.00 Ordinary shares	100.000
General Logistics Systems Enterprise S.r.L	€1,014,000.00 Ordinary shares	100.000
General Logistics Systems Italy S.p.A.	€0.52 Ordinary shares	100.000
Gruppo Executive Societa Consortile a.r.l	€0.51 Ordinary shares	83.670
Luxembourg		
Avenue de Luxembourg, 2 a 4950 Bascharage		
General Logistics Systems Belgium S.A. Succursale de Luxembourg[1]	–	–

1 Branch of GLS Belgium. No shares are issued or held.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31. Related undertakings of Royal Mail plc (continued)

Company Name	Share class	% held by Group
Netherlands		
Breguetlaan 28-30, 1438 BC Oude Meer, Netherlands		
General Logistics Systems B.V.	€100.00 Ordinary shares	100.000
Proostwetering 40, 3543 AG Utrecht, Netherlands		
General Logistics Systems Netherlands B.V.	€50.00 Ordinary shares	100.000
GLS Netherlands Holding B.V.	€0.50 Ordinary shares	100.000
GLS Netherlands Services B.V.	€50.00 Ordinary shares	100.000
Poland		
Ul. Teczowa 10, Gluchowo, 62-052 Komorniki, Poland		
General Logistics Systems Poland Spolka zo.o	PLN1,721.00 Ordinary shares	100.000
Portugal		
Rua da Bica, No. 10, 2669-608 Venda do Pinheiro, Portugal		
General Logistics Systems Portugal Lda	Ordinary shares	100.000
Romania		
106, Str. Dorobantilor, 550231 Sibiu, Romania		
GLS General Logistics Systems Romania Srl	RON4,000.00 Ordinary shares	100.000
Slovakia		
Budca 1039, 962 33 Budca, Slovakia		
GLS General Logistics Systems Slovakia s.r.o	Ordinary shares	100.000
Slovenia		
Cesta v Prod 84, 1129 Ljubljana, Slovenia		
General Logistics Systems, logisticne storitve, d.o.o.	Ordinary shares	100.000
Spain		
Avenida Fuentemar 18, 28823 Coslada, Madrid, Spain		
General Logistics Systems Spain S.A	€60.10 Ordinary shares	100.000
United Kingdom		
100 Victoria Embankment, London, EC4Y 0HQ, United Kingdom		
Angard Staffing Solutions Limited	£1.00 Ordinary shares	100.000
Intersoft Systems & Programming Limited	£1.00 Ordinary shares	100.000
Nine Elms Parkside Estate Management Company Limited[2]	£1.00 Ordinary shares	100.000
Parcelforce Limited	£1.00 Ordinary shares	100.000
Revisecatch Limited	£0.01 Ordinary shares	100.000
RM (International) Limited	£1.00 Ordinary shares	100.000
Royal Mail Courier Services Ltd	£1.00 Ordinary shares	100.000
Royal Mail Enterprises Limited	£1.00 Ordinary shares	100.000
Royal Mail Estates Limited	£1.00 Ordinary shares	100.000
Royal Mail Group Limited	£1.00 Ordinary shares	100.000
Royal Mail Innovations Limited	£1.00 Ordinary shares	100.000

2 Limited by guarantee.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31. Related undertakings of Royal Mail plc (continued)

Company name	Share class	% held by Group
Royal Mail Investments Limited	£1.00 Ordinary shares	100.000
RM Finance CAD Ltd	£1.00 Ordinary shares	100.000
Storefeeder Ltd	£1.00 Ordinary shares	100.000
Century House, 19 High Street, Marlow, Buckinghamshire, SL7 1AU, United Kingdom		
NetDespatch Ltd[3]	£0.001 Ordinary–A shares	69.044
	£0.001 Ordinary–B shares	16.231
	£0.001 Ordinary–C shares	4.691
	£0.001 Ordinary–D shares	10.034
Highbank House, Exchange Street, Stockport, Cheshire, SK3 0ET, United Kingdom		
RM Property and Facilities Solutions Limited (formerly Romec Limited)	£1.00 Ordinary shares	98.040
	£1.00 B shares	0.980
	£1.00 C shares	0.980
Romec Enterprises Limited	£1.00 Ordinary shares	100.000
11 Ironmonger Lane, London, EC2V 8EY, United Kingdom		
Royal Mail Pensions Trustees Limited	£1.00 Ordinary shares	100.000
USA		
1679 S. Dupont Highway, Suite 100, Dover, Delaware 19901, USA		
General Logistics Systems North America Inc.	USD 0.001 Common stock	100,000
7901 Stoneridge Drive, Suite 400, Pleasanton, CA 94588, USA		
General Logistics Systems US, Inc	1,000 Shares Common stock	100.000
3400 Capital Blvd SE 101, Tumwater, WA 98501, USA		
Postal Express, Inc.	428.57 Shares Common stock	100.000
676, N. Michigan Ave, Suite 3700, Chicago IL 60611		
Dicom JD, LLC.[4]	–	100.000
6750 South Longe Street Suite 100 Manteca, CA 95206 United States		
Mountain Valley Express co, Inc	Ordinary shares	100.000
6750 South Longe Street Suite 100 Manteca, CA 95206 United States		
MVE Supply Chain Solutions, Inc[5]	Ordinary shares	100.000

3 Sold on 31 March 2020
4 Member managed company
5 Trades under the name Mountain Valley Freight Solutions

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31. Related undertakings of Royal Mail plc (continued)

Associate undertakings

Company Name	Share Class	% held by Group
Associates		
Australia		
Level 1, 60 Toorak Road, South Yarra, VIC 3141		
Market Engine Global Pty Limited	AUD1.00 Preference shares	34.474
United Kingdom		
Parklands Court, 24 Parklands, Birmingham Great Park, Rubery, Birmingham, West Midlands, B45 9PZ, United Kingdom		
Quadrant Catering Limited	£1.00 Ordinary–A shares	51.000
70 Margaret Street, London, W1W 8SS, United Kingdom		
JICMAIL Limited[2]	–	20.000

Investments

Company Name	Share Class	% held by Group
Investments		
United Kingdom		
Hayweight House, 5th Floor, 23 Lauriston Street, Edinburgh, Scotland, EH3 9DQ, United Kingdom		
Mallzee Ltd	£0.01 Ordinary shares	19.500
Aviva, Wellington Row, York, North Yorkshire, YO90,1WR		
Voyager Park South Management Company Limited[2]	Ordinary shares	5.500

SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiary undertakings. The financial statements of the major subsidiaries are prepared for the same reporting year as the Company, using consistent accounting policies.

All intragroup balances and transactions, including unrealised profits arising from intragroup transactions, have been eliminated in full. Transfer prices between business segments are set at arm's length/fair value on the basis of charges reached through negotiation with the respective businesses.

Subsidiaries are consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is no longer held by the Group. Where the Group ceases to hold control of a subsidiary, the consolidated financial statements include the results for the part of the reporting year during which the Group held control.

Changes in accounting policy and disclosures

The accounting policies applied in the preparation of these financial statements are consistent with those in the Annual Report and Financial Statements for the year ended 31 March 2019, along with the adoption of new and amended accounting standards with effect from 1 April 2019 as detailed below:

New and amended accounting standards adopted in 2019-20

IFRS 16 'Leases'

The Group has adopted IFRS 16 with effect from 1 April 2019. Under IFRS 16, all lease contracts, with limited exceptions, are recognised on the balance sheet as right-of-use assets, representing the right to use the underlying assets, and lease liabilities, representing an obligation to make lease payments. The principal asset classes impacted by this change are property and motor vehicles previously held under operating leases.

The Group has applied IFRS 16 using the modified retrospective approach for all leases previously classed as operating leases under IAS 17. The modified retrospective approach allows a combination of the following two approaches when measuring the carrying value of right of use assets on a lease by lease basis:

i. as if the standard had been applied since the lease commencement date; and/or

ii. at an amount equal to the lease liability at the date of adoption.

At the time of the Group's annual results announcement in May 2019, Management intended to adopt a mixture of approaches (i) and (ii) on a lease by lease basis. Subsequent experiences in deploying IFRS 16 resulted in a revision to this approach and the approach outlined in (ii) above has been adopted for these leases.

Under this revised approach, IFRS 16 has resulted in an increase in 'operating profit before specific items' of £13 million.

The £1 million adjustment to equity relates to the irrecoverable VAT element of lease prepayments and lease incentives at the transition date.

In view of the above, the comparative period information has not been restated and has been presented, as previously reported, under IAS 17. Details of the impact of transition on the financial statements are given in Note 14.

IFRIC 23 'Uncertain Tax Positions' (IFRIC 23)

The Group has adopted IFRIC 23 with effect from 1 April 2019. IFRIC 23 clarifies how to apply the recognition and measurement requirements in IAS 12 'Income Taxes' where there is uncertainty over income tax treatments. Controls and procedures are in place in the Group to monitor the tax treatments assuming a 100 per cent detection risk by the relevant tax authorities, although the impact of this new guidance does not have a material impact on the financial performance or position of the Group.

IAS 28 (Amended) 'Long-term Interests in Associates and Joint Ventures'

The Group has adopted the amendment to IAS 28 in respect of 'Long-term Interests in Associates and Joint Ventures' with effect from 1 April 2019. The amendment clarifies that the Financial Instrument exclusion for interests in associates and joint ventures accounted for in accordance with IAS 28 only applies to interests in company accounts which are accounted for using the equity method. The Group equity accounts for all associates and thus the adoption of this amendment does not have an effect on the financial position of the Group.

IFRS 9 (Amended) 'Prepayment Features with Negative Compensation'

The Group has adopted the amendment to IFRS 9 in respect of 'Prepayment Features with Negative Compensation' with effect from 1 April 2019. The amendment allows for termination rights to be measured at amortised cost or fair value through other comprehensive income (dependent on business model) even in the case of negative compensation payments. The Group reviews its termination rights and measures the payment regardless of the signage in line with the business model adopted for the instrument. The new guidance does not have a material impact on the financial performance or position of the Group.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New and amended accounting standards adopted in 2019-20 (continued)

IAS 19 (Amended) 'Plan Amendment, Curtailment or Settlement'

The Group has adopted the amendment to IAS 19 in respect of 'Plan Amendment, Curtailment or Settlement' with effect from 1 April 2019. The amendment clarifies that the past service cost (or of the gain or loss on settlement) is calculated by measuring the defined benefit liability/asset using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment/curtailment/settlement but ignoring the effect of the asset ceiling. The Group has used the updated assumptions from the remeasurement to determine the current service cost and net interest for the remainder of the reporting period after the change to the plan.

Annual Improvements 2015-2017

The Group has adopted the annual improvements to IFRS in the 2015-17 cycle with effect from 1 April 2019. This cycle includes the below amendments which do not have a material impact on the financial performance or position of the Group.

IFRS 3 *Business Combinations (Amended)* – The amendment clarifies that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business.

IFRS 11 *Joint Arrangements (Amended)* – The amendment clarifies that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

IAS 12 Income Taxes (Amended) – The amendment clarifies that the requirement to recognise the income tax consequence of dividends where the transactions or events that generated distributable profits are recognised, applies to all income tax consequences of dividends.

IAS 23 *Borrowing costs (Amended)* – The amendment clarifies that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

Other accounting standards

The Directors do not expect that the adoption of any other new or amended standards issued during the reporting period that are not yet effective will have a material impact on the financial performance or position of the Group in future periods.

Sources of estimation uncertainty and critical accounting judgments

The preparation of consolidated financial statements necessarily requires Management to make certain estimates and judgments that can have a significant impact on the financial statements. These estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The areas involving a higher degree of judgment or complexity, or areas where there is thought to be a significant risk of a material adjustment to the consolidated financial statements within the next financial year as a result of the estimation uncertainty are disclosed below.

Cash Generating Units (CGUs) of the Group

The Group consists of a number of CGUs, each possessing largely independent cash inflows. The UK network, through which millions of letters and parcels pass each day is considered by Management to comprise two separate CGUs due to the distinct, individually identifiable cashflows. These CGUs for impairment testing purposes are Royal Mail UK and Parcelforce Worldwide. Certain other non-core entities are considered to be separate CGUs, albeit these are not material at a Group level.

In GLS, Management consider each country's operations to represent a separate CGU. In relation to the testing of goodwill for impairment however, the operating and financial synergies arising on new business combinations within the GLS group are felt by Management to primarily benefit contiguous parts of the GLS network. For this reason, goodwill arising on new business acquisitions is allocated to one of the four major networks designated as CGUs i.e. mainland Europe, Mountain Valley Express (MVE), USA excluding MVE, and Canada.

Key sources of estimation uncertainty

Pensions

The value of defined benefit pension plan liabilities and assessment of pension plan costs are determined by long-term actuarial assumptions. These assumptions include discount rates (which are based on the long-term yield of high-quality corporate bonds), inflation rates and mortality rates. Differences arising from actual experience or future changes in assumptions will be reflected in the Group's consolidated statement of comprehensive income. The Group exercises its judgment in determining the assumptions to be adopted, after discussion with a qualified actuary. Details of the key actuarial assumptions used and of the sensitivity of these assumptions for the RMPP and DBCBS are included within Note 11.

Defined benefit pension plan assets are measured at fair value. Where these assets cannot be valued directly from quoted market prices, the Group applies judgement in selecting an appropriate valuation method, after discussion with an expert fund manager. For the main classes of assets:

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Key sources of estimation uncertainty (continued)

- Equities listed on recognised stock exchanges are valued at closing bid price, or the last traded price, depending on the convention of the stock exchange on which they are quoted;
- Bonds are measured using a combination of broker quotes and pricing models making assumptions for credit risk, market risk and market yield curves;
- Pooled investment vehicles are valued using published prices or the latest information from investment managers which includes any necessary fair value adjustments; and
- Properties are valued on the basis of open market value as at the year end date, in accordance with RICS Valuations Standards. As a result of the current situation with regards the COVID-19 pandemic, we have been advised by our valuers that conditions exist in the real estate markets that may result in uncertainty in the reliability of these valuations. Nonetheless, these represent the best estimate of the current valuation at the year end date and have been adjusted by our valuers to account for the expected impact of COVID-19, based on the information available at the time that the valuation was prepared.

For exchange-traded derivatives that are assets, fair value is based on bid prices. For exchange-traded derivatives that are liabilities, fair value is based on offer prices.

Non-exchange traded derivatives are valued as follows:

- Open forward foreign currency contracts at the balance sheet date are over the counter contracts and are valued using forward currency rates at that point. The unrealised appreciation or depreciation of open foreign currency contracts is calculated by the difference between the contracted rate and the rate to close out the contract;
- Open option contracts at the balance sheet date are over the counter contracts and fair value is calculated taking into account the strike price, maturity date and the underlying asset of the option. The unrealised appreciation or depreciation of open option contracts is calculated as the difference between the premiums paid for the options and the price to close out the options; and
- Interest rate and credit default swaps are over the counter contracts and fair value is the current value of the future expected net cash flows, taking into account the time value of money and market data at the year end.

The value of the RMSEPP insurance policies held by the Group are equal to the accounting defined benefit obligation of the scheme as at the year end date.

The assumptions used in valuing unquoted investments are affected by current market conditions and trends, which could result in changes to the fair value after the measurement date. Details of the carrying value of the unquoted pension plan asset classes can be found in Note 11.

It is not currently practical to provide a quantitative estimate of the impact of COVID-19 on the Group's schemes. The schemes' assets are invested across multiple sectors and locations and accordingly returns will vary due to these factors and the specific nature of the underlying asset. Scheme assets that could be significantly impacted include equities, bonds, property and pooled investments. The Trustees of the pension schemes have designed and implemented investment strategies taking a long-term view and have built in resilience to withstand short-term fluctuations that may impact the schemes.

Deferred revenue

The Group recognises advance customer payments on its balance sheet, predominantly relating to stamps and meter credits purchased by customers but not yet used at the balance sheet date (see Note 22).

The majority of this balance is made up of stamps sold to the general public. To determine the amount of sales to defer, previously, an estimate of stamp volumes held by the general public at the year-end was made on the basis of monthly surveys performed by an independent third party. As surveys of this nature are inherently subjective and rely on the number and demographic profile of respondents, Management have adopted a modified approach utilising a number of different data sources to calculate the estimated deferred revenue liability given that stamps can be held and used for varying time periods.

At 29 March 2020 the Group recognised £185 million (2018-19: £188 million) deferred revenue in respect of stamps sold to the general public but not used at the balance sheet date. The primary sources of data used to derive this estimate are as follows:

- Revenue data related to stamp sales through the Post Office network;
- Historic trends of deferred revenue balances;
- Changes in the number of working days during the period; and
- Adjustments to reflect posting patterns around key events close to the reporting year end e.g. Mothering Sunday, Easter

Analysis has been undertaken to understand the sensitivity of the reported deferred revenue balance to the methodology by which it is calculated. This analysis has shown that the amount reported is unlikely to fall outside a range of +/- £20 million (2018-19: +/- £22 million). This sensitivity arises because of Management's judgment in applying a weighting to the component parts of the data sources. Average stamp holding days has remained consistent year-on-year at 43 days (2018-19: 44 days).

Management are of the view that this new process will remove the reliance on a single data source, allow the timely close of critical period ends, and improve the accuracy of the estimated result.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Key sources of estimation uncertainty (continued)

Impairment test for goodwill and CGUs

In assessing whether there has been an impairment of goodwill, CGU or in some instances a specific asset, Management determines whether the carrying value is higher than the recoverable amount. The recoverable amount is the higher of a CGU or asset's fair value less costs to sell (realisable value) and value in use. The value in use of the CGU/asset is calculated based on its discounted cashflows. The key estimates that can impact the value in use calculations are changes to the growth rates applied to derive the terminal value, the adjusted EBITDA figure, excluding one-off uncommitted transformation expenditure and benefits, or a movement in the discount rate applied to the future cash flows. These are key estimates as they are subjective in nature and significant assumptions are required. Any changes to assumptions may lead to impairment charges being recognised. For the annual impairment test for goodwill, the Group has considered the impact of the assumptions used in the GLS CGU tests and has conducted sensitivity analysis on the impairment tests as disclosed in Note 15.

Royal Mail UK CGU

During the reporting period this CGU was tested for impairment. At 29 March 2020 the carrying value of this CGU was £1,313 million. The recoverable amount, assessed as being the 'value in use' is calculated based on the Board's three year forecast free cash flows, with the assumption that the subsequent years will be in line with the performance of year three. Cash flows into perpetuity are assumed to have a growth rate of nil.

Cash flows have been discounted at the Group's pre-tax WACC of 9.0 per cent to reflect current market assessments of the time value of money and the risks specific to the CGU. The headroom of the CGU is £478 million. The Group has conducted sensitivity analysis on the impairment test for each of the key assumptions. The assumptions used and the impact of sensitivities on these assumptions are shown below.

The perpetuity growth rate included in the impairment model is nil. If the perpetuity rate decreased to a decline of 4.5 per cent into perpetuity the headroom of the Royal Mail UK CGU would be eroded to nil. The pre-tax discount rate for the Royal Mail UK is 9.0 per cent. An increase in the pre-tax discount rate to 11.7 per cent would result in no headroom.

A key sensitivity in the Royal Mail UK impairment model is adjusted EBITDA excluding one-off uncommitted transformation expenditure and benefits. If each year in the plan was to decrease by 8.1 per cent the CGU would have no headroom.

Parcelforce Worldwide CGU

As a result of delays in the transformation of the Parcelforce Worldwide business, an impairment review of the Parcelforce Worldwide CGU was undertaken during the reporting period. This impairment assessment identified that the carrying value of the CGU was in excess of its recoverable amount which resulted in a £91 million impairment charge reported as a specific item within the UKPIL segment.

The recoverable amount of the CGU was calculated as the value in use and considered cash flows for the business forecasted for five years. The cash flows were discounted to present value at the pre-tax WACC of 9.0 per cent. As a result of the recoverable amount being significantly lower than the carrying value, all non-monetary assets were written off, this consisted of £58 million tangible assets and £33 million intangible assets.

GLS Canada CGU

In assessing whether there has been any impairment of goodwill, Management determines whether the CGU carrying value is higher than the recoverable amount of the underlying CGU. The recoverable amount is the higher of a CGU's fair value less costs to sell (realisable value) and value in use. In the case of goodwill allocated to the GLS Canada CGU, the realisable value is estimated using five year forecast cash flows. Details of the impairment review of the CGU and the relevant estimates and assumptions are included in Note 15.

Critical accounting judgments

Provisions – Industrial diseases

Due to the nature of provisions, a significant part of their determination is based upon estimates and/or judgments concerning the future. The industrial diseases claims provision is considered to be the area where the application of judgement has the most significant impact. The industrial diseases claims provision arose as a result of a Court of Appeal judgement in 2010 and relates to individuals who were employed in the General Post Office Telecommunications division prior to October 1981.

The provision requires estimates to be made of the likely volume and cost of future claims, as well as the discount rate to be applied to these, and is based on the best information available as at the year end, which incorporates independent expert actuarial advice. A 500bps decrease to the 0.7 per cent discount rate used at 29 March 2020 would result in a £6 million increase in the overall provision. If the number and value of expected claims per annum increased/decreased by ten per cent, the provision would increase/decrease by £6 million. Any income statement movements arising from changes in accounting estimates are disclosed as an operating specific item. The carrying value of this provision is included within Note 25.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Critical accounting judgments (continued)

IFRS 16 – Incremental borrowing rates (IBR)

Under IFRS 16, lease liabilities are initially recognised at the commencement date at the present value of future lease payments discounted at the rate inherent in the lease or, where this is not readily determinable, an appropriate IBR. In practice, the rate inherent in the lease is not readily determinable for the majority of leases previously classed as operating leases under IAS 17 and so an IBR is used. These leases primarily relate to property and motor vehicles. In addition, an IBR has also been applied when calculating the opening transition lease liability balances.

The IBR is the rate of interest that a lessee would have to pay to borrow, over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The methodology used to obtain these rates and how they are applied to assets with different lease terms, is an area of significant judgement.

In considering the appropriate IBR to apply, the Group has adopted a three-step approach. This approach begins with an appropriate risk-free base rate; adjusts this rate to reflect the cost of company specific unsecured borrowing; and, finally, considers the need to adjust the rate determined to reflect the underlying leased asset acting as collateral.

From the evidence obtained, Management have concluded that for the UKPIL business, lenders do not make adjustments to the borrowing rates offered on lending, based upon the underlying asset to be obtained. The key factors in the borrowing rates available to UKPIL are judged to be the current credit rating of the Group (BBB) and the length of the borrowing term required.

On the basis of the work performed, UKPIL has treated assets being held for a similar length of time as having a similarly calculated IBR, with assets being grouped according to lease length, both at transition and in the future. By grouping assets in this way, a rate card has been produced, to be updated periodically, which can be applied to all future leases requiring an IBR. UKPIL have based IBR rates on UK BBB corporate bond yields, adjusted to reflect the different payment profile between a bond and a lease.

The GLS business has followed a similar methodology and grouping by lease length to that used in UKPIL. However, instead of basing the yields on corporate bond yield curves, which are not readily obtainable for all GLS currencies, a sovereign bond yield curve for the relevant country has been used as the starting point and an appropriate margin applied to this based upon consideration of consolidated GLS quantitative and qualitative information.

The weighted average lessee's incremental borrowing rate applied to lease liabilities recognised on the balance sheet at the date of initial application is three per cent in UKPIL and two per cent in GLS. Sensitivity analysis performed as part of the IFRS 16 implementation work, identified that a movement of 100 bps in the incremental borrowing rate would lead to a movement in lease liabilities recognised of around four per cent.

Accounting policies

Revenue

Revenue relates principally to the delivery of letters and parcels for a wide range of public and private customers. In the majority of cases contracts contain a single service performance obligation, which is satisfied at the point of delivery. Transaction prices for services rendered are typically fixed and agreed in advance with the price being allocated in full to the single delivery performance obligation.

Revenue relating to public, retail and business stamp and meter sales is recognised when the sale is made, adjusted to reflect a value of stamp and meter credits held but not used by the customer. Further details on this deferred revenue adjustment are provided in the 'Key sources of estimation uncertainty' section above.

In some cases, payment for services may be received in advance for a service that is due to be performed over a longer period of time, for example a 12 month redirection service. In these cases, the payment is initially recognised on the balance sheet as a contract liability (deferred revenue), with revenue recognised on a straight-line basis over the life of the contract, in line with the performance of the service.

Where products are sold through third party agents, such as the Post Office, but the responsibility to fulfil the service lies with the Group, the revenue receivable is recognised gross with any commission payments being charged to operating costs. Where sales are known to have occurred through a third party vendor at the balance sheet date, and the proceeds are yet to be received, revenue for the sale is recognised, with the amount still to be received recognised as a contract asset (accrued revenue).

In some instances volume-based incentives may be offered to customers, which leads to variable transaction prices. In these cases the relevant contracts are continually assessed, and revenue for services performed to date at the period end recognised in line with the expected contract outturn price. Where incentives are issued in the form of sales-based vouchers an element of the initial sales proceeds, proportional in value to the voucher issued, is held as a contract liability and released to revenue upon use or expiry of the voucher.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting policies (continued)

Further details of the major revenue streams in each operating segment are provided below:

UK Parcels, International and Letters (UKPIL)

Revenue from direct sales of products or services is recognised when services are rendered, goods are delivered and the amount of revenue that will flow to the Group can be measured reliably. Where payments are received for a service to be provided over a specified length of time, payments received are recognised as deferred revenue and released to the income statement over the period that the service is performed.

Account revenue is derived from specific contracts and recognised when the delivery of an item is complete. Contracted services that have been paid for but not yet rendered at the balance sheet date are designated as deferred revenue.

Revenue derived from Network Access agreements is recognised when the delivery of the related items is complete.

General Logistics Systems (GLS)

Revenue is derived from specific parcel contracts and is recognised when the delivery of an item is complete.

People costs

These are costs incurred in respect of the Group's employees and comprise wages and salaries, pensions and social security costs. These costs are disclosed separately on the face of the income statement.

Distribution and conveyance costs

Distribution and conveyance costs relate to non-people costs incurred in transporting and delivering mail. These include conveyance by rail, road, sea and air, together with costs incurred by international mail carriers, Parcelforce Worldwide delivery operators and GLS. These costs are disclosed separately on the face of the income statement.

Infrastructure costs

These are costs primarily relating to the day-to-day operation of the delivery network and include depreciation/amortisation, IT and property facilities management costs. These costs are disclosed separately on the face of the income statement.

Other operating costs

These are any operating costs which do not fall into the categories of people costs, distribution and conveyance costs or infrastructure costs including for example, Post Office Limited agency costs, consumables and training. Non-people costs relating to projects are included. Other operating costs exclude operating specific items.

Pension charge to cash difference adjustment

This adjustment represents the difference between the IAS 19 income statement pension charge rate of 20.8 per cent for the DBCBS from the 1 April 2019 and the actual cash payments agreed with the Trustee of 15.6 per cent. Management is of the view that this adjustment is appropriate in order to eliminate the volatility of the IAS 19 accounting charge and to include only the true cash cost of the pension plans in the adjusted operating profit of the Group.

Operating specific items

These are recurring or non-recurring items of income or expense of a particular size and/or nature relating to the operations of the business that, in Management's opinion, require separate identification. Management does not consider them to be reflective of year-on-year operating performance. These include items that have resulted from events that are non-recurring in nature, even though related income/expense can be recognised in subsequent periods.

Regulatory fine

In view of the Competition Appeal Tribunal judgment of 12 November 2019, a provision has been made in the financial statements for a fine of £50 million and associated interest (see Note 25).

Employee Free Shares charge

This relates to accounting charges arising from the granting of free shares to employees upon the Government's sales of its stake in the business (SIP 2015 and 2016) with no direct cash impact on the Group.

Impairment of assets

These costs relate to impairment of: a business or CGU (Parcelforce Worldwide in the reporting year); goodwill (GLS US network in 2018-19); or specific assets.

Legacy/other credits/costs

Legacy costs are unavoidable ongoing costs arising from historical events (industrial diseases provision). Other credits/costs include a property tax provision release and restructuring costs in the reporting year.

Amortisation of intangible assets in acquisitions

These charges, which arise as a direct consequence of the application of IFRS 3 'Business Combinations', are separately identified as Management does not consider these costs to be directly related to the trading performance of the Group.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting policies (continued)

Non-operating specific items

These are recurring or non-recurring items of income or expense of a particular size and/or nature which do not form part of the Group's trading activity and, in Managements' opinion, require separate identification.

Profit/loss on disposal of property, plant and equipment (PP&E)

Management separately identifies recurring profit/loss on disposal of PP&E as these disposals are not part of the Group's trading activity and are driven primarily by business strategy.

Net pension interest

Management separately identifies pension interest income as this is not part of the Group's trading activity and is driven primarily by actuarial calculations.

Share-based payments

The Group operates a number of equity-settled, share-based compensation schemes under which the Group receives services from employees as consideration for equity instruments (shares) of the Company. These include the HMRC-approved (Employee Free Shares) Share Incentive Plan (SIP). The scheme is based on non-market conditions and does not vest until the employee completes a specific period of service. Share-based payments awarded as part of Long-Term Incentive Plans (LTIP) vest based on a combination of non-market and market conditions. Share-based payments awarded as part of the Deferred Share Bonus Plan (DSBP) is a deferred share award, granted to Executive Directors at the end of the annual performance period, the grant being of equal value to the Annual Bonus, and subject to continued employment over a three year vesting period. The fair value of the employee services received in exchange for the grant of the shares is recognised as an expense in the income statement, with a corresponding credit entry in equity, as per the requirements of IFRS 2 'Share-based Payment'. The total amount expensed is determined by reference to the fair value of the equity instruments at the date on which they are granted. The fair value of each award is measured with reference to the share price upon issue and using the Black-Scholes model where appropriate.

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. No expense is recognised for awards that do not ultimately vest. At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and Management's best estimate of the achievement or otherwise of service conditions and of the number of equity instruments that will ultimately vest.

The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity. The social security contributions payable in connection with the grant of shares is considered an integral part of the grant itself, and the charge is treated as a cash-settled transaction.

Income tax and deferred tax

The charge for current income tax is based on the results for the reporting year as adjusted for items that are non-assessable or disallowed. It is calculated using rates that have been substantively enacted at the balance sheet date.

Deferred income tax assets and liabilities are recognised for all taxable and deductible temporary differences and unused tax assets and losses except:

- initial recognition of goodwill;
- the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit and loss;
- taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future; and
- deferred tax assets are recognised only to the extent that it is probable that taxable profit will be available against which they can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date, against internal forecasts of future profits against which those assets may be utilised and increased or reduced to the extent that it is probable that sufficient taxable profit will be available to allow them to be utilised.

Where tax returns remain subject to audit with the relevant tax authorities in the various jurisdictions in which the Group operates, a provision is made for uncertain tax items where the agreed amount could differ materially from management's estimates. Any such provisions are included within the relevant current and deferred tax carrying amount.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the tax asset is realised or the liability is settled, based on tax rates (and tax laws) that have been substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

Current and deferred tax is charged or credited directly to equity if it relates to items that are charged or credited directly to equity, otherwise it is recognised in the income statement.

Where tax credits are claimed against eligible research and development costs, these amounts are credited against the relevant expense or capitalised asset to match the accounting treatment applied to the original expenditure.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting policies (continued)

Earnings per share (EPS)

Basic EPS from continuing operations is calculated by dividing the profit/loss from continuing operations by the weighted average number of ordinary shares in issue.

Diluted EPS is calculated by adjusting the weighted average number of ordinary shares in issue on the assumption of conversion of all potentially dilutive ordinary shares arising from share-based payment schemes. These potential shares are treated as dilutive only when their conversion to ordinary shares would decrease EPS from continuing operations.

Segment information

The Group's operating segments are organised and managed separately according to the nature of the products and services provided, with each segment representing an operating unit that offers different products and serves largely different markets.

The Board monitors the operating results of its main operating units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on the 'operating profit before specific items' measure.

The reportable operating segments are made up of business units based in the UK - within the UKPIL segment, along with other parts of mainland Europe, the US and Canada which are the constituent parts of the GLS segment. There is no aggregation of operating segments.

Segment revenues have been attributed to the respective countries based on the primary location of the service performed. Transfer prices between segments are set at arm's length/fair value on the basis of charges reached through negotiation between the relevant business units that form part of the segments.

There are no differences in the measurement of the respective segments' profit/loss and the consolidated financial statements prepared under IFRS.

Property, plant and equipment

Property, plant and equipment is recognised at cost, including directly attributable costs in bringing the asset into working condition for its intended use. Depreciation of property, plant and equipment is provided on a straight-line basis by reference to cost, the useful economic lives of assets and their estimated residual values. The useful lives and residual values are reviewed annually and adjustments, where applicable, are made on a prospective basis. The lives assigned to major categories of property, plant and equipment are:

Land and buildings:	
Freehold land	Not depreciated
Freehold buildings	Up to 50 years
Leasehold buildings	The shorter of the period of the lease, or the estimated remaining useful life
Plant and machinery	3 to 15 years
Motor vehicles	2 to 12 years
Fixtures and equipment	2 to 15 years

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising at derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year that the asset is derecognised. Gains or losses from the disposal of assets are recognised in the income statement at the point that all significant risks and rewards of ownership are transferred.

All subsequent expenditure on property, plant and equipment is capitalised if it meets the recognition criteria, and the carrying amount of those parts replaced is derecognised. All other expenditure, including repairs and maintenance expenditure is recognised in the income statement as incurred.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting policies (continued)

Business combinations and goodwill

Business combinations are accounted for under IFRS 3 'Business Combinations' using the purchase method. Any excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities at the date of acquisition is recognised in the balance sheet as goodwill and is not amortised.

After initial recognition, goodwill is stated at cost less any accumulated impairment losses. Goodwill arising from business combinations is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of such impairment reviews, goodwill is allocated to the relevant cash-generating units (CGUs), or groups of CGUs, which are expected to benefit from synergies of the combination.

A goodwill impairment loss is recognised in the income statement for the amount by which the carrying value of the related CGU, or group of CGUs, exceeds the recoverable amount, which is the higher of a CGU's net realisable value and its value in use. Goodwill arising on the acquisition of equity accounted entities is included in the cost of those entities and therefore not reported on the balance sheet as goodwill.

Intangible assets

Intangible assets acquired as part of a business combination are capitalised separately from goodwill if the fair value can be measured reliably on initial recognition. Intangible assets acquired separately or development costs that meet the criteria to be capitalised are initially recognised at cost and are assessed to have a finite useful life, with key strategic assets generally having the longest lives. Those with a finite life are amortised over their useful life, but are reviewed for impairment annually or more frequently if events, or changes in circumstances, indicate that the carrying value may be impaired. An impairment loss is recognised in the income statement for the amount by which the carrying value of the intangible asset exceeds its recoverable amount, which is the higher of an asset's net realisable value and its value in use.

Amortisation of intangible assets with finite lives is charged annually to the income statement on a straight-line basis as follows:

Customer listings	3 to 10 years
Software	3 to 10 years
Brands	1 to 3 years

Investment in associates

The Group's investments in its associate companies are accounted for under the equity method of accounting. Under the equity method, an investment is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in value. The income statement reflects the Group's share of annual post-tax profits from the associates (netted off other operating costs as the values are not material enough for separate disclosure).

Any goodwill arising on acquisition of an associate, representing the excess of the cost of the investment compared with the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities acquired, is included in the carrying amount and not amortised.

Borrowing costs

Interest on borrowings related to the construction or development of qualifying assets is capitalised, until such time as the assets are substantially ready for their intended use. Borrowing costs capitalised are deducted in determining taxable profit in the reporting year in which they are incurred.

Non-current assets held for sale

Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction, rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Following their classification as held for sale, the assets (including those in a disposal group) cease to be depreciated.

Impairment reviews

Unless otherwise disclosed in these accounting policies, assets and CGUs are reviewed for impairment if events or changes in circumstances indicate that the carrying value may be impaired. The Group assesses at each reporting date whether such indications exist. Where appropriate, an impairment loss is recognised in the income statement for the amount by which the carrying value of the asset (or CGU) exceeds its recoverable amount, which is the higher of an asset's net realisable value and its value in use.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting policies (continued)

Leases

The Group has adopted IFRS 16 with effect from 1 April 2019. Previously the Group determined at contract inception whether a contract contained a lease under IFRIC 4. Under IFRS 16 a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Under IAS 17, leases were classed as either operating or finance leases based on whether the lease transferred substantially all the risks and rewards of ownership, with only those leases identified as finance leases being recognised on the balance sheet. Under IFRS 16, the Group recognises a right of use asset and a lease liability at the lease commencement date for the majority of leases.

The right of use asset is measured initially at cost and is subsequently adjusted for any accumulated depreciation, impairment losses or certain remeasurements of the lease liability.

The lease liability is measured initially at the commencement date at the present value of future lease payments discounted at the rate inherent in the lease (for leases previously classed as finance leases) or, where this is not readily determinable, an appropriate 'incremental borrowing rate' (IBR). In practice, the majority of the lease calculations are performed using an IBR. The lease liability is subsequently increased by the interest cost and decreased by payments made. The lease liability may also be remeasured where there are changes in future lease payments or changes in the assessment of future extension or termination options.

Whilst the majority of leased assets were brought onto the balance sheet, the Group has elected to apply the exemption from recognising leases for low value assets in line with existing Group policy, or short-term leases (with a lease term of under 12 months) on the balance sheet. The Group continues to recognise lease expenses for these assets on a straight-line basis in the income statement over the lease term.

Where possible, the Group allocates the consideration in each contract between any lease and non-lease components, however, where this is not possible the Group has elected to apply the practical expedient of including all of the contract costs in the calculation of the lease asset and liability recognised as a single lease component.

For assets previously classed as finance leases, the carrying values of the right of use assets and lease liabilities held as at 31 March 2019 under IAS 17 have been determined to be equal to the carrying value brought forward at 1 April 2019 under IFRS 16.

The Group has also adopted the practical expedient to grandfather the accounting treatment of the assets and liabilities relating to these leases, to still include the irrecoverable VAT element (which is excluded for all new leases).

Application of IFRS 16 by the Group has no impact on lessor accounting for leases previously classed as finance leases.

At transition, for leases classed as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted using a calculated IBR as at 1 April 2019.

Right-of-use assets at transition are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments or rent incentives.

In adopting IFRS 16 the following practical expedients have been applied at transition to leases previously classed as operating leases under IAS 17:

- only apply IFRS 16 to those contracts that were previously identified as leases under IAS 17 and IFRIC 4;
- apply a single discount rate to portfolios of leases with similar characteristics;
- not apply IFRS 16 to operating leases with a remaining lease term of less than 12 months and to continue to recognise these lease costs through the income statement as they are incurred;
- rely on an assessment of whether the lease contract is onerous under IAS 37 at 31 March 2019 as an alternative to performing an impairment review of the right of use assets created. Where this is the case the carrying amount of the assets is adjusted by the onerous lease provision; and
- exclude initial direct costs from the measurement of the right of use asset.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting policies (continued)

The Group has lease break options in place for a majority of its property lease agreements. These options provide the Group with greater flexibility in managing the UK estate. These break options have historically not been exercised due to ongoing operational requirements. Management have therefore made the decision that the reasonably certain length of the lease is the full lease term, assuming the break option will not be exercised.

The Group adopts a practice of not including extension options in its leases, where such clauses exist exceptionally they are immaterial.

Further details of the impact of IFRS 16 on the financial statements are disclosed in Note 14.

Trade receivables

Trade receivables are recognised and carried at the original invoice amount less an allowance for any non-collectable amounts. This loss allowance is calculated by first creating an allowance for identified trade receivables where collection of the full amount is no longer probable and then applying lifetime expected credit loss (ECL) rates to the remaining unprovided balance. ECL rates have been set by ageing category based on historical loss rates, with adjustments made to reflect forward-looking information where material. In the current year considerations around COVID-19 and the macroeconomic situation arising has resulted in an increase to expected credit losses above our standard provisioning rate.

	2019-20	2018-19
Not yet overdue	**0.08%**	0.02%
Past due not more than one month	**1.86%**	0.34%
Past due more than one month and not more than two months	**18.2%**	2.67%
Past due more than two months	**75.13%**	13.30%

Movements in the loss allowance are recognised in the income statement within other operating costs. At the point that a debt is considered unrecoverable, it is written off against the allowance for trade receivables. Subsequent recoveries of amounts previously written off are credited against other operating costs in the income statement.

Inventories

Inventories are valued on a weighted average cost basis and carried at the lower of cost and net realisable value. Cost includes all direct expenditure and other costs attributable in bringing inventories to their present location and condition.

Trade payables

Trade payables are recorded initially at fair value and subsequently measured at amortised cost. Generally, this results in their recognition at their nominal value.

The Group operates a supply chain finance arrangement for small and medium suppliers. This form of reverse financing allows suppliers to obtain early access to funding. Suppliers may choose to access payment as soon as their invoices are processed rather than Royal Mail standard payment terms by paying a financing fee to the scheme provider. The Group pays the provider of the scheme on the due date of the invoices, therefore this scheme does not assist the Group in the management of working capital.

As the scheme has not led to a substantial modification in the terms of the financial liability, the Group continues to treat the amounts owed within trade payables. All cash flows associated with the programme are included within operating cash flows as they continue to be part of the normal operating cycle of the Group. There is no impact on net debt, as amounts owed continue to be reported within trade payables.

The balance owed on the facility at 29 March 2020 was £25 million (31 March 2019: £27 million).

Capital management

The Group has established four key objectives for capital management. Details of these can be seen in the Financial Review on page 50.

Financial instruments

Financial assets within the scope of IFRS 9 'Financial Instruments' are classified as financial assets at; fair value through the profit and loss (FVTPL) if they are not part of an effective hedge designation (held for trading); amortised cost: or fair value through other comprehensive income (FVOCI) as appropriate. Financial liabilities within the scope of IFRS 9 are classified as either financial liabilities at FVTPL or financial liabilities measured at amortised cost.

The Group determines the classification of its financial instruments at initial recognition and re-evaluates this designation at each reporting date. When financial instruments are recognised initially, they are measured at fair value, being the transaction price plus, in the case of financial instruments not at FVTPL, any directly attributable transactional costs. The Group only has financial assets and liabilities measured at amortised cost and derivative assets and liabilities measured at FVTPL if they are not part of an effective hedge designation.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting policies (continued)

The subsequent measurement of financial instruments depends on their classification as follows:

Financial assets measured at amortised cost

Non-derivative financial assets which are held for the purpose of collecting contractual cash flows (held to collect), including interest, are classified as financial assets measured at amortised cost. These assets are carried at amortised cost with finance income recognised in the income statement using the effective interest rate method. Any gains or losses are recognised in the income statement when the assets are derecognised or impaired.

Financial liabilities measured at amortised cost

All non-derivative financial liabilities are classified as financial liabilities measured at amortised cost. These liabilities are measured at amortised cost with finance costs recognised in the income statement using the effective interest method. Any gains or losses are recognised in the income statement when the liabilities are derecognised or impaired.

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits (cash equivalents) with an original maturity date of three months or less. In addition, the Group uses money market funds as a readily available source of cash, and these funds are also categorised as cash equivalents. For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of bank overdrafts. . Money market funds are designated as fair value through profit and loss (FVTPL), all other cash equivalents are classified as financial assets at amortised cost.

Financial assets – pension escrow investments

Pension escrow investments comprise a Royal Mail Senior Executives Pension Plan (RMSEPP) money market fund investment, a Royal Mail Pension Plan (RMPP) money market fund investment and a short-term loan to the RMSEPP Trustees.

Financial assets – other investments

Other investments comprise short-term deposits (other investments) with banks with an original maturity of three months or more. Short-term deposits are classified as financial assets at amortised cost.

Financial liabilities – interest-bearing loans and borrowings

All loans and borrowings are classified as financial liabilities measured at amortised cost. The €500 million and €550 million bonds are measured at amortised cost in Euro and converted to Sterling at the closing spot Sterling/Euro exchange rate.

Derivative financial instruments and hedging programmes

The Group uses derivative instruments such as foreign currency contracts in order to manage the risk profile of any underlying risk exposure of the Group, in line with the Group's treasury management policies. Such derivative financial instruments are initially stated at fair value. For the purpose of hedge accounting, hedges are classified as cash flow hedges where they hedge exposure to variability in cash flows that is attributable either to a particular risk associated with a recognised asset or liability, or to a highly probable forecast transaction.

In relation to cash flow hedges to hedge the interest rate, foreign exchange or commodity price risk of firm commitments that meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to relate to an effective hedge is recognised directly in equity and the ineffective portion is recognised in the income statement.

When the hedged firm commitment results in the recognition of a non-financial asset or non-financial liability, then at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in equity are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability. For all other cash flow hedges, the gains or losses that are recognised in equity are transferred to the income statement in the same reporting year in which the hedged firm commitment affects the net profit/loss, for example when the hedged transaction actually occurs.

Derivatives that do not qualify for hedge accounting are classified as FVTPL and any gains or losses arising from changes in fair value are taken directly to the income statement in the year. Derivatives are valued by using quoted forward prices for the underlying commodity/currency and discounted using quoted interest rates (both as at the close of business on the balance sheet date). Hence derivative assets and liabilities are within Level 2 of the fair value hierarchy as defined within IFRS 13 'Fair Value Measurement'.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point, any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement for the reporting year.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting policies (continued)

Fair value measurement of financial instruments

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value of quoted investments is determined by reference to bid prices at the close of business on the balance sheet date.

Where there is no active market, fair value is determined using valuation techniques. These include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; and discounted cash flow analysis and pricing models.

The Group determines whether any transfers have occurred between levels in the hierarchy by reassessing categorisation at the end of each reporting year. For the purposes of disclosing the Level 2 fair value of investments held at amortised cost in the balance sheet, in the absence of quoted market prices, fair values are calculated by discounting the future cash flows of the financial instrument using quoted equivalent interest rates as at close of business on the balance sheet date. For the €500 million bond, the disclosed fair value is calculated as the closing market bond price converted to Sterling using the closing spot Sterling/Euro exchange rate.

For the purposes of comparing carrying amounts to fair value, fair values have been calculated using current market prices (bond price, interest rates, forward exchange rates and commodity prices) and discounted using appropriate discount rates.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at an appropriate pre-tax rate. Accounting estimates used in calculating the provisions are discussed further in the 'Key sources of estimation uncertainty and critical accounting judgments' part of this accounting policies section.

Contingent liabilities

Contingent liabilities are possible obligations whose existence depends on the outcome of uncertain future events or present obligations where the outflows of resources are uncertain or cannot be measured reliably. Contingent liabilities are not recognised in the financial statements but are disclosed unless an outflow of resources is considered to be remote.

Dividends

Distributions to owners of the Company are not recognised in the income statement under IFRS, but are disclosed as a component of the movement in shareholders' equity. A liability is recorded for a dividend when the dividend is approved by the Company's shareholders but not paid at the year end. Interim dividends are recognised as a distribution when paid.

Pensions and other post-retirement benefits

The pension assets for the defined benefit plans are measured at fair value (levels 1 and 2). Unquoted securities and other pooled investment vehicles are valued using published prices, the latest information from investment managers, or at cost less any necessary provisions for impairment. Direct property held is valued using the latest external Royal Institute of Chartered Surveyors (RICS) valuations (under 'Red Book' guidelines) adjusted for any capex spend and impairments since that valuation. Liabilities are measured on an actuarial basis using the projected unit credit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term. The resulting defined benefit asset or liability is presented separately on the face of the balance sheet. The amount of any pension surplus that can be recognised is limited to the economic benefits unconditionally available in the form of refunds or reductions in future contributions. Where the economic benefit to be obtained is in the form of a refund, this is recognised less tax expense, in line with IFRIC 14. The Group considers this tax to be a tax other than income tax, and the pension surplus is presented net of this tax on the balance sheet.

Full actuarial/cash funding valuations are carried out at intervals not normally exceeding three years as determined by the Trustees and, with appropriate updates and accounting adjustments at each balance sheet date, form the basis of the surplus disclosed.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting policies (continued)

For defined benefit plans, the amounts charged to operating profit are the current service costs and any gains and losses arising from settlements, curtailments and past service costs. The amount resulting from applying the plan's discount rate (for liabilities) to the pension surplus at the beginning of the reporting year is recognised as net pension interest in the income statement. Remeasurement gains and losses are recognised immediately in the statement of comprehensive income. Any deferred tax movement associated with the remeasurement gains and losses is also recognised immediately in the statement of comprehensive income.

For defined contribution plans, the Group's contributions are charged to operating profit within people costs in the year to which the contributions relate. Overseas subsidiaries make separate arrangements for the provision of pensions and other post-retirement benefits.

Foreign currencies

The functional and presentational currency of Royal Mail plc is Sterling (£). The functional currency of the overseas subsidiaries in Europe is mainly the Euro (€), in the US it is the Dollar (US$) and in Canada it is the Canadian Dollar (CAD).

The assets and liabilities of foreign operations are translated at the rate of exchange ruling at the balance sheet date. The trading results of foreign operations are translated at the average rates of exchange for the reporting year, being a reasonable approximation to the actual transaction rate. The exchange rate differences arising on the translation, since the date of transition to IFRS, are taken directly to the foreign currency translation reserve in equity.

Foreign currency exchange differences arising from translation of the €500 million bond and the Euro-denominated leases (designated as hedges of the net investment in GLS) to closing Sterling/Euro exchange rates are deferred to the foreign currency translation reserve in equity. These exchange differences would be released from equity to the income statement as part of the gain or loss if GLS was sold.

Transactions in foreign currencies are initially recorded in the functional currency by applying the spot exchange rate ruling during the month of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. Currently, hedge accounting is not claimed for any monetary assets and liabilities except the €550m bond which is hedged by a cross currency swap. All differences are therefore taken to the income statement, except for differences on monetary assets and liabilities that form part of the Group's net investment in a foreign operation. These are taken directly to equity until the disposal of the net investment occurs, at which time they are recognised in profit or loss.

Non-monetary items that are measured in terms of their historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Accounting standards issued but not yet applied

The following new and amended accounting standards are relevant to the Group and are in issue but were not effective (and in some instances have not yet been adopted by the EU) at the balance sheet date:

IAS 1 (Amended) and IAS 8 (Amended) 'Definition of Material'

IFRS 3 (Amended) 'Definition of a Business'

IFRS 7 (Amended), IFRS 9 (Amended) and IAS 39 (Amended) 'Interest Rate Benchmark Reform'

IFRS 10 (Amended) and IAS 28 (Amended) 'Sale of Assets between an Investor and its Associate or Joint Venture'*

IFRS 17 'Insurance Contracts'*

* Not yet endorsed by the EU.

The Directors do not expect that the adoption of the amendments, interpretations and annual improvements listed above (which the Group does not expect to early adopt) will have a material impact on the financial performance or position of the Group in future periods.

ROYAL MAIL PLC
PARENT COMPANY FINANCIAL STATEMENTS

The Annual Report and Financial Statements primarily relates to the consolidated results of Royal Mail plc Group's trading entities. The mandatory disclosures in this section relate to the financial statements of the ultimate Parent Company, Royal Mail plc ('the Company').

Statement of changes in equity
For the 52 weeks ended 29 March 2020 and 53 weeks ended 31 March 2019

	Share capital £m	Retained earnings £m	Total equity £m
At 25 March 2018	10	2,052	2,062
Profit for the year	–	235	235
Purchase of own shares	–	(10)	(10)
Employee exercise of SAYE options	–	5	5
Share-based payments	–	30	30
Dividend paid	–	(242)	(242)
At 31 March 2019	10	2,070	2,080
Profit for the year	**–**	**238**	**238**
Purchase of own shares	**–**	**(3)**	**(3)**
Share-based payments	**–**	**11**	**11**
Dividend paid	**–**	**(244)**	**(244)**
At 29 March 2020	**10**	**2,072**	**2,082**

Balance sheet
At 29 March 2020 and 31 March 2019
Registered number: 08680755

	Notes	At 29 March 2020 £m	At 31 March 2019 £m
Non-current assets			
Investment in subsidiary	6	**2,122**	2,111
Trade and other receivables	7	**935**	–
Total non-current assets		**3,057**	2,111
Current assets			
Trade and other receivables	7	**–**	427
Current liabilities			
Trade and other payables	8	**(40)**	(28)
Net current (liabilities)/assets		**(40)**	399
Interest-bearing loans and borrowings	9	**(935)**	(430)
Net assets		**2,082**	2,080
Equity			
Share capital	10	**10**	10
Retained earnings		**2,072**	2,070
Total equity		**2,082**	2,080

The balance sheet was approved and authorised for issue by the Board of Directors on 24 June 2020 and signed on its behalf by:

Stuart Simpson
Interim Chief Executive Officer Royal Mail

ROYAL MAIL PLC
PARENT COMPANY FINANCIAL STATEMENTS (CONTINUED)

1. Parent Company accounting policies

Accounting reference date

The financial reporting year ends on the last Sunday in March and, accordingly, these financial statements are prepared for the 52 weeks ended 29 March 2020 (2018-19: 53 weeks ended 31 March 2019).

Authorisation of financial statements and statement of compliance with FRS 101

The financial statements of the Company for the year ended 29 March 2020 were authorised for issue by the Board of Directors on 24 June 2020. The Company is incorporated and domiciled in England and Wales.

These financial statements were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) and in accordance with applicable accounting standards. The amendments to FRS 101 issued in March 2018 and effective from 1 January 2019 have been applied.

The Company has not presented its own income statement as permitted by section 408 of the Companies Act 2006. However, the results of the Company are presented in Note 4 to these financial statements.

Basis of preparation

The Company has applied FRS 101 for all periods presented. The accounting policies which follow, set out those policies which apply in preparing the financial statements for the reporting year ended 20 March 2020.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

(a) the requirements of IFRS 7 'Financial Instruments: Disclosures'[1];

(b) the requirements of paragraphs 91-99 of IFRS 13 'Fair Value Measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities)[1];

(c) the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 'Revenue from Contracts with Customers';

(d) the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of: (i) paragraph 79(a)(iv) of IAS 1 (reconciliation of shares outstanding);

(e) the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B-D, 40A-D, 111 and 134-136 of IAS 1 'Presentation of Financial Statements';

(f) the requirements of IAS 7 'Statement of Cash Flows';

(g) the requirements of paragraphs 17 and 18(a) of IAS 24 'Related Party Disclosures' (details of key management compensation and related party transaction amounts);

(h) the requirements in IAS 24 'Related Party Disclosures' to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member; and

(i) the requirements of paragraphs 30 and 31 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'.

Changes in accounting policy

The accounting policies are consistent with those of the previous year.

Key sources of estimation uncertainty and critical accounting judgments

Due to the relatively straightforward nature of the Company and its activities, it is Management's view that there are no significant estimates or accounting judgments applied in the preparation of these financial statements.

Investment in subsidiary

The investment in subsidiary is stated at cost plus deemed capital contributions arising from share-based payment transactions, less any accumulated impairment losses.

Trade receivables

Trade receivables are recognised at the original invoice amount less an allowance for any non-collectable amounts, including where collection is no longer probable.

1 Exemption taken as equivalent disclosures are included within the consolidated financial statements of Royal Mail plc.

ROYAL MAIL PLC
PARENT COMPANY FINANCIAL STATEMENTS (CONTINUED)

2. Directors' remuneration

The Directors of the Company are not paid any fees by the Company for their services as Directors of the Company. The Directors are paid fees by other companies of the Group. This remuneration is disclosed in the Group consolidated financial statements (see Note 5).

3. Auditor's remuneration

The auditor of the Company is not paid fees by the Company. The auditor of the Company is paid fees by other companies of the Group. This remuneration is disclosed in the Group consolidated financial statements (see Note 4).

4. Income statement

The Company is a non-trading company. The profit for the year of £238 million (2018-19: £235 million) is primarily the net sum of: the £245 million dividends (2018-19: £242 million) received from Royal Mail Group Limited; management charges to and from Royal Mail Group Limited; and net interest on the €500 million bond, the €550 million bond and intercompany balances. A loss of £15 million (2018-19: loss of £5 million) and a profit of £15 million (2018-19: profit of £5 million), on the translation of Euro-denominated assets and liabilities has also been recognised in the year.

5. Taxation

There is no tax charge/credit for the year.

6. Investment in subsidiary

	At 29 March 2020 £m	At 31 March 2019 £m
At 1 April 2019 and 26 March 2018	**2,111**	2,081
Investment in subsidiary – charge for Employee Free Shares/LTIP/DSBP	**11**	30
At 29 March 2020 and 31 March 2019	**2,122**	2,111

The investment comprises 100 per cent of the share capital of Royal Mail Group Limited.

The value in use of the constituent CGUs that comprise the investment exceeds the carrying value of the investment as disclosed in the 'Key sources of estimation uncertainty' section of 'Significant accounting policies' and Note 15 of the Group financial statements.

7. Trade and other receivables

This balance mainly consists of intercompany loans to Royal Mail Group Limited amounting to the proceeds from the issue of the €500 million bond and the issue of the €550m million bond (see Note 9). The intercompany loan is deemed to be a non - current asset for the year ended March 2020, as the Company's intention at the balance sheet date is now that the loans will not to be settled by Royal Mail Group Limited within the next 12 months.

8. Trade and other payables

This balance mainly comprises a £29 million (2018-19: £21 million) intercompany trading position with Royal Mail Group Limited and £10 million (2018-19: £7 million) external interest payable.

9. Interest-bearing loans and borrowings

In July 2014 the Company issued €500 million 2.375 per cent Senior Fixed Rate Notes due July 2024 with a fixed annual interest coupon of 2.375 per cent. The proceeds raised were loaned to Royal Mail Group Limited. In October 2019 the Company issued €550 million 1.25 per cent Senior Fixed Rate Notes due October 2026 with a fixed annual interest coupon of 1.25 per cent. The proceeds raised were loaned to Royal Mail Group Limited.

10. Share capital

	At 29 March 2020 £m	At 31 March 2019 £m
Authorised and issued		
1,000,000,000 ordinary shares of £0.01 each	**10**	10
Total	**10**	10

Of the issued ordinary shares, a total of 1,029,706 (2018-19: 70,331) are held by an Employee Benefit Trustee (EBT) administered by Sanne Fiduciary Services Limited. These shares are treated as treasury shares for accounting purposes in accordance with IAS 32 'Financial Instruments: Presentation'. The Company, however, does not hold any shares in treasury.

The EBT is funded by the Company and has been treated as an extension of the Company for accounting purposes within these financial statements.

GROUP FIVE YEAR SUMMARY (UNAUDITED)

Five year summary

Income Statement – Reported

	Financial reporting year ended March				
	52 weeks	53 weeks	52 weeks		
	2020 £m	2019 £m	2018 £m	2017 £m	2016 £m
Revenue	**10,840**	10,581	10,172	9,776	9,251
Operating profit before specific items	**217**	341	123	353	294
Operating specific items	**(162)**	(181)	(57)	(134)	(156)
Profit on disposal of property, plant and equipment (non-operating specific item)	**89**	15	71	12	29
Profit before interest and tax	**144**	175	137	231	167
Finance income – net pension interest (non-operating specific item)	**86**	79	91	120	113
Finance costs	**(50)**	(13)	(16)	(16)	(13)
Profit before tax	**180**	241	212	335	267
Tax (charge)/credit (specific items and other)	**(19)**	(66)	46	(62)	(45)
Profit after tax	**161**	175	258	273	222

Income Statement - Adjusted

	At March financial reporting year end date				
	52 weeks	53 weeks	52 weeks		
	2020 £m	2019 £m	2018 £m	2017 £m	2016 £m
Revenue	**10,840**	10,581	10,172	9,776	9,251
Operating profit	**325**	411	581	575	551
Finance costs	**(50)**	(13)	(16)	(16)	(13)
Profit before tax	**275**	398	565	559	538
Tax	**(79)**	(93)	(111)	(121)	(118)
Profit after tax	**196**	305	454	438	420

GROUP FIVE YEAR SUMMARY (UNAUDITED)

Balance sheet	At March financial reporting year end date 2020 £m	2019 £m	2018 £m	2017 £m	2016 £m
Property, plant and equipment	**3,120**	2,066	2,016	2,062	2,002
Intangible assets	**558**	631	608	567	451
Pension escrow investments	**180**	187	178	–	–
Inventories	**19**	27	25	23	21
Trade and other receivables	**1,294**	1,322	1,176	1,137	1,038
Trade and other payables	**(2,045)**	(1,924)	(1,968)	(1,857)	(1,741)
Other net (liabilities)/assets	**(36)**	42	30	26	(18)
Provisions	**(225)**	(162)	(162)	(196)	(247)
Goodwill	**390**	380	324	316	206
Investments in associates	**5**	5	5	7	9
Net operating assets and investments in associates	**3,260**	2,574	2,232	2,085	1,721
Cash and cash equivalents	**1,640**	236	600	299	368
Pension escrow investments	**21**	20	20	20	20
Investments	**30**	–	–	–	–
Loans and borrowings	**(1,635)**	(431)	(437)	(463)	(392)
Other net financial liabilities	**(1,188)**	(125)	(169)	(194)	(220)
Net (debt)/cash	**(1,132)**	(300)	14	(338)	(224)
Deferred tax assets/(liabilities)	**56**	9	27	(588)	(460)
Net assets before pension surplus	**2,184**	2,283	2,273	1,159	1,037
Pension surplus	**3,437**	2,336	2,163	3,839	3,430
Net assets	**5,621**	4,619	4,436	4,998	4,467

	Financial reporting year ended March				
	52 weeks	53 weeks		52 weeks	
People numbers – year end headcount	**2020**	2019	2018	2017	2016
UKPIL	**141,466**	142,757	141,162	141,819	142,544
GLS	**19,306**	19,221	17,955	17,136	13,991
Total	**160,772**	161,978	159,117	158,955	156,535

SHAREHOLDER INFORMATION

Annual General Meeting

The 2020 AGM will be held on Tuesday 8 September 2020. Full details of the business to be considered at the meeting and the special arrangements that will be in place in light of the Coronavirus (COVID-19) outbreak will be included in the Notice of Annual General Meeting that will be sent to shareholders by their chosen communication means and published on our website at: → www.royalmailgroup.com/en/investors/annual-general-meetings/.

Final dividend

The Board announced in March 2020 that it would not recommend a final dividend due to the COVID-19 pandemic. The Board felt it was in the best interest of the Company and its shareholders to preserve cash during this uncertain period. An interim dividend was paid to shareholders in January 2020 giving a total dividend for the year of 7.5 pence per ordinary share.

Dividend waivers

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

Managing your shares online

Shareholders can register through Shareview, a platform provided by the Company's registrars, to access shareholder information online at www.shareview.co.uk. This service allows you to:

- Manage your shares online;
- Receive notifications of new shareholder information by e-mail;
- Arrange dividend payments;
- Update personal records.

When registering, you will need to have your shareholder reference number which can be found on your share certificate, dividend voucher or AGM voting documents.

Shareholder fraud

Share scams are often run from 'boiler rooms' where fraudsters cold-call investors offering them worthless, overpriced or even non-existent shares. While they promise high returns, investors usually end up losing their money.

5,000 people contact the Financial Conduct Authority (FCA) about share fraud each year, with victims losing an average of £20,000. As much as £1.2 billion is lost in investment fraud in the UK each year.

It is strongly advised that you only deal with financial services firms that are authorised by the FCA. You can report a firm or scam by contacting the FCA Consumer Helpline on 0800 111 6768 or using the reporting form at → www.fca.org.uk/consumers/report-scam-unauthorised-firm. If you have already bought or sold shares through a 'boiler room', be especially careful as fraudsters are likely to target you again or sell your details to other criminals.

Information for investors

Our website provides information for investors, such as trading updates, share price information, AGM and dividend information, shareholder FAQs and results and reports. The website can be accessed via www.royalmailgroup.com/investor-centre.

If you have any queries relating to your shareholding you can also email shareholderquestions@royalmail.com.

Company contact details

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Registered in England and Wales

Company number 08680755

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Company Secretariat

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Company Secretary – Mark Amsden

Company advisers

Registrar

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www.shareview.co.uk

Tel: 0371 384 2656 (from outside the UK: +44 (0)121 415 7086). Lines are open 8:30am to 5:30pm UK time, Monday to Friday, excluding public holidays in England and Wales.

Independent auditor

KPMG LLP

Corporate brokers

Bank of America Merrill Lynch

Barclays Bank plc

FORWARD-LOOKING STATEMENTS

Disclaimers

This document contains certain forward-looking statements concerning the Group's business, financial condition, results of operations and certain of the Group's plans, objectives, assumptions, projections, expectations or beliefs with respect to these items. Forward-looking statements are sometimes, but not always, identified by their use of a date in the future or such words as 'anticipates', 'aims', 'due', 'could', 'may', 'will', 'should', 'expects', 'believes', 'intends', 'plans', 'potential', 'targets', 'goal' or 'estimates'.

Forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the Group's actual financial condition, performance and results to differ materially from the plans, goals, objectives and expectations set out in the forward-looking statements included in this document. Accordingly, readers are cautioned not to place undue reliance on forward-looking statements.

By their nature, forward-looking statements relate to events and depend on circumstances that will occur in the future and are inherently unpredictable. Such forward-looking statements should, therefore, be considered in light of various important factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. These factors include, among other things: changes in the economies and markets in which the Group operates; changes in the regulatory regime within which the Group operates; changes in interest and exchange rates; the impact of competitive products and pricing; the occurrence of major operational problems; the loss of major customers; undertakings and guarantees relating to pension funds; contingent liabilities; the impact of legal or other proceedings against, or which otherwise affect, the Group; and risks associated with the Group's overseas operations.

All written or verbal forward-looking statements, made in this document or made subsequently, which are attributable to the Group or any persons acting on their behalf are expressly qualified in their entirety by the factors referred to above. No assurance can be given that the forward-looking statements in this document will be realised; actual events or results may differ materially as a result of risks and uncertainties facing the Group. Subject to compliance with applicable law and regulation, the Company does not intend to update the forward-looking statements in this document to reflect events or circumstances after the date of this document, and does not undertake any obligation to do so.

Strategic Report
Corporate Governance
Financial Statements
Shareholder Information

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